AUDIT REPORT
OF THE
NEBRASKA DAIRY INDUSTRY
DEVELOPMENT BOARD

JULY 1, 2003 THROUGH JUNE 30, 2004

Issued on January 25, 2005

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

TABLE OF CONTENTS

BACKGROUND

The Nebraska Dairy Industry Development Act was enacted by the Legislature in 1992 in anticipation of the national checkoff related to advertising and promotion provisions of the Nebraska-Western Iowa Federal Milk Order (Order 65) being rescinded. The United States Department of Agriculture (USDA), Agricultural Marketing Service, published 7 C.F.R. Part 1065 in the Federal Register on December 23, 1998. This rule terminated the advertising and promotion provisions of Order 65 with respect to milk marketed on or after December 1, 1998. The Nebraska Dairy Industry Development Board (Board) initially worked with the Department of Agriculture to plan for a smooth transition of the checkoff program from the national level to the State level. January 1999 was the first month collection fees were received by the Board.

Neb. Rev. Stat. Section 2-3958 R.R.S. 1997 requires a mandatory assessment of 10 cents per hundredweight on all milk produced in the State for commercial use. The funds are used to finance programs of maintaining and expanding domestic sales of milk and dairy products, developing new products and markets, improving methods and practices relating to marketing or processing of milk and dairy products, and informing and educating consumers of sound nutritional principles, including the role of milk in a balanced diet.

For our audit period, the Board contracted with the American Dairy Association of Nebraska and the Dairy Council of Nebraska, Inc., to assist them in reaching their goals. The Board also contracted with the Nebraska Department of Agriculture for the administrative functions of collecting, disbursing, and auditing, as there are no persons employed by the Dairy Board.

VISION

An economically viable U.S. dairy industry that works together to achieve success in the domestic and global marketplace in meeting the needs of its customers.

MISSION AND PRINCIPLES

To help increase worldwide demand for U.S. dairy products.

GOALS

1. Increase domestic consumption and expand world markets for dairy products.
2. Unify producer funded efforts through a coordinated planning system.
3. Develop coordinated efforts with producer cooperatives and processors to leverage efforts to increase sales.
4. Assure efforts are market driven.
5. Maximize financial investment through efficient organization efforts.

EXIT CONFERENCE

An exit conference was held December 23, 2004 with the Nebraska Dairy Industry Development Board to discuss the results of our examination. Those in attendance for the Nebraska Dairy Industry Development Board were:

NAME	TITLE
Robert Storant	Finance & Personnel Administrator
Susie Harm	Administrative Assistant I
Barbara Kokrda	Accountant

COMMENT WITHOUT RECOMMENDATION

During our audit of the Nebraska Dairy Industry Development Board, we noted a certain matter involving the internal control over financial reporting that is presented here. The comment is intended to improve the internal control over financial reporting in the following area.

Nebraska Information System and Accounting Procedures

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the Nebraska Information System (NIS). Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004 the Procurement and Employee Self-Service components were partially implemented. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA obtained a further understanding of NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. During the fiscal year ended June 30, 2004, the Department of Administrative Services (DAS) Accounting Division addressed some areas of concern previously reported. However, the following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency:

a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the DAS Accounting Division performed some reconciliation procedures. As of July 2004, the June 30, 2003 reconciliation indicates an unknown variance between the bank records and the accounting records of $3,654,783, with the bank being short compared to the accounting records.

   During the fiscal year ended June 30, 2004, DAS Accounting Division began performing a daily reconciliation of activity recorded on NIS compared to the activity recorded in the bank on a limited test basis. For those days tested, the activity recorded on NIS can be reconciled to

COMMENT WITHOUT RECOMMENDATION
(Continued)

Nebraska Information System and Accounting Procedures (Continued)

the activity in the bank. The monthly reconciliations for the months of July 2003 through February 2004 for the fiscal year ended June 30, 2004 have been performed and indicate fluctuations in the variance amounts. The latest monthly reconciliation performed, February 2004, indicates an unknown variance between the bank records and the accounting records of $5,112,201, with the bank being short compared to the accounting records. This variance was provided to us by DAS Accounting Division and its accuracy has not been verified by the APA.

