

**AUDIT REPORT  
OF THE  
NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS**

**JULY 1, 1999 THROUGH JUNE 30, 2000**

NEBRASKA DEPARTMENT OF REVENUE - CIGARETTE TAX RECEIPTS

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## NEBRASKA DEPARTMENT OF REVENUE - CIGARETTE TAX RECEIPTS

### **BACKGROUND**

Every person engaged in distributing or selling cigarettes at wholesale in the state of Nebraska is required to pay a tax to the Department for each package of cigarettes sold within the State. This is accomplished by requiring all cigarettes sold within the State to be stamped.

The money received by the Department from the sale of the stamps is deposited with the State Treasurer, who distributes the proceeds as required by State Statute.

STATE OF NEBRASKA  
Auditor of Public Accounts



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NEBRASKA DEPARTMENT OF REVENUE - CIGARETTE TAX RECEIPTS

**INDEPENDENT AUDITORS' REPORT**

We have audited the financial statement of the Nebraska Department of Revenue - Cigarette Tax Receipts as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. This financial statement is the responsibility of the Management of the Nebraska Department of Revenue. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statement presents only the Nebraska Department of Revenue - Cigarette Tax Receipts, and is not intended to present fairly the fund balances or the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cigarette tax receipts for the fiscal year ended June 30, 2000, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2000, on our consideration of the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The report on compliance and on internal control over financial reporting is an integral part of a Government Auditing Standards audit and should be considered in conjunction with the report on the Financial Statements.

The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for schedule 2, which is marked "Unaudited" and on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

August 4, 2000

A handwritten signature in cursive script that reads "Deann Hauffman CPA". The signature is written in dark ink and is positioned to the right of the typed name.

Deputy State Auditor

NEBRASKA DEPARTMENT OF REVENUE - CIGARETTE TAX RECEIPTS  
**STATEMENT OF CIGARETTE TAX RECEIPTS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Net Sales per Month (see Note 2)

July, 1999	\$ 4,072,691
August, 1999	3,008,566
September, 1999	4,055,526
October, 1999	3,928,127
November, 1999	3,558,689
December, 1999	3,541,666
January, 2000	3,113,090
February, 2000	3,142,632
March, 2000	3,921,929
April, 2000	2,827,015
May, 2000	3,650,314
June, 2000	<u>4,595,450</u>
 Net Cigarette Tax Receipts	 <u><u>\$ 43,415,695</u></u>

See Notes to the Statement of Cigarette Tax Receipts.

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2000

**1. Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Revenue - Cigarette Tax Receipts are on the basis of accounting as described in the Nebraska Accounting System Manual.

**A. Reporting Entity.** Cigarette Tax Receipts are a part of the Nebraska Department of Revenue, a State agency established under and governed by the laws of the State of Nebraska. The Department of Revenue is part of the primary government for the State of Nebraska's reporting entity. The Statement includes only the cigarette tax receipts and is not intended to present fairly the receipts of the Nebraska Department of Revenue as a whole.

**B. Basis of Accounting.** The accounting records of the Nebraska Department of Revenue's Statement of Cigarette Tax Receipts were prepared on the basis of cash receipts. Under this method, revenues are recognized when received. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual.

**2. A. Sales Discounts Allowed.** Wholesale dealers of cigarettes are allowed a discount of three and four-tenths percent of the face value of the cigarette tax as a commission for affixing and canceling such cigarette stamps in accordance with Neb. Rev. Stat. Section 77-2608, R.R.S. 1996. The total amount of sales discounts allowed for the fiscal year was \$1,528,089.

**B. Refunds/Credits.** Refunds and Credits are allowed on the sale of cigarette stamps for the following reasons:

- 1) Refunds are allowed when cigarette tax stamps are returned to the Department of Revenue unused. These stamps will either be reissued to another wholesaler or destroyed.
- 2) Credits are allowed for cigarettes sold to Native American Indians living on American Indian Reservations. These sales are exempt from the cigarette tax.
- 3) Credits are allowed for cigarettes sold to the U.S. Government or its agencies, as these sales are exempt from tax.

The total amount of refunds/credits allowed on the sale of cigarette tax stamps for the fiscal year was \$415,057.

