

**AUDIT REPORT
OF THE
NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD**

JULY 1, 2004 THROUGH JUNE 30, 2005

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the Auditor of Public Accounts.**

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Issued on November 9, 2005

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

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NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

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related to advertising and promotion provisions of the Nebraska-Western Iowa Federal Milk Order (Order 65) being rescinded.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 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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

EXIT CONFERENCE

An exit conference was held October 12, 2005 with the Board to discuss the results of our examination. Those in attendance for the Nebraska Dairy Industry Development Board were:

<u>NAME</u>	<u>TITLE</u>
Robert Storant	Finance and Personnel Administrator - Department of Agriculture

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

COMMENT AND RECOMMENDATION

During our audit of the Nebraska Dairy Industry Development Board, we noted a certain matter involving the internal control over financial reporting which is presented here. The comment and recommendation is intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

Reconciliation of Bank Records to the Nebraska Information System

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA's previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of \$2,944,126 and \$2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

COMMENT AND RECOMMENDATION

(Continued)

Reconciliation of Bank Records to the Nebraska Information System (Concluded)

The APA recommends DAS Accounting Division continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of DAS Accounting Division; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

It should be noted this report is critical in nature since it contains only our comment and recommendation 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 and recommendation included in this report. The Board declined to respond.

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

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

Kate Witek
State Auditor
Kate.Witek@apa.ne.gov

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Nebraska Dairy Industry Development Board
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

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, 2005, 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.

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

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.

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

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.

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

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 funds of the State of Nebraska as of June 30, 2005, 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, 2005, 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 Nebraska Dairy Industry Development Board, as of June 30, 2005, 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 October 12, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

October 12, 2005

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

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, 2005. 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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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 receipt 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 receipts, disbursements, 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 receipts (such as accounts receivable and receipts for billed or provided services not yet collected) and certain liabilities and their related disbursements (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements 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, 2005, net assets of the Board (current assets resulting from cash basis transactions) decreased eight percent.

	Governmental Activities	
	2005	2004
RECEIPTS:		
Unrestricted	\$ 81,902	\$ 88,984
Total Net Assets	\$ 81,902	\$ 88,984

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Governmental Activities

Receipts for the Board's governmental activities decreased nine percent; in addition, disbursements also decreased three percent.

ENTITY'S CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2005</u>	<u>2004</u>	
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 1,031,216	\$ 1,130,103	-9%
General Receipts:			
Investment Interest	1,763	2,027	-13%
Total Receipts	<u>1,032,979</u>	<u>1,132,130</u>	<u>-9%</u>
DISBURSEMENTS:			
Economic Development and Assistance	<u>1,040,061</u>	<u>1,075,540</u>	<u>-3%</u>
Total Disbursements	<u>1,040,061</u>	<u>1,075,540</u>	<u>-3%</u>
Increase (Decrease) in Net Assets	(7,082)	56,590	-113%
Beginning Net Assets July 1	<u>88,984</u>	<u>32,394</u>	<u>175%</u>
Ending Net Assets June 30	<u><u>\$ 81,902</u></u>	<u><u>\$ 88,984</u></u>	<u><u>-8%</u></u>

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.

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, 2005

	GOVERNMENTAL ACTIVITIES TOTAL
Assets	
Cash and Cash Equivalents	\$ 81,111
Deposits with Nebraska Department of Agriculture	791
	81,902
Total Assets	81,902
Net Assets	
Unrestricted	81,902
Total Net Assets	\$ 81,902

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2005

	GOVERNMENTAL ACTIVITIES TOTAL
Disbursements:	
Operating	\$ 1,037,606
Travel	2,455
Total Disbursements	1,040,061
Program Receipts:	
Charges for Services	1,031,216
Net Program Receipts (Disbursements)	(8,845)
General Receipts and Other:	
Unrestricted Investment Interest	1,763
Change in Net Assets	(7,082)
Net Assets July 1, 2004	88,984
Net Assets June 30, 2005	\$ 81,902

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, 2005

	Major Fund
	Fund 26100 Nebraska Dairy Industry Development
Assets:	
Cash and Cash Equivalents	\$ 81,111
Deposit with Nebraska Department of Agriculture	791
Total Assets	\$ 81,902
Fund Balance:	
Unreserved	\$ 81,902
Total Fund Balance	\$ 81,902