Although some reconciliation procedures have been performed (daily reconciliation of activity going through NIS to the activity recorded through the bank), the monthly reconciliation for the months March 2004 through June 2004 are still in the preliminary stages and are not complete as of July 2004. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be completed timely and on at least a monthly basis to ensure all financial information is correct in NIS.

b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. During the fiscal year ended June 30, 2004, DAS Accounting Division made progress in this area and significant policies and procedures can be found by users on the DAS Accounting Division website. However, the APA, after reviewing the old accounting procedures manual, did note some procedures still being performed under those policies that have not been incorporated as NIS policies. We recommend DAS Accounting Division continue to update their NIS policies and procedures to include all policies and procedures in place to help ensure consistent and accurate accounting of the State's financial transactions.

c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This would apply to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem, however, there has been no system change to resolve this problem. The "work around" solutions can be very time consuming. We recommend DAS Accounting Division consider obtaining a system change to allocate salaries and benefits appropriately for salaried employees who incur hours that are distributed across multiple business units.

d. During the first year of NIS implementation an outside consultant noted a detailed analysis had not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. The APA is not aware of any detailed analysis of

COMMENT WITHOUT RECOMMENDATION
(Continued)

Nebraska Information System and Accounting Procedures (Continued)

user training conducted by the DAS Accounting Division during the fiscal year ended June 30, 2004, but does acknowledge a significant training effort by the DAS Accounting Division during this period. We recommend the DAS Accounting Division continue their training efforts as well as identifying user training needs.

e. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State. The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986.

   Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the State Records Administrator schedules proposing the length of time each record series warrants retention for administrative, legal, historical or fiscal purposes, after it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical or fiscal value to warrant their further retention.

   Since many of the records (and their titles) are significantly different under NIS than they were under the old accounting system we do not believe the DAS Accounting Division is in compliance with the above statute with the current retention schedule on file with the Secretary of State. In addition, for legal purposes and for good business practices we believe a comprehensive DAS Accounting Division records retention schedule is imperative. We recommend the DAS Accounting Division work with the Secretary of State to develop a comprehensive records retention schedule for all records they maintain.

f. The payroll component is not designed to promote an effective segregation of duties. We recommend the DAS Accounting Division consider implementing the compensating control as identified in the k. section of this comment.

g. During the first year of NIS implementation an outside consultant noted access to sensitive General Accounting functions had been provided to individuals who may not require such access as a part of their job responsibilities. Based on our inquiries, DAS Accounting Division management noted, "All critical function access rights have been secured down to the appropriate high level matrix codes." We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.

COMMENT WITHOUT RECOMMENDATION
(Continued)

<u>Nebraska Information System and Accounting Procedures</u> (Continued)

h. During the first year of NIS implementation an outside consultant noted the State had not documented or formalized comprehensive information security procedures for NIS. Based on our inquiries, DAS Accounting Division management noted, "The NIS CNC's and the NIS Security team have developed a comprehensive security policy." We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.

i. During the first year of NIS implementation an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, "We have now contracted with an outside vendor for business continuity planning." Documentation provided to us by DAS management indicates the State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.

j. The APA reviewed certain data in the NIS address book in July 2004. We noted the following related vendor information:

1. Duplicate Name and Address – Our review noted a total of 4,435 duplicate records. However, all have different address book numbers.

2. Duplicate Bank Information – 4,118 vendors had duplicate bank information.

3. Vendors with no Federal Tax Identification Number (FTIN) in NIS and Vendors with an FTIN of 000000000 – 3,789 vendors either had no FTIN or an FTIN with all zeros. The vendors with zeros as their FTIN were all PW (welfare) vendor types. Out of the 3,789 records 3,408 had no FTIN at all.

