

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

JULY 1, 2006 THROUGH JUNE 30, 2007

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the Auditor of Public Accounts.**

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Issued on December 14, 2007

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related to advertising and promotion provisions of the Nebraska-Western Iowa Federal Milk Order (Order 65) being rescinded.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 December 3, 2007, with the Board to discuss the results of our examination. Those in attendance for the Nebraska Dairy Industry Development Board were:

NAME	TITLE
Jim Eschliman	Board Vice Chair (via teleconference)
Denis Blank	Department of Agriculture - Administration
Robert Storant	Department of Agriculture - Finance and Personnel Administrator

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 and other operational matters that is presented here.

Audits of First Purchasers of Milk

Neb. Rev. Stat. Section 2-3958(2) R.R.S. 1997 states, "The board may audit financial and other records of first purchasers of milk, producers, and their agents pertaining to the assessment provided for in this section and otherwise ensure compliance with the Dairy Industry Development Act."

Good internal control requires policies and procedures to ensure audits of first purchasers are properly and consistently performed and documented.

The Board contracts for audit services with the Nebraska Department of Agriculture. For fiscal year 2007, we noted an audit was not performed for any first purchasers' of milk. Additionally, the Board had not established written formalized policies and procedures to ensure audits were performed consistently and procedures performed were adequately documented.

When audits are not performed periodically, there is an increased risk first purchasers of milk may not be properly remitting assessments to the Board. Additionally, when there are no written formal policies and procedures established for the audits there is an increased risk procedures performed will not be adequate, consistently applied, and documented.

We recommend the Board conduct periodic audits of first purchasers. Additionally, we recommend the Board establish written policies and procedures to ensure audits of first purchasers are performed consistently and procedures performed are documented.

Board's Response: The Board recognizes the importance of conducting audits of first purchasers. A draft written policy was presented to the auditor office staff present at the exit conference. The proposed policy will be presented at the next Board meeting for discussion and adoption. Each subsequent year, the policy will be presented to the Board as part of the administrative services contract.

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 formal response received has been incorporated into this report. The response has been

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

COMMENT AND RECOMMENDATION

(Continued)

objectively evaluated and recognized, as appropriate, in the report. A response that indicates corrective action has been taken was 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.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

INDEPENDENT AUDITORS' REPORT

Nebraska Dairy Industry Development Board
Lincoln, Nebraska

We have audited the accompanying financial statements of the governmental activities and the major fund of the Nebraska Dairy Industry Development Board (Board), as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the Board's primary government as listed in the Table of Contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

Also, as discussed in Note 1, the financial statements of the Nebraska Dairy Industry Development Board, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities and the major fund of the State that is attributable to the transactions of the Nebraska Dairy Industry Development Board. They do not purport to, and do not, present fairly the cash balances of the governmental activities and the major funds of the State of Nebraska as of June 30, 2007, 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 do not include financial data for the Board's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Board's primary government unless the Board also issues financial statements for the financial reporting entity that include the financial data for its component units. The Board has not issued such reporting entity financial statements. The amount by which this departure would affect the cash balances and changes in cash balances was not reasonably determinable.

In our opinion, except for the effects of omitting blended component units as discussed above, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities and the major fund of the Nebraska Dairy Industry Development Board, as of June 30, 2007, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2007, 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 other matters. 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 Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Board's primary government. The schedules on pages 23 through 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules 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

December 11, 2007

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, 2007. Please read it in conjunction with the Board's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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. The Agency-Wide financial statements 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 of Nebraska, Inc. (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 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 A WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2007, net assets of the Board (current assets resulting from cash basis transactions) decreased five percent.

	Governmental Activities	
	2007	2006
ASSETS:		
Unrestricted	\$ 80,567	\$ 84,931
Total Net Assets	\$ 80,567	\$ 84,931

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Governmental Activities

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

CHANGES IN NET ASSETS

	Governmental Activities		% Change
	2007	2006	
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 1,098,241	\$ 1,076,728	2%
General Receipts:			
Investment Interest	2,995	2,340	28%
Total Receipts	1,101,236	1,079,068	2%
DISBURSEMENTS:			
Economic Development and Assistance	1,105,600	1,076,039	3%
Total Disbursements	1,105,600	1,076,039	3%
Increase (Decrease) in Net Assets	(4,364)	3,029	(244%)
Beginning Net Assets July 1	84,931	81,902	4%
Ending Net Assets June 30	\$ 80,567	\$ 84,931	(5%)

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. No significant changes from the prior year were noted.