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, 2005

	Major Funds
	Fund 21600
	Nebraska Dairy
	Industry
	Development
RECEIPTS:	
Sales and Charges	\$ 1,031,025
Miscellaneous:	
Investment Interest	1,763
Other Miscellaneous	191
TOTAL RECEIPTS	1,032,979
 DISBURSEMENTS BY FUNCTION:	
Economic Development and Assistance	1,040,061
TOTAL DISBURSEMENTS	1,040,061
Net Change in Fund Balance	(7,082)
FUND BALANCE, JULY 1, 2004	88,984
FUND BALANCE, JUNE 30, 2005	\$ 81,902

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2005

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Dairy Industry Development Board (Board) have been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The basic financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services.

B. Reporting Entity

The 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 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 statement of the ADA and DC can be obtained from the ADA and DC administrative offices.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

C. **Government-Wide and Fund Financial Statements**

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 GASB Statement Number 34. These statements include all the financial activities of the Board. The Board reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental receipts, and other nonexchange transactions.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported as unrestricted net assets. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct disbursements 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 the major governmental fund. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Board also 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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

D. 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. Receipts are recognized when received and disbursements 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, receipts are recorded when earned and disbursements are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as receipts as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were reported on the cash receipts and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from 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, receipts are recognized as soon as they are both measurable and available. Receipts and related receivables are considered to be available, and thus susceptible to accrual, 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 receipts to be available if they are collected within one year of the end of the current fiscal period. Receipts are generally considered to be susceptible to accrual when the underlying transaction takes place or when eligibility requirements are met. Expenditures are usually recorded when a liability is incurred, as under accrual accounting. However, disbursements related to compensated absences and claims and judgments are recorded only when payment is due.

E. Cash and Cash Equivalents

Cash and cash equivalents represent the cash balance as reflected on the Nebraska Information System (NIS). Also included in the cash and cash equivalents amount is Deposits with Vendors. Investment of all available cash is made by the State Investment Officer on a daily

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Interest on funds held by the State Treasurer is periodically distributed to the participating agencies. These funds are considered to be cash and cash equivalents which are available for expenditures as needed. These funds are held in the State of Nebraska Operating Investment Pool (OIP), an internal investment pool. The investment policy of the OIP includes the objectives of:

- Safety – Investments will be undertaken in a manner that seeks to ensure preservation of capital on a total return basis.
- Liquidity – The OIP will remain sufficiently liquid to meet the daily cash flow needs of the State and other entities participating in the OIP.
- Return on Investment – The objective is to attain a competitive income rate of return given the risk constraints and cash flow characteristics of the portfolio.

The investment strategy is to minimize short-term investments while maintaining sufficient funds to provide for required cash outflows. The investments of the OIP at June 30, 2005 include Commercial Paper, U.S. Government Securities, Federal Agency Debt Instruments, Corporate Bonds, Money Market Funds, and Bank Deposits. Additional information on the OIP can be found in the State of Nebraska's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005.

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 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 with a self-insured retention of \$300,000 per accident, except for accidents involving vehicular pursuit which have a \$1,000,000 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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
NEBRASKA DAIRY INDUSTRY DEVELOPMENT FUND
For the Fiscal Year Ended June 30, 2005

Nebraska Dairy Industry Development Fund				
PROGRAM:	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Dairy Industry Development Board	\$ 2,530,191	\$ 2,530,191	\$ 1,040,061	\$ 1,490,130
TOTAL DISBURSEMENTS	\$ 2,530,191	\$ 2,530,191	\$ 1,040,061	\$ 1,490,130

See Notes to the Supplementary Information

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2005

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. When there are perspective differences that result in not being able to present budgetary comparisons for the general fund and each major special revenue fund, GAAP requires the budgetary comparison schedules to be shown based on the fund, organization, or program structure that is used for the legally adopted 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 both 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 requests 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*.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE SUPPLEMENTARY INFORMATION