When duplicate records are in the NIS address book database there is a greater risk of duplicate payments being made and not being detected and queries of the database for vendor information may not be complete because the queries may not include all vendor information. In addition, when the database does not include FTIN numbers for all vendors there is a greater risk of payments to a fictitious vendor. DAS Accounting Division should correct the database for duplicate records and ensure all vendors included in the database have an FTIN.

COMMENT WITHOUT RECOMMENDATION
(Continued)

Nebraska Information System and Accounting Procedures (Concluded)

k. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an email or letter to the DAS Accounting Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May of 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted that the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

   DAS Accounting Division should establish a policy on detailing the information to be included in the certification, should ensure all State agencies consistently follow this policy, and ensure all payroll expenditures are certified.

The issues identified above are the responsibility of the DAS Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to DAS, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

It should be noted this report is critical in nature as it contains only our comment on the area noted for improvement.

Draft copies of this report were furnished to the Board to provide them an opportunity to review the report and to respond to the comment included in this report. The Board declined to respond.

We appreciate the cooperation and courtesy extended to our staff during the course of the audit.

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NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

INDEPENDENT AUDITORS' REPORT

Nebraska Dairy Industry Development Board
Lincoln, Nebraska

We have audited the accompanying financial statements of the governmental activities and the major fund of the Nebraska Dairy Industry Development Board (Board) as of and for the year ended June 30, 2004, which collectively comprise the Board's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statements of the Nebraska Dairy Industry Development Board are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities and the major fund of the State that is attributable to the transactions of the Nebraska Dairy

Industry Development Board. They do not purport to, and do not, present fairly the cash balances of the governmental activities and the major fund of the State of Nebraska as of June 30, 2004, and its changes in cash balances for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

The financial statements referred to above include only the major fund of the Board, which is a part of the primary government for the State of Nebraska reporting entity. The financial statements do not include financial data for the Board's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Board. As a result, the Board's financial statements do not purport to, and do not, present fairly the cash balances of the reporting entity of the Board as of June 30, 2004, and the changes in cash balances for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities of the Board as of June 30, 2004 and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2004, on our consideration of the Nebraska Dairy Industry Development Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules, Management's Discussion and Analysis, and budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Timothy J. Channer CPA

December 23, 2004

Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Dairy Industry Development Board's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Dairy Industry Development Board for the fiscal year ended June 30, 2004. Please read it in conjunction with the Board's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Nebraska Dairy Industry Development Board's basic financial statements. The Board's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Board's overall financial status. Over time, increases or decreases in the Board's net assets are one indicator of whether its financial health is improving or deteriorating. The Board's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Board. Nonfinancial factors also need to be considered to assess the overall health of the Board. Agency-wide financial statements for the Board divide the Board into two kinds of activities:

Governmental activities – The Board's basic services are included here. These activities are generally financed through charges for services.

Component units – The Board has identified two component units. They are the American Dairy Association (ADA) and the Dairy Council (DC). The financial statements of the Board do not include the financial information of the ADA or DC, which should be included as blended component units in order to conform with generally accepted accounting principles. The ADA and DC should be included because the significance of their relationship with the Board is such that exclusion would be misleading or incomplete. The ADA and DC are audited annually as a requirement to remain a USDA qualified program. Both entities have a December 31 fiscal year end.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Board, reporting the Board's operations in more detail than the agency-wide statements by providing information about the Board's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

The Board has only one fund. It is reported as a governmental fund in the governmental fund statements. The governmental fund statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS (Concluded)

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements, and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management's Discussion and Analysis and the Budgetary Comparison Schedule represent financial information, which provide users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as the schedule of checkoff revenue trend, a schedule of dairy contract disbursements by fiscal year, and a schedule of other disbursements by fiscal year. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Dairy Industry Development Board's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE BOARD AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2004, net assets of the Board (current assets resulting from cash basis transactions) increased 175 percent.

