

**AUDIT REPORT  
OF THE  
NEBRASKA ETHANOL BOARD**

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

NEBRASKA ETHANOL BOARD

TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1 - 2
Mission Statement	2
Organizational Chart	3
<b>Comments Section</b>	
Comment and Recommendation	4
<b>Financial Section</b>	
Independent Auditors' Report	5 - 6
Financial Statements:	
Combined Statement of Assets and Fund Balances and Other Credits Arising from Cash Transactions – Special Revenue Funds and General Fixed Assets Account Group	7
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances	8
Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual - Cash Fund	9
Notes to Financial Statements	10 - 17
Combining Statements and Schedule:	
Combining Statement of Assets and Fund Balances Arising from Cash Transactions – All Special Revenue Funds	18
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – All Special Revenue Funds	19
Schedule of Nebraska Ethanol Production	20
<b>Government Auditing Standards Section</b>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	21 - 22

## NEBRASKA ETHANOL BOARD

### BACKGROUND

The Nebraska Ethanol Board was created by the passage of 1993 Neb. Laws LB 364. Governor Nelson signed the bill into law on May 4, 1993. The bill stated, in part, “The Board shall consist of seven members to be appointed by the Governor with the approval of a majority of the Legislature. Four members shall be actually engaged in farming in this state, one in general farming and one each in the production of corn, wheat, and sorghum. The Board shall retain the services of a full time administrator to be appointed by the Board. The Administrator shall hold office at the pleasure of the Board. . . . The Board may . . . employ such personnel as may be necessary for the performance of its duties.”

The Board administers the Agriculture Alcohol Fuel Tax Fund. The primary source of revenue to this fund is generated from 1.25 cents per gallon check-off on non-highway fuel tax refunds. The fund is used to accomplish the following purposes:

- Establish, with cooperation of private industry, procedures and processes necessary to the manufacture and marketing of fuel containing agricultural ethyl alcohol;
- Establish procedures for entering blended fuel into the marketplace by private enterprise;
- Analyze the marketing process, and test marketing procedures to assure acceptance in the private marketplace of blended fuel and byproducts resulting from the manufacturing process;
- Cooperate with private industry to establish privately-owned agricultural ethyl alcohol manufacturing plants in Nebraska to supply demand for blended fuel;
- Sponsor research and development of industrial and commercial uses for agricultural ethyl alcohol and for byproducts resulting from the manufacturing process;
- Promote State and national air quality improvement programs, and influence federal legislation that requires or encourages the use of fuels oxygenated by the inclusion of agricultural ethyl alcohol or its derivatives;
- Promote the use of renewable agricultural ethyl alcohol as a partial replacement for imported oil, and for the energy and economic security of the nation;
- Participate in the development and passage of national legislation dealing with research, development, and promotion of the United States production of fuels oxygenated by the inclusion of agricultural ethyl alcohol or its derivatives, and with access to potential markets, tax incentives, imports of foreign-produced fuel, and related concerns that may develop in the future; and
- Fulfill the goals set forth under the Ethanol Development Act, including monitoring contracts for existing ethanol program commitments.

At June 30, 2000, the Board had four permanent employees.