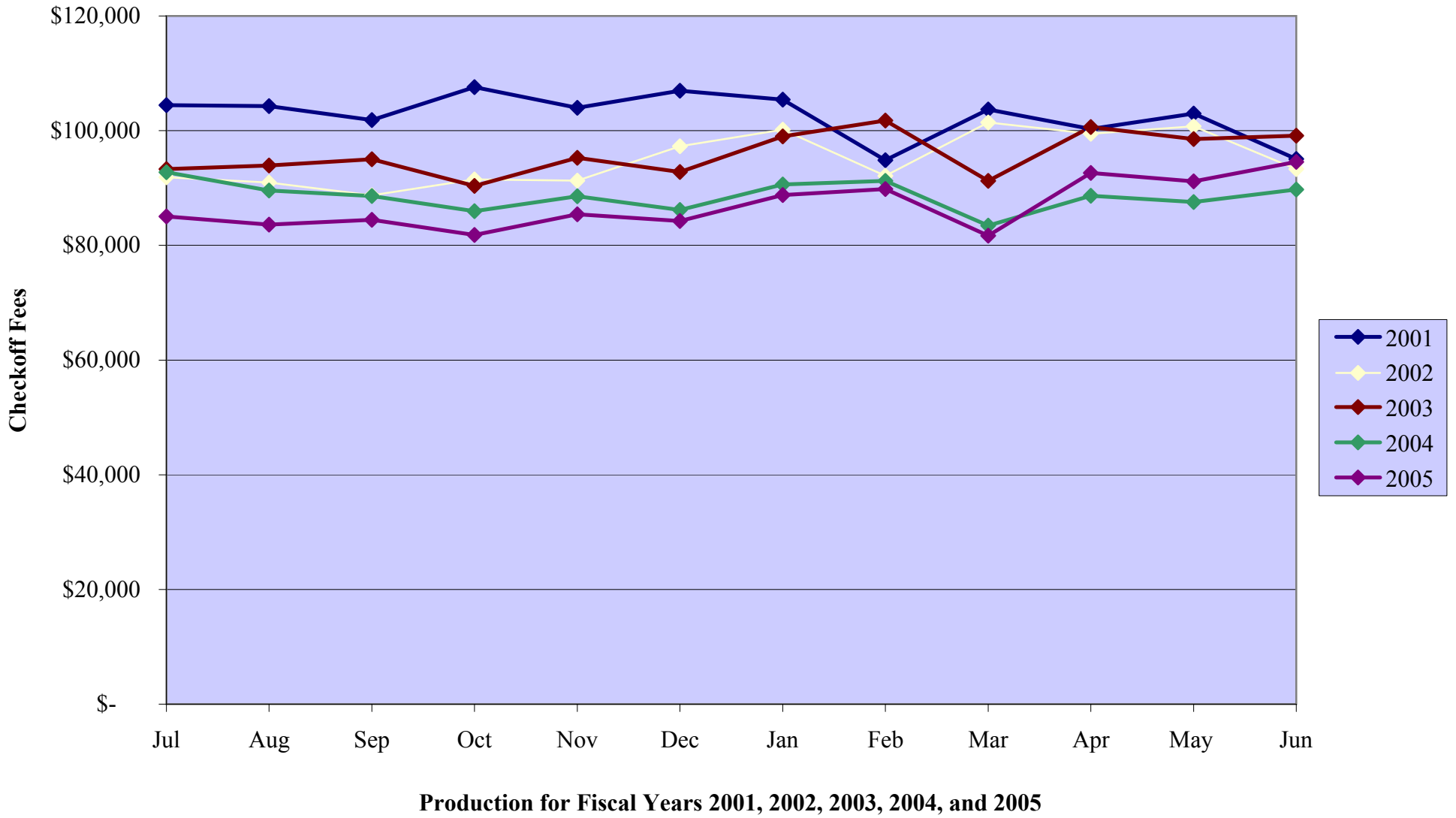
(Continued)

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.