FINANCIAL ANALYSIS OF THE BOARD AS WHOLE (Concluded)

	Governmental Activities 2004	Governmental Activities 2003
RECEIPTS:		
Unrestricted	$ 88,984	$ 32,394
Total Net Assets	$ 88,984	$ 32,394

Governmental Activities

Receipts for the Board's governmental activities increased 3 percent, while expenses decreased 7 percent.

ENTITY'S CHANGES IN NET ASSETS

	Governmental Activities 2004	Governmental Activities 2003	% Change
RECEIPTS:			
Program Receipts:			
Charges for Services	$ 1,130,103	$ 1,095,239	3%
General Receipts:			
Investment Interest	2,027	1,902	7%
Total Receipts	1,132,130	1,097,141	3%
DISBURSEMENTS:			
Economic Development and Assistance	1,075,540	1,154,076	-7%
Total Disbursements	1,075,540	1,154,076	-7%
Increase (Decrease) in Net Assets	56,590	(56,935)	-199%
Beginning Net Assets July 1	32,394	89,329	-64%
Ending Net Assets June 30	$ 88,984	$ 32,394	175%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS

As noted earlier, the Nebraska Dairy Industry Development Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The increase in net assets is due to the nature of cash basis accounting. Approximately $65,000 of receipts due June 30, 2003 were deposited in the State accounting system in fiscal year 2004.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Dairy Industry Development Board.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS

June 30, 2004

	GOVERNMENTAL ACTIVITIES TOTAL **(Memorandum Only)**
Assets	
Cash in State Treasury	$ 88,193
Deposit with Nebraska Department of Agriculture	791
Total Assets	$ 88,984
Net Assets	
Unrestricted	$ 88,984
Total Net Assets	$ 88,984

The accompanying notes are an integral part of the financial statements.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

STATEMENT OF ACTIVITIES - CASH BASIS

June 30, 2004

	Governmental Activities TOTAL **(Memorandum Only)**
Disbursements:	
Operating	$ 1,072,728
Travel	2,812
Total Disbursements	1,075,540
Program Receipts:	
Charges for Services	1,130,103
Net Program Receipts	54,563
General Receipts:	
Investment Interest	2,027
Change in Net Assets	56,590
Net Assets July 1, 2003	32,394
Net Assets June 30, 2004	$ 88,984

The accompanying notes are an integral part of the financial statements.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

STATEMENT OF ASSETS AND FUND BALANCE
ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUND

June 30, 2004

	Major Fund Fund 26100 Nebraska Dairy Industry Development
Assets	
Cash in State Treasury	$ 88,193
Deposit with Nebraska Department of Agriculture	791
Total Assets	$ 88,984
Fund Balance	
Unreserved	$ 88,984
Total Fund Balance	$ 88,984

The accompanying notes are an integral part of the financial statements.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the Fiscal Year Ended June 30, 2004

	Major Fund Fund 26100 Nebraska Dairy Industry Development
RECEIPTS:	
Sales & Charges	$ 1,130,070
Miscellaneous:	
Investment Interest	2,027
Other Miscellaneous	33
TOTAL RECEIPTS	1,132,130
DISBURSEMENTS BY FUNCTION:	
Economic Development and Assistance	1,075,540
TOTAL DISBURSEMENTS	1,075,540
Net Change in Fund Balance	56,590
FUND BALANCE, JULY 1, 2003	32,394
FUND BALANCE, JUNE 30, 2004	$ 88,984

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2004

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Dairy Industry Development Board are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Dairy Industry Development Board (Board) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Board is exempt from State and Federal income taxes. The financial statements include all funds of the Board. The Board has also considered all potential component units for which it is financially accountable, and other organizations, which are fiscally dependent on the Board, or the significance of their relationship with the Board is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Board to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board.