## NEBRASKA ETHANOL BOARD

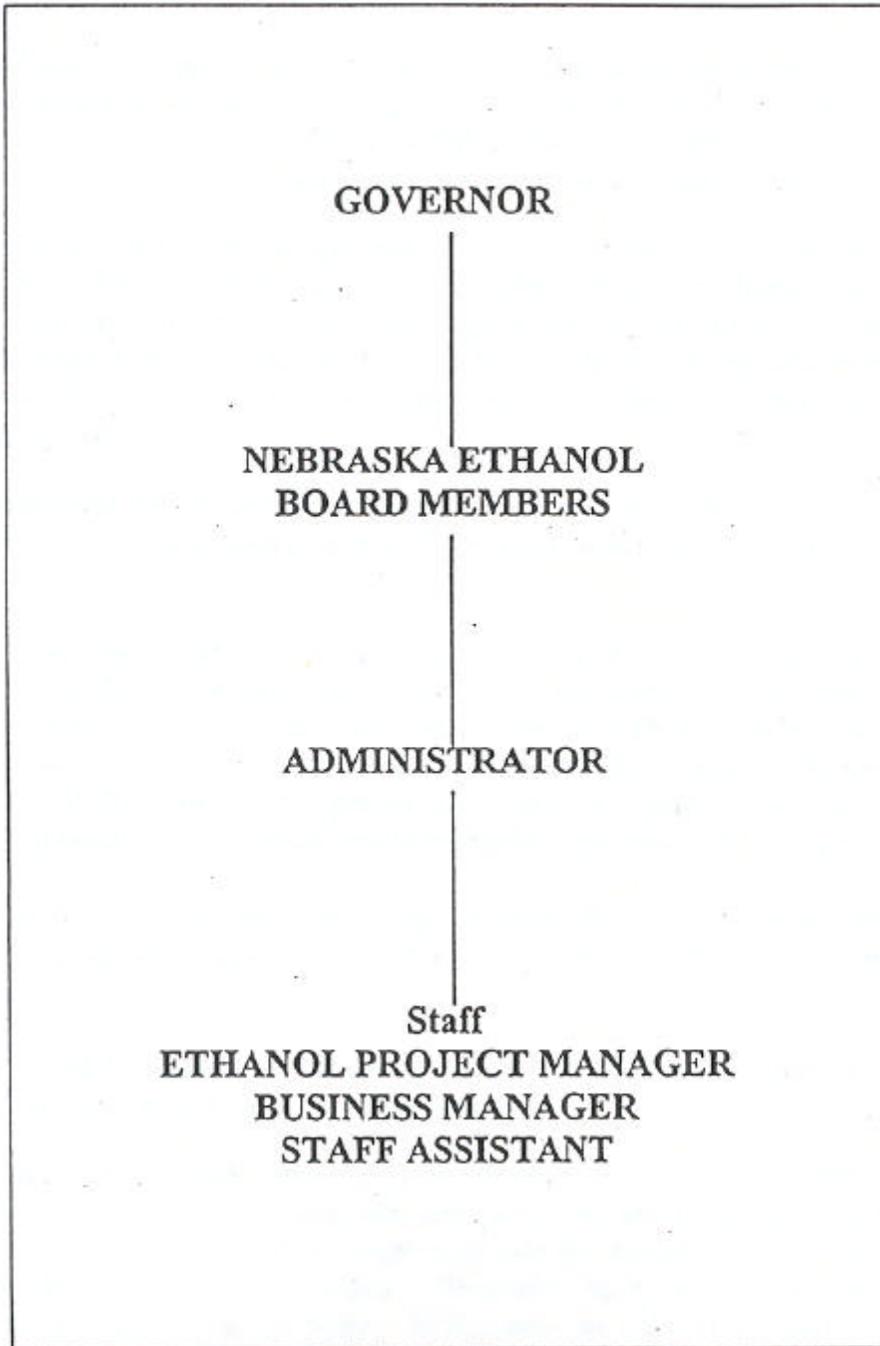
### MISSION STATEMENT

The mission of the Nebraska Ethanol Board is to:

- Establish procedures and processes necessary to the manufacture and marketing of fuel ethanol.
- Analyze the marketing process and test the procedures to assure acceptance in the marketplace.
- Cooperate with industry to establish privately owned agricultural ethyl alcohol plants.
- Sponsor research and development of industrial and commercial uses for ethanol and its byproducts.
- Promote state and national air quality improvement programs, and influence legislation that encourages the use of oxygenated fuels.
- Promote the use of renewable ethanol as a partial replacement for imported oil to ensure the energy security of the country.

NEBRASKA ETHANOL BOARD

**ORGANIZATIONAL CHART**



## NEBRASKA ETHANOL BOARD

### COMMENT AND RECOMMENDATION

During our audit of the Nebraska Ethanol Board, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

#### **1. Segregation of Duties Over Fixed Assets**

Good internal control requires a proper segregation of duties so there is no one individual authorized to handle all phases of every procedure. The account codes used in the Nebraska Accounting System (NAS) to identify a capital outlay are the 4800 series. These include all expenditures which result in the acquisition of or an addition to fixed assets.

We noted there was a lack of segregation of duties over fixed assets as one individual was responsible for performing all duties, which included maintaining fixed asset records, adding items to the fixed asset inventory, approving Surplus Property Notification forms, deleting items from the fixed asset inventory, reviewing the Account Code 4800 Expenditures Not On Inventory report exception list and completing an annual physical inventory. There was no supervisory review of this process.

There is an increased risk of undetected errors and irregularities when there is no segregation of duties. There is also a risk of loss or theft of fixed assets when the same individual is responsible for all duties.