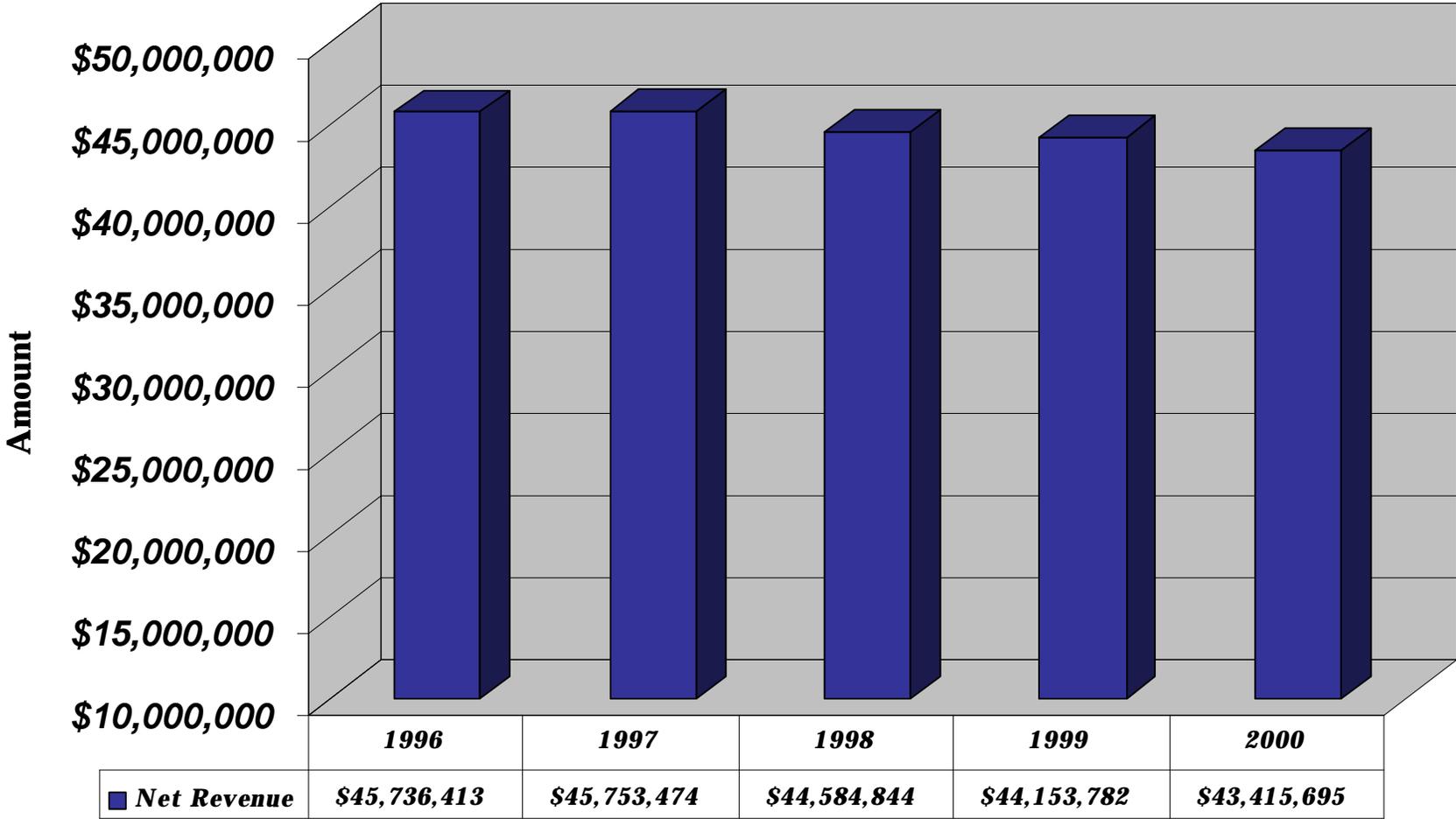
**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**3. Contingencies**

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

**Net Revenue**



NEBRASKA DEPARTMENT OF REVENUE - CIGARETTE TAX RECEIPTS

**STATE CIGARETTE TAX RATES**

**FOR ALL STATES AS OF**

January 1, 2000

**UNAUDITED**

Schedule 2

State	Tax Rate		State	Tax Rate	
	(¢ per pack)	Rank		(¢ per pack)	Rank
Alaska	100	1	Florida	33.9	27
Hawaii	100	1	South Dakota	33	28
California	87	3	Arkansas (2)	31.5	29
Washington	82.5	4	Pennsylvania	31	30
New Jersey	80	5	Idaho	28	31
Massachusetts	76	6	Delaware	24	32
Michigan	75	7	Kansas	24	32
Maine	74	8	Ohio	24	32
Rhode Island	71	9	Oklahoma	23	35
Oregon	68	10	New Mexico	21	36
Maryland	66	11	Colorado	20	37
Dist. Of Columbia	65	12	Louisiana	20	37
Wisconsin	59	13	Mississippi	18	39
Arizona	58	14	Montana	18	39
Illinois (1)	58	14	Missouri (1)	17	41
New York (1) (3)	56	16	West Virginia	17	41
Hew Hampshire	52	17	Alabama (1)	16.5	43
Utah	51.5	18	Indiana	15.5	44
Connecticut	50	19	Tennessee (1) (2)	13	45
Minnesota	48	20	Georgia	12	46
North Dakota	44	21	Wyoming	12	46
Vermont	44	21	South Carolina	7	48
Texas	41	23	North Carolina	5	49
Iowa	36	24	Kentucky (2)	3	50
Nevada	35	25	Virginia (1)	2.5	51
Nebraska	34	26			
			U.S. Median	34.0	

Source: Compiled by the Federation of Tax Administrators from various sources.

- (1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; TN 1¢; and VA, 2¢ to 15¢
- (2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and .05¢ in TN. In AR, a \$1.25/1,000 cigarette fee is imposed.
- (3) Tax rate will increase to \$1.11 per pack on March 1, 2000.

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Auditor of Public Accounts



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**NEBRASKA DEPARTMENT OF REVENUE - CIGARETTE TAX RECEIPTS  
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statement of the Nebraska Department of Revenue - Cigarette Tax Receipts as of and for the year ended June 30, 2000, and have issued our report thereon dated August 4, 2000. The report notes the financial statement was prepared on the basis of cash receipts and was modified to emphasize that the financial statement presents only the funds of the Nebraska Department of Revenue - Cigarette Tax Receipts. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Revenue - Cigarette Tax Receipt's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Revenue - Cigarette Tax Receipt'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. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Deann Hauffman CPA". The signature is written in dark ink and is positioned to the right of the date.

Deputy State Auditor

August 4, 2000