These financial statements present only the Nebraska Dairy Industry Development Board, which is part of the primary government for the State of Nebraska's reporting entity. The financial statements do not include the financial data of the American Dairy Association of Nebraska (ADA) or the Dairy Council of Nebraska, Inc. (DC), which should be included as blended component units of the Board in order to conform with generally accepted accounting principles. The ADA and DC should be included because of the significance of their operational or financial relationships with the Board. The ADA and DC are fiscally dependent on the Board and they provide services almost entirely to the Board. The separate audited financial statements of the ADA and DC can be obtained from the ADA/DC administrative office.

B. Basis of Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Board, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Board. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

to be eliminated to minimize double counting. The Board reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts.

Fund Financial Statements. The fund financial statements provide information about the Board's fund. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Board uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Board reports the following major governmental fund:

Special Revenue Fund. This is the Board's only operating fund. It accounts for financial resources received and used for specific purposes.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Board are maintained and the Agency-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Board. This differs from governmental generally accepted accounting principles (GAAP), which require the Agency-wide fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. **Summary of Significant Accounting Policies** (Concluded)

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Information System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Board were designated for investment during fiscal year 2004.

2. **Contingencies and Commitments**

Risk Management. The Board is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Board, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State with the exception of the health care and life insurance programs which are maintained by the DAS Personnel Division. The State generally self-insures for general liability and workers' compensation. The State has chosen to purchase insurance for:

A. Motor vehicle liability, which is insured for the first $5 million of exposure per accident, except for accidents involving vehicular pursuit which have a $1 million self-insured retention per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.

2. Contingencies and Commitments (Concluded)

B. Health care and life insurance for eligible employees.

C. Crime coverage, with a limit of $1 million for each loss, and a $25,000 self-insured retention per incident.

D. Real and personal property on a blanket basis for losses up to $100,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly acquired properties are covered up to $1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to $10,000,000. Acts of terrorism are covered up to $2,500,000 aggregate per year. State agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Dairy Industry Development Board's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Board, if any, could not be determined at this time. However, it is the Board's opinion that final settlement of those matters should not have an adverse effect on the Board's ability to administer current programs. Any judgment against the Board would have to be processed through the State Claims Board and be approved by the Legislature.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SUPPLEMENTARY INFORMATION
NEBRASKA DAIRY INDUSTRY DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2004

	Nebraska Dairy Industry Development Fund			
	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL AMOUNTS	
PROGRAM:				
Dairy Industry Development Board	$ 1,803,474	$ 1,803,474	$ 1,075,540	$ 727,934
TOTAL DISBURSEMENTS	$ 1,803,474	$ 1,803,474	$ 1,075,540	$ 727,934

NOTES TO SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2004

BUDGETARY COMPARISON SCHEDULE

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) require budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Board's legally adopted annual budget amount. The Board's budgetary comparison schedule includes the Nebraska Dairy Industry Development Fund.

GAAP also requires the budgetary comparison schedule to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Board and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and presents the appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The approved appropriations will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. As a result, the budgetary comparison schedule only reports total disbursements *by program*.

Appropriations are usually made for each year of the biennium, with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

NOTES TO SUPPLEMENTARY INFORMATION
(Continued)