We recommend the Board have someone not directly involved with fixed assets/inventory also review and document their review of the Account Code 4800 Expenditures Not On Inventory report and the history report, which are Statewide Inventory System (SWIS) reports. This person should have adequate knowledge of procedures and transactions to recognize problems if they occur.

*Board's Response: The Ethanol Board agrees with the audit recommendation concerning segregation of duties over fixed assets. We have implemented this practice in our fixed asset review process.*

It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas 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 comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Board declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

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

STATE OF NEBRASKA  
Auditor of Public Accounts

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NEBRASKA ETHANOL BOARD

**INDEPENDENT AUDITORS' REPORT**

We have audited the financial statements of the Nebraska Ethanol Board as of and for the fiscal year ended June 30, 2000, 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 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 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 that our audit provides a reasonable basis for our opinion.

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 present only the Nebraska Ethanol Board, and are not intended to present fairly the fund balances and 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 statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Ethanol Board as of June 30, 2000, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 12, 2001, on our consideration of the Nebraska Ethanol 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.

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

A handwritten signature in black ink that reads "Timothy J. Chambers CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Manager

April 12, 2001

NEBRASKA ETHANOL BOARD  
**COMBINED STATEMENT OF ASSETS AND FUND BALANCES AND OTHER  
CREDITS ARISING FROM CASH TRANSACTIONS**  
**SPECIAL REVENUE FUNDS AND GENERAL FIXED ASSETS ACCOUNT GROUP**  
June 30, 2000

	<u>Governmental</u> <u>Fund Type</u>	<u>Account Group</u>	
	Special	General	<b>Totals</b>
	Revenue	Fixed	(Memorandum
		Assets	Only)
<b><u>Assets</u></b>			
Cash in State Treasury	\$ 5,830,344	\$ -	\$ 5,830,344
Deposit with Vendors	459	-	459
Property, Plant, and Equipment	-	33,237	33,237
	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 5,830,803</u>	<u>\$ 33,237</u>	<u>\$ 5,864,040</u>
<b><u>Fund Balances and Other Credits</u></b>			
Other Credits,			
Investment in Fixed Assets	\$ -	\$ 33,237	\$ 33,237
Fund Balances:			
Reserved For Postage	459	-	459
Unreserved, Undesignated	5,830,344	-	5,830,344
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances and Other Credits	<u>\$ 5,830,803</u>	<u>\$ 33,237</u>	<u>\$ 5,864,040</u>

See Notes to Financial Statements.

NEBRASKA ETHANOL BOARD  
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2000

	Governmental Fund Type <u>Special Revenue</u>
<b>RECEIPTS:</b>	
Taxes:	
Motor Vehicle Fuels Taxes	\$ 376,015
Intergovernmental:	
State Grants/Contracts	6,000
Revenue Deposited by Other Agencies (Note 1.J.)	7,071,875
Miscellaneous	<u>729,095</u>
<b>TOTAL RECEIPTS</b>	<b><u>8,182,985</u></b>
<b>DISBURSEMENTS:</b>	
Personal Services	245,586
Operating	249,936
Travel	38,259
Capital Outlay	<u>1,953</u>
<b>TOTAL DISBURSEMENTS</b>	<b><u>535,734</u></b>
Excess of Receipts Over Disbursements	<u>7,647,251</u>
<b>OTHER FINANCING SOURCES (USES):</b>	
Operating Transfer In (Note 6)	6,000,000
Operating Transfers Out (Note 7)	<u>(22,250,327)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>(16,250,327)</u></b>
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	(8,603,076)
FUND BALANCE, JULY 1, 1999	<u>14,433,879</u>
FUND BALANCE, JUNE 30, 2000	<u><u>\$ 5,830,803</u></u>

See Notes to Financial Statements.

NEBRASKA ETHANOL BOARD  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE**  
 BUDGET AND ACTUAL  
 CASH FUND  
 For the Year Ended June 30, 2000

	TOTAL CASH FUND			
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	
<b>RECEIPTS:</b>				
Taxes - Motor Vehicle Fuels Taxes		\$ 376,015		
State Grants/Contracts		6,000		
Revenue Deposited by Other Agencies (Note 1.J.)		7,071,875		
Miscellaneous		729,095		
TOTAL RECEIPTS		8,182,985		
<b>DISBURSEMENTS:</b>				
Personal Services	\$ 256,755	245,586	\$ 11,169	
Operating	308,505	249,936	58,569	
Travel	30,700	38,259	(7,559)	
Capital Outlay	3,355	1,953	1,402	
TOTAL DISBURSEMENTS	599,315	535,734	63,581	
Excess of Receipts Over Disbursements		7,647,251		
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfer In (Note 6)		6,000,000		
Operating Transfers Out (Note 7)		(22,250,327)		
TOTAL OTHER FINANCING SOURCES (USES)		(16,250,327)		
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses		(8,603,076)		
FUND BALANCES, JULY 1, 1999		14,433,879		
FUND BALANCES, JUNE 30, 2000		\$ 5,830,803		

See Notes to Financial Statements.