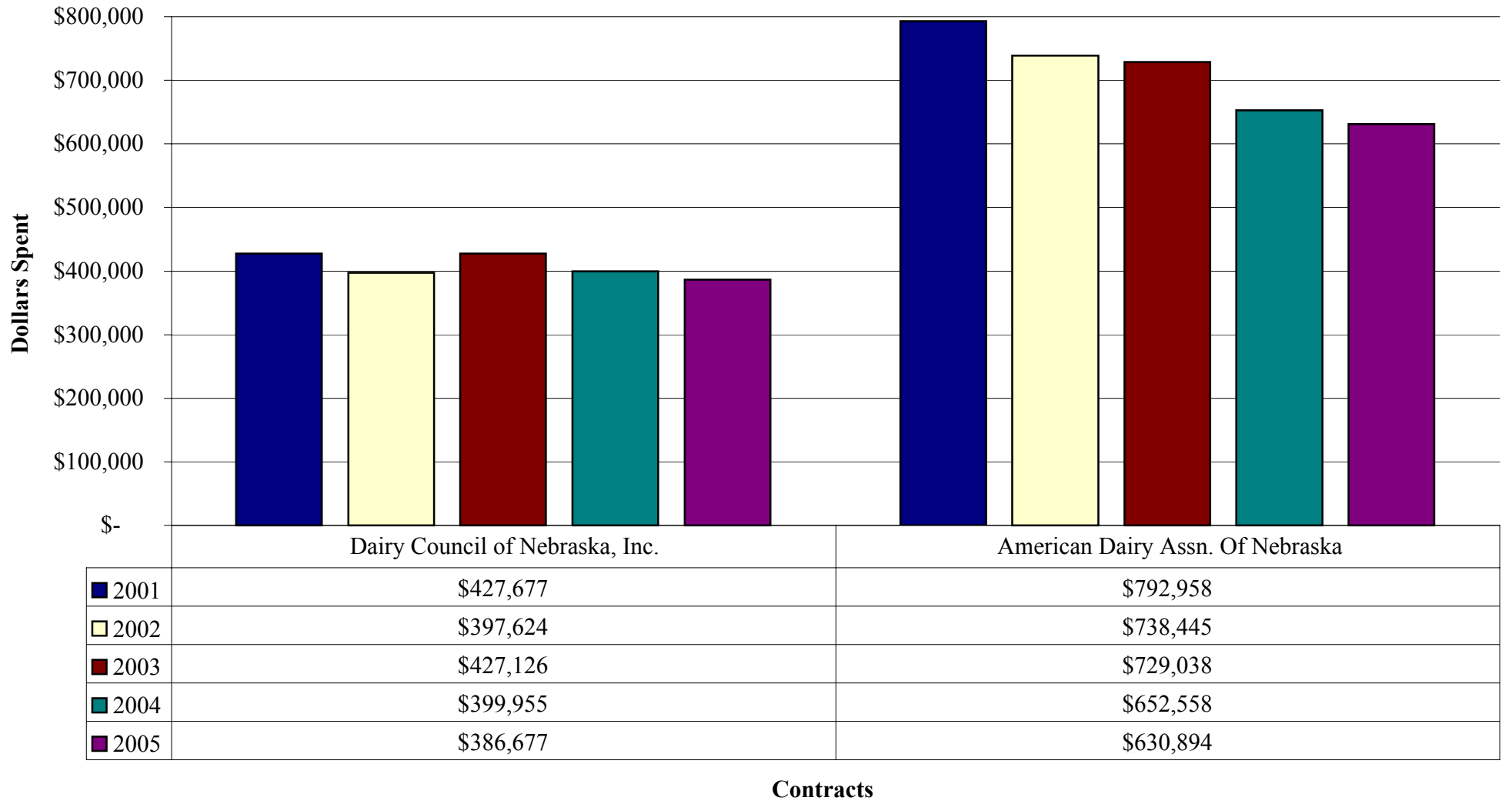
All State budgetary disbursements for the Board's Nebraska Dairy Industry Development Fund are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except 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.