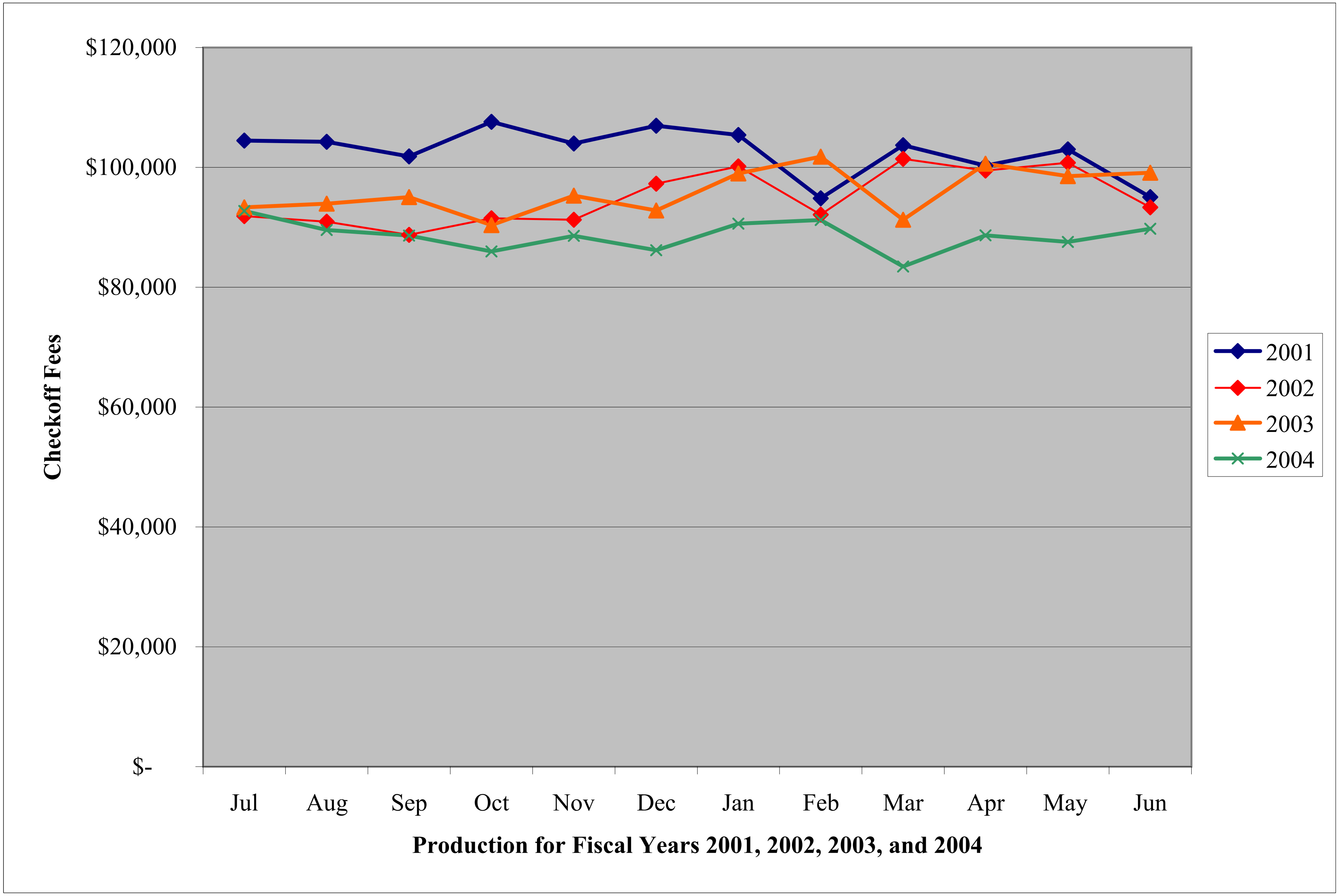
All State budgetary disbursements for the Board's Nebraska Dairy Industry Development Fund are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total appropriations must also be approved by the Legislature as a deficit appropriations bill.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

SCHEDULE OF CHECKOFF REVENUE TREND

(Unaudited)