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. **Summary of Significant Accounting Policies**

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

- A. **Reporting Entity.** The Nebraska Ethanol Board (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 are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board 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 Ethanol Board. No component units were identified. The Nebraska Ethanol Board is part of the primary government for the State of Nebraska's reporting entity.

- B. **Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Board are maintained and the Board's financial statements were prepared 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 Combined Statement of Assets and Fund Balances for all funds of the Board. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the cash receipts and disbursement basis of accounting, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

(GAAP), which requires the use of the modified accrual basis for the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

- C. **Fund Accounting.** The accounts and records of the Board are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP, and include:

**Special Revenue Funds.** Reflect transactions related to resources received and used for restricted or specific purposes.

**General Fixed Assets Account Group.** Used to account for general fixed assets of the Board.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Board are:

**2000 - Cash Funds** - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

- D. **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 submits the revised appropriations bill to the Governor for signature. The Governor may: a) approve the

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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 appropriations that are approved 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. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

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 cash fund type 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 object 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 general, cash, construction, and revolving fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Board utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Board's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

outstanding at the end of the prior biennium. This procedure indicates the Board's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2000, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services' Budget Status Report.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash funds on the Budgetary Statement are appropriately classified as special revenue funds for Financial Statement purposes.

- E. Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost, where historical records are available, and at an estimated historical cost, where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2000 have been recorded at cost or estimated cost by the Board. Generally, equipment which has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure, such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

- F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting 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 2000.

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

**G. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

**H. Compensated Absences.** All permanent employees working for the Board earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

**I. Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Board are:

**Taxes.** Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. The Board receives 1.25 cents per gallon of non-highway use motor vehicle fuel approved for credit per Neb. Rev. Stat. Section 66-4,134, R.S. Supp., 2000. A monthly transfer is made to the Board by the State Treasurer based on the Nebraska Department of Revenue report of gallons approved for credit.

**Intergovernmental.** Receipts from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

**Miscellaneous.** Receipts from sources not covered by other major categories. This consists mainly of investment interest.

**J. Revenue Deposited by Other Agency.** The Board receives revenue generated from a three-fourths cent check-off per bushel of corn and three-fourths cent per hundredweight for grain sorghum sold or delivered in Nebraska on or after July 1, 1995, and before January 1, 2000 per Neb. Rev. Stat. Section 66-1345.01 R.S. Supp., 2000. For any sale or delivery of corn or grain sorghum occurring on or after January 1, 2000, and before January 1, 2001, the Board receives one-half cent per bushel of corn and one-half cent per hundredweight for grain sorghum. The statute directs the Department of Agriculture to collect, administer, and enforce the collection of this excise tax.

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

**K. Disbursements.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Board are:

**Personal Services.** Salaries, wages, and related employee benefits provided for all persons employed by a government.

**Operating.** Disbursements directly related to a program's primary service activities.

**Travel.** All travel disbursements for any state officer, employee, or member of any commission, council, committee, or board of the State.

**Capital Outlay.** Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character, owned or held by the government.

**L. Fund Balance Reservations.** Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as postage.

2. **Totals**

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information since interfund balances and transactions have not been eliminated.

3. **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, natural disasters, and health care insurance. 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. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments (Concluded)**

1. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
4. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$100,000 per loss occurrence. The perils of flood and earthquake are covered up to \$9,000,000. 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.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Worker's compensation is also funded in the Risk Management 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 Ethanol 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.

4. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of

NEBRASKA ETHANOL BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **State Employees Retirement Plan (Plan) (Concluded)**

continuous service, and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and completion of twelve months of service within a five-year period, except any individual appointed by the Governor may elect to not become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Board matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2000, employees contributed \$8,599 and the Board contributed \$13,415.