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, 2007

	GOVERNMENTAL ACTIVITIES TOTAL
Assets	
Cash and Cash Equivalents	\$ 79,776
Deposits with Nebraska Department of Agriculture	791
	80,567
Total Assets	\$ 80,567
 Net Assets	
Unrestricted	\$ 80,567
Total Net Assets	\$ 80,567

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, 2007

	Governmental Activities TOTAL
Disbursements:	
Operating	\$ 1,102,926
Travel	2,674
Total Disbursements	1,105,600
Program Receipts:	
Charges for Services	1,098,241
Net Program Revenues (Expenses)	(7,359)
General Receipts and Other:	
Unrestricted Investment Interest	2,995
Change in Net Assets	(4,364)
Net Assets July 1, 2006	84,931
Net Assets June 30, 2007	\$ 80,567

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, 2007

	Major Fund
	Fund 26100
	Nebraska Dairy
	Industry
	Development
Assets:	
Cash and Cash Equivalents	\$ 79,776
Deposits with Nebraska Department of Agriculture	791
Total Assets	\$ 80,567
 Liabilities and Fund Balance:	
Unreserved	80,567
Total Liabilities and Fund Balance	\$ 80,567

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, 2007

	Major Funds
	Fund 26100
	Nebraska Dairy
	Industry
	Development
RECEIPTS:	
Sales and Charges	\$ 1,098,223
Miscellaneous:	
Investment Interest	2,995
Other Miscellaneous	18
TOTAL RECEIPTS	1,101,236
 DISBURSEMENTS BY FUNCTION:	
Economic Development and Assistance	1,105,600
TOTAL DISBURSEMENTS	1,105,600
Net Change in Fund Balances	(4,364)
FUND BALANCE, JULY 1, 2006	84,931
FUND BALANCE, JUNE 30, 2007	\$ 80,567

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, 2007

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

These financial statements present 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 in the Board's reporting entity because of the significance of their operational or financial relationships with the Board. The ADA and DC are fiscally dependent on the Board and they provide services almost entirely to the Board. The separate audited financial statements of the ADA and DC can be obtained from the ADA 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 Governmental Accounting Standards Board (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.

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 Agency-Wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 disbursements 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. Disbursements 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

In addition to bank accounts and petty cash, this classification includes all short-term investments such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months however cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2007, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and Cash equivalents are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

2. Deposits and Investments

Investment of all available cash is made by the State Investment Officer on a daily basis, based on total bank balances. These funds are held in the State of Nebraska Operating Investment Pool (OIP), an internal investment pool. Additional information on the deposits and investments portfolio including investment policies, risks, and types of investments can be found in the State of Nebraska's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007.

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, 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.
- B. Health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$21 million for each loss, and a \$25,000 self-insured retention per incident was in effect from July 1, 2006 through October 18, 2006. Starting October 19, 2006 the limit for each loss was increased to \$31 million.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments (Concluded)

- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverages, sublimits, and self insurance. Details of these coverages are available from the Department of Administrative Services Risk Management Division. 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 Insurance Trust Funds 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.

4. Reconciliation of Bank Records to the State's General Ledger

Through their bank reconciliation procedures, State Accounting has identified a large unknown statewide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Board. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the Board's balances; however, State Accounting believes it will not have a material impact on the Board's operations.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. Related Party Transactions

The Board has identified two component units, the American Dairy Association of Nebraska (ADA) and the Dairy Council of Nebraska, Inc. (DC). The funding for the ADA and DC is entirely based on the amount received from the Board, without the Board the ADA and DC would cease to function. The Board approves the activities and the amount of funding for the activities. During fiscal year 2007, the Board remitted \$1,092,948 to the ADA and DC. Four of eleven board members on the ADA and DC were also on the Board.