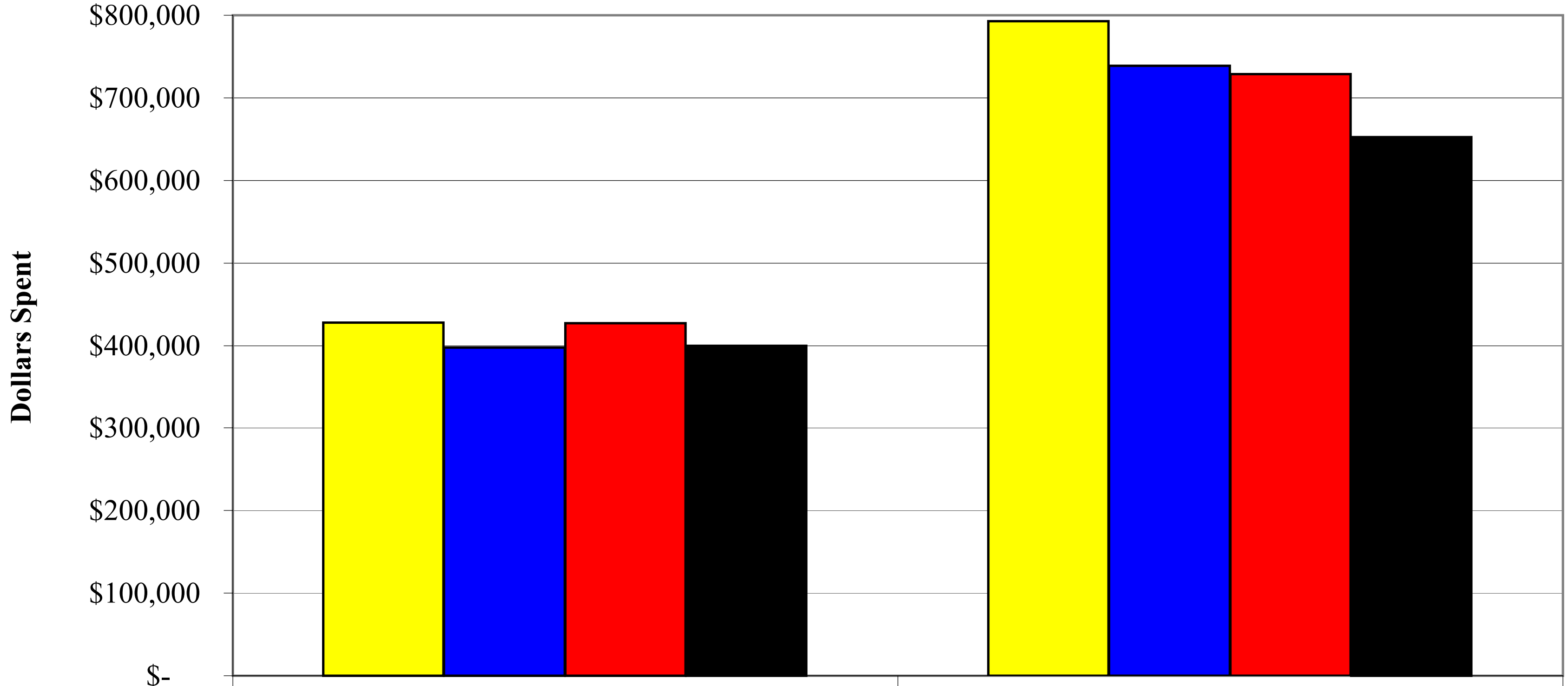


NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

SCHEDULE OF DAIRY CONTRACT DISBURSEMENTS BY FISCAL YEAR

For the Fiscal Years Ended June 30, 2001, 2002, 2003, and 2004

(Unaudited)



	Dairy Council of Central States	American Dairy Assn. Of Nebraska
2001	$427,677	$792,958
2002	$397,624	$738,445
2003	$427,126	$729,038
2004	$399,955	$652,558