5. **Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance <u>July 1, 1999</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2000</u>
Equipment	\$ 31,518	\$ 1,719	\$ -	\$ 33,237

6. **Operating Transfer In**

The Ethanol Production Incentive Cash Fund received a \$6,000,000 transfer from the General Fund as directed by Neb. Rev. Stat. Section 66-1345.04(2)(b) R.S. Supp., 2000.

7. **Operating Transfers Out**

A monthly transfer is made by the State Treasurer from the Ethanol Production Incentive Cash Fund to the Highway Trust Fund as directed by Neb. Rev. Stat. Section 66-1345, R.S. Supp., 2000. This transfer is equal to the amount of motor fuel tax credits that were not collected in the preceding calendar month (credits provided in Neb. Rev. Stat. Section 66-1344, R.S. Supp., 2000). Operating transfers out also includes \$35,557 transferred to the Department of Agriculture per Neb. Rev. Stat. Section 66-1345.02(4), R.S. Supp., 2000, for their costs in collecting and enforcing the excise tax.

NEBRASKA ETHANOL BOARD  
**COMBINING STATEMENT OF ASSETS AND FUND BALANCES**  
**ARISING FROM CASH TRANSACTIONS**  
**ALL SPECIAL REVENUE FUNDS**  
 June 30, 2000

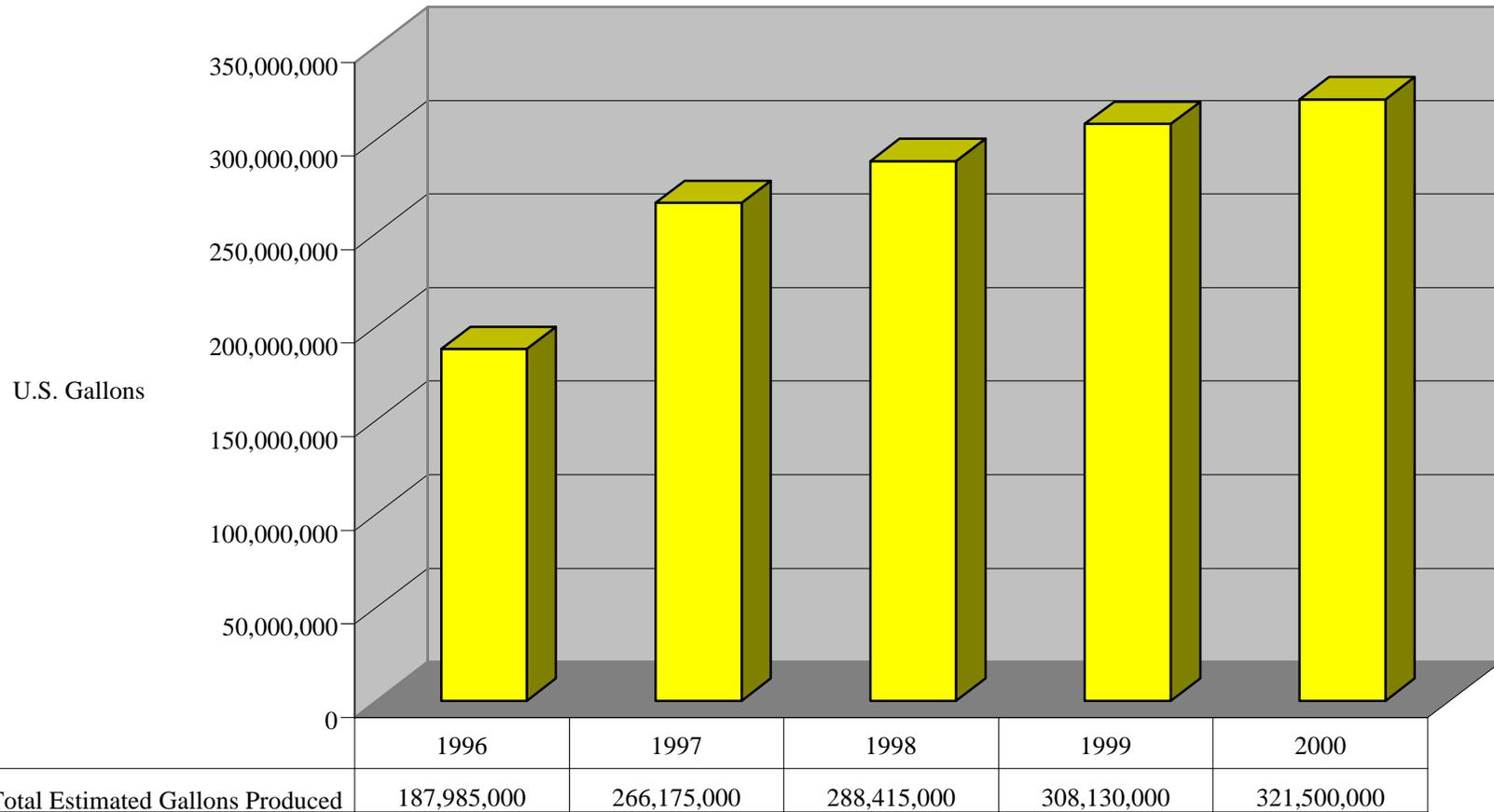
	<u>Agricultural Alcohol Fuel Tax Fund 2160</u>	<u>Ethanol Production Incentive Cash Fund 2602</u>	<u>Totals Special Revenue Funds</u>
<b><u>Assets</u></b>			
Cash in State Treasury	\$ 789,081	\$ 5,041,263	\$ 5,830,344
Deposit with Vendors	459	-	459
 Total Assets	 <u>\$ 789,540</u>	 <u>\$ 5,041,263</u>	 <u>\$ 5,830,803</u>
<b><u>Fund Balances</u></b>			
Fund Balances:			
Reserved For Postage	\$ 459	\$ -	\$ 459
Unreserved, Undesignated	789,081	5,041,263	5,830,344
 Total Fund Balances	 <u>\$ 789,540</u>	 <u>\$ 5,041,263</u>	 <u>\$ 5,830,803</u>