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, 2007

	<u>BUDGETED AMOUNTS</u>		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	<u>ORIGINAL</u>	<u>FINAL</u>		
PROGRAM:				
Dairy Industry Development Board	\$ 2,524,338	\$ 2,524,338	\$ 1,105,600	\$ 1,418,738
TOTAL DISBURSEMENTS	<u>\$ 2,524,338</u>	<u>\$ 2,524,338</u>	<u>\$ 1,105,600</u>	<u>\$ 1,418,738</u>

See Notes to the Supplementary Information

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2007

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

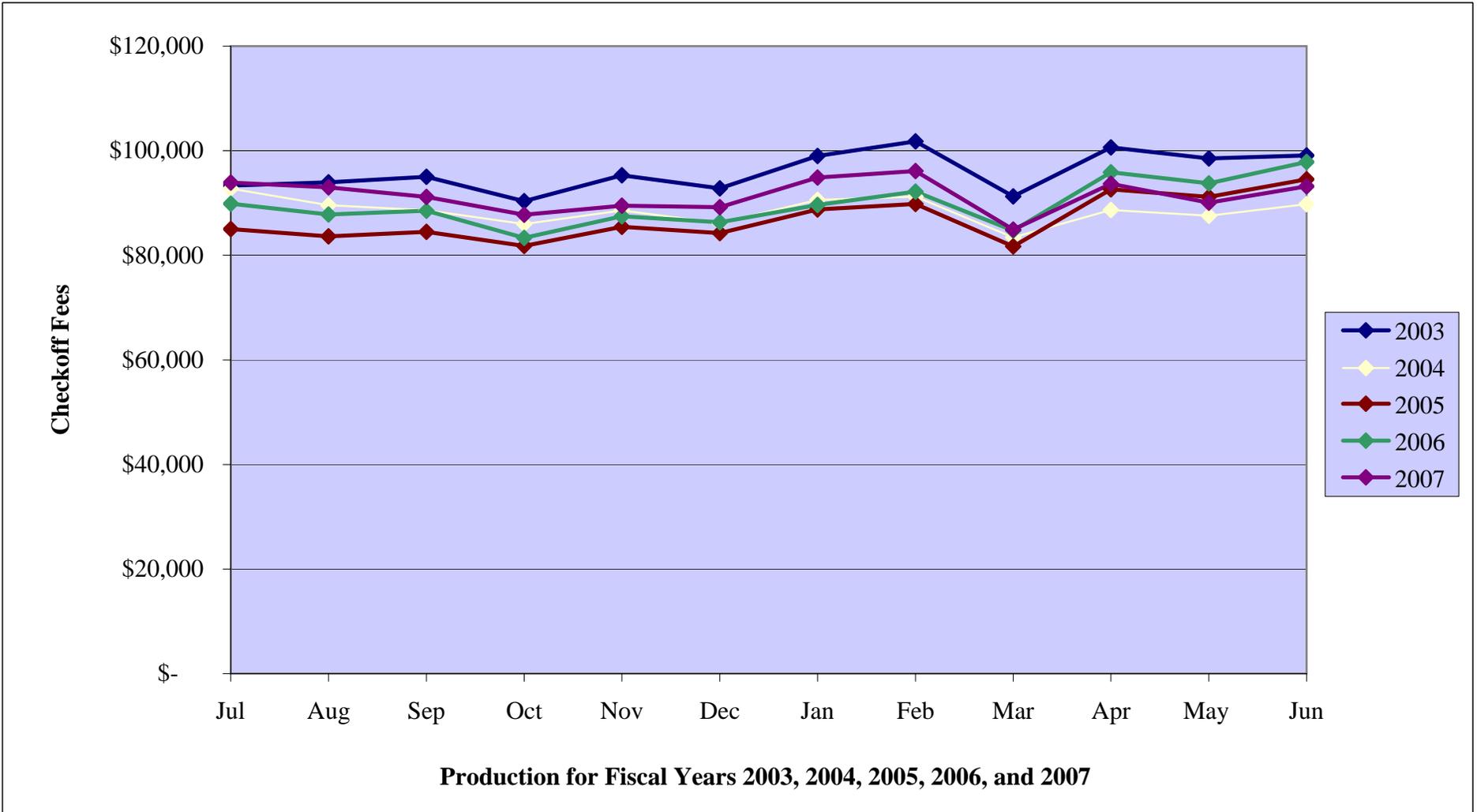
(Continued)

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.