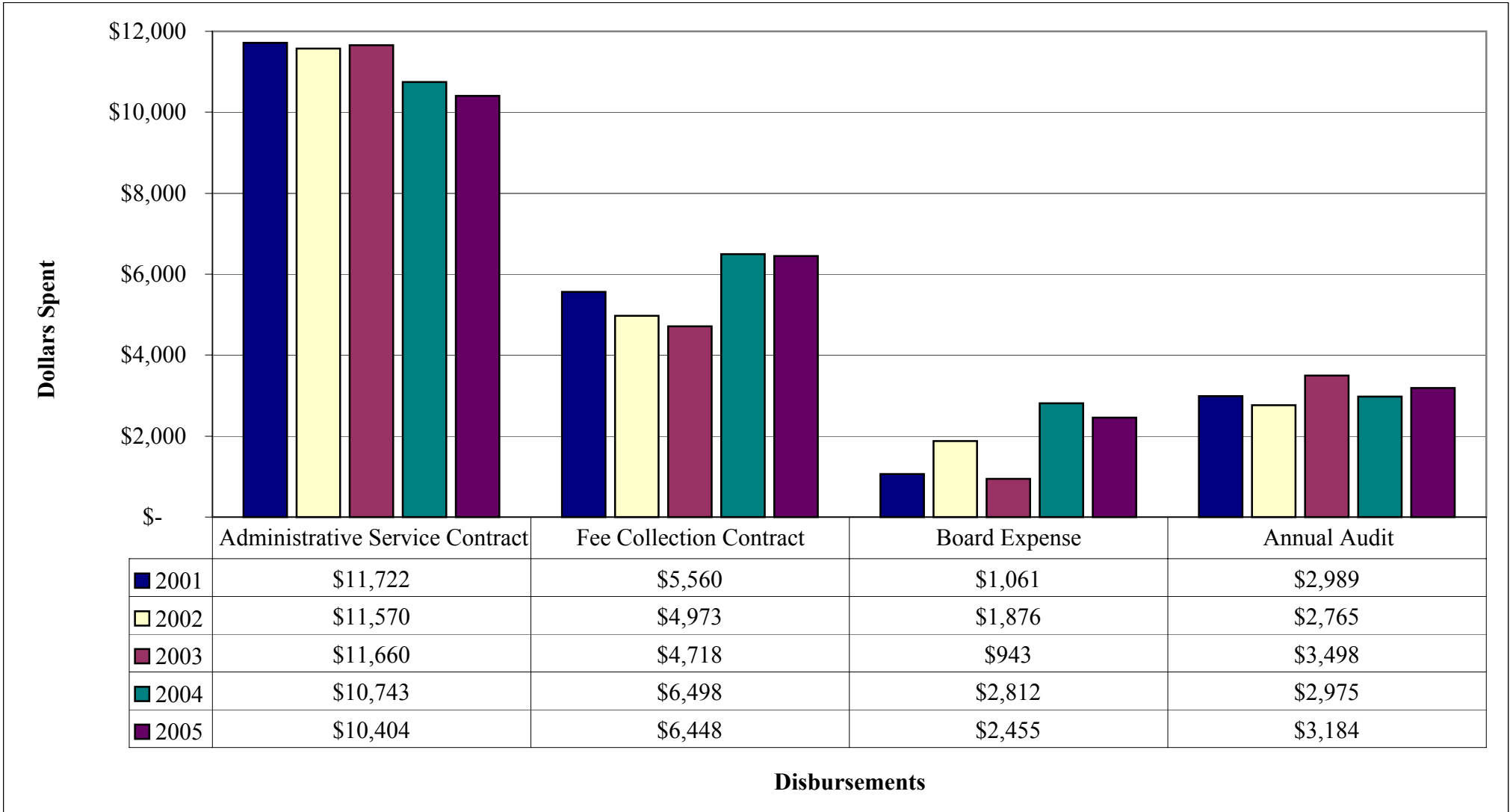
NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF CHECKOFF RECEIPT TREND
(Unaudited)



NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF DAIRY CONTRACT DISBURSEMENTS BY FISCAL YEAR
 For the Fiscal Years Ended June 30, 2001, 2002, 2003, 2004, and 2005
 (Unaudited)



NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF OTHER DISBURSEMENTS BY FISCAL YEAR
 For the Fiscal Years Ended June 30, 2001, 2002, 2003, 2004, and 2005
 (Unaudited)



STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
Kate.Witek@apa.ne.gov

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

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Nebraska Dairy Industry Development Board
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

We have audited the financial statements of the Nebraska Dairy Industry Development Board as of and for the year ended June 30, 2005, and have issued our report thereon dated October 12, 2005. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize the financial statements present only the funds 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 assurance 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 Reconciliation of Bank Records to the Nebraska Information System.

A material weakness is a 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 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 and Other Matters

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 grants, 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 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 Board and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Handwritten signature of Timothy J. Chamber CPA in black ink.

Assistant Deputy Auditor

October 12, 2005