NEBRASKA ETHANOL BOARD  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES**  
ALL SPECIAL REVENUE FUNDS  
For the Fiscal Year Ended June 30, 2000

	Agricultural Alcohol Fuel Tax Fund 2160	Ethanol Production Incentive Cash Fund 2602	<b>Total Special Revenue Funds</b>
	<u>          </u>	<u>          </u>	<u>          </u>
RECEIPTS:			
Taxes:			
Motor Vehicle Fuels Taxes	\$ 376,015	\$ -	\$ 376,015
Intergovernmental:			
State Grants/Contracts	6,000	-	6,000
Revenue Deposited by Other Agencies	-	7,071,875	7,071,875
Miscellaneous	47,028	682,067	729,095
<b>TOTAL RECEIPTS</b>	<u>429,043</u>	<u>7,753,942</u>	<u>8,182,985</u>
DISBURSEMENTS:			
Personal Services	245,586	-	245,586
Operating	249,936	-	249,936
Travel	38,259	-	38,259
Capital Outlay	1,953	-	1,953
<b>TOTAL DISBURSEMENTS</b>	<u>535,734</u>	<u>-</u>	<u>535,734</u>
Excess of Receipts Over (Under) Disbursements	<u>(106,691)</u>	<u>7,753,942</u>	<u>7,647,251</u>
OTHER FINANCING SOURCES (USES):			
Operating Transfer In	-	6,000,000	6,000,000
Operating Transfers Out	-	(22,250,327)	(22,250,327)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>(16,250,327)</u>	<u>(16,250,327)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(106,691)	(8,496,385)	(8,603,076)
FUND BALANCE, JULY 1, 1999	<u>896,231</u>	<u>13,537,648</u>	<u>14,433,879</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 789,540</u>	<u>\$ 5,041,263</u>	<u>\$ 5,830,803</u>

NEBRASKA ETHANOL BOARD  
**SCHEDULE OF NEBRASKA ETHANOL PRODUCTION**  
 For the Calendar Years Ended December 31, 1996 to 2000  
 UNAUDITED

**ESTIMATED NEBRASKA ETHANOL PRODUCTION**



STATE OF NEBRASKA  
Auditor of Public Accounts

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NEBRASKA ETHANOL BOARD  
**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 statements of the Nebraska Ethanol Board as of and for the year ended June 30, 2000, and have issued our report thereon dated April 12, 2001. 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 funds of the Nebraska Ethanol Board. 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 Ethanol Board's financial statements are 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 Ethanol 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. 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. However, we noted another matter involving the internal control over financial reporting that we have reported to management of Nebraska Ethanol Board in the Comments Section of this report as Comment Number 1 (Segregation of Duties Over Fixed Assets).

This report is intended solely for the information and use of the board, 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 black ink that reads "Timothy J. Channer CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Manager

April 12, 2001