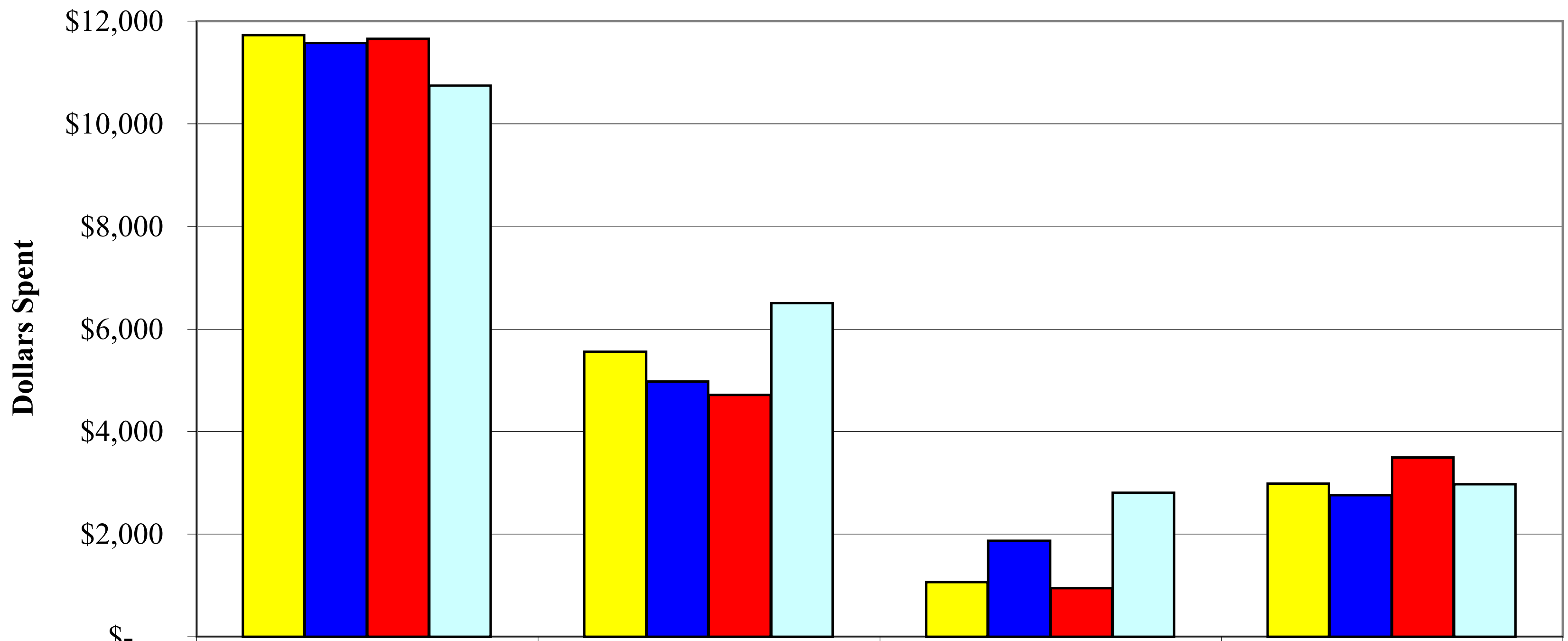
Contracts

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

SCHEDULE OF OTHER DISBURSEMENTS BY FISCAL YEAR

For the Fiscal Years Ended June 30, 2001, 2002, 2003, and 2004

(Unaudited)



	Administrative Service Contract	Fee Collection Contract	Board Expense	Annual Audit
2001	$11,722	$5,560	$1,061	$2,989
2002	$11,570	$4,973	$1,876	$2,765
2003	$11,660	$4,718	$943	$3,498
2004	$10,743	$6,498	$2,812	$2,975

Expenses

STATE OF NEBRASKA
AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Nebraska Dairy Industry Development Board
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Dairy Industry Development Board as of and for the year ended June 30, 2004, and have issued our report thereon dated December 23, 2004. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the fund of the Nebraska Dairy Industry Development Board, and does not include the financial data of the American Dairy Association of Nebraska and the Dairy Council of Nebraska, Inc., component units of the Nebraska Dairy Industry Development Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Dairy Industry Development Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Dairy Industry

Development Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the Comments Section of the report as Nebraska Information System and Accounting Procedures.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Dairy Industry Development Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including compliance with the requested United States Department of Agriculture's specific program requirements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Nebraska Dairy Industry Development Board and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Timothy J. Channer CPA

December 23, 2004 Assistant Deputy Auditor