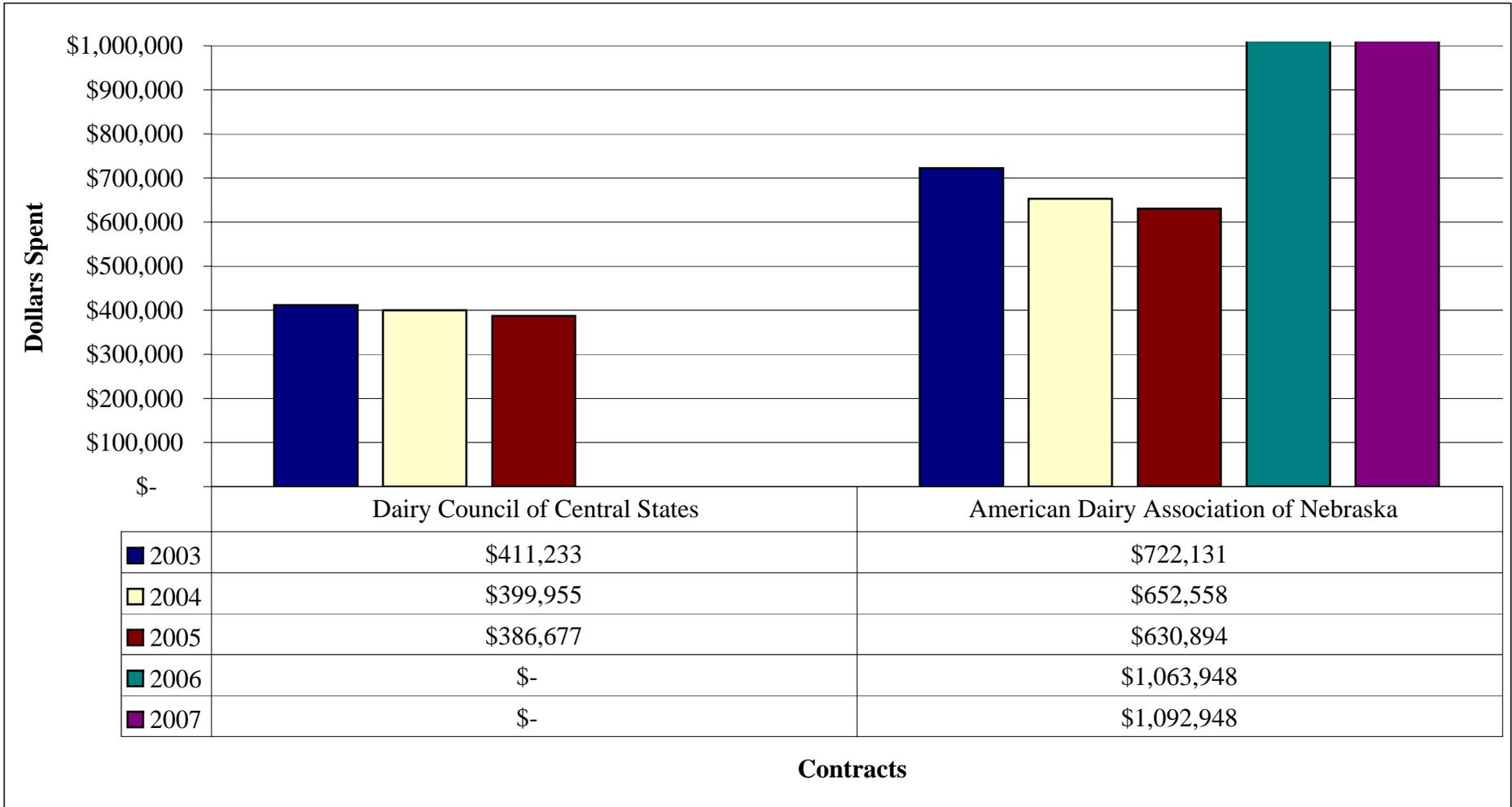
All State budgetary disbursements for the Board's Nebraska Dairy Industry Development Fund are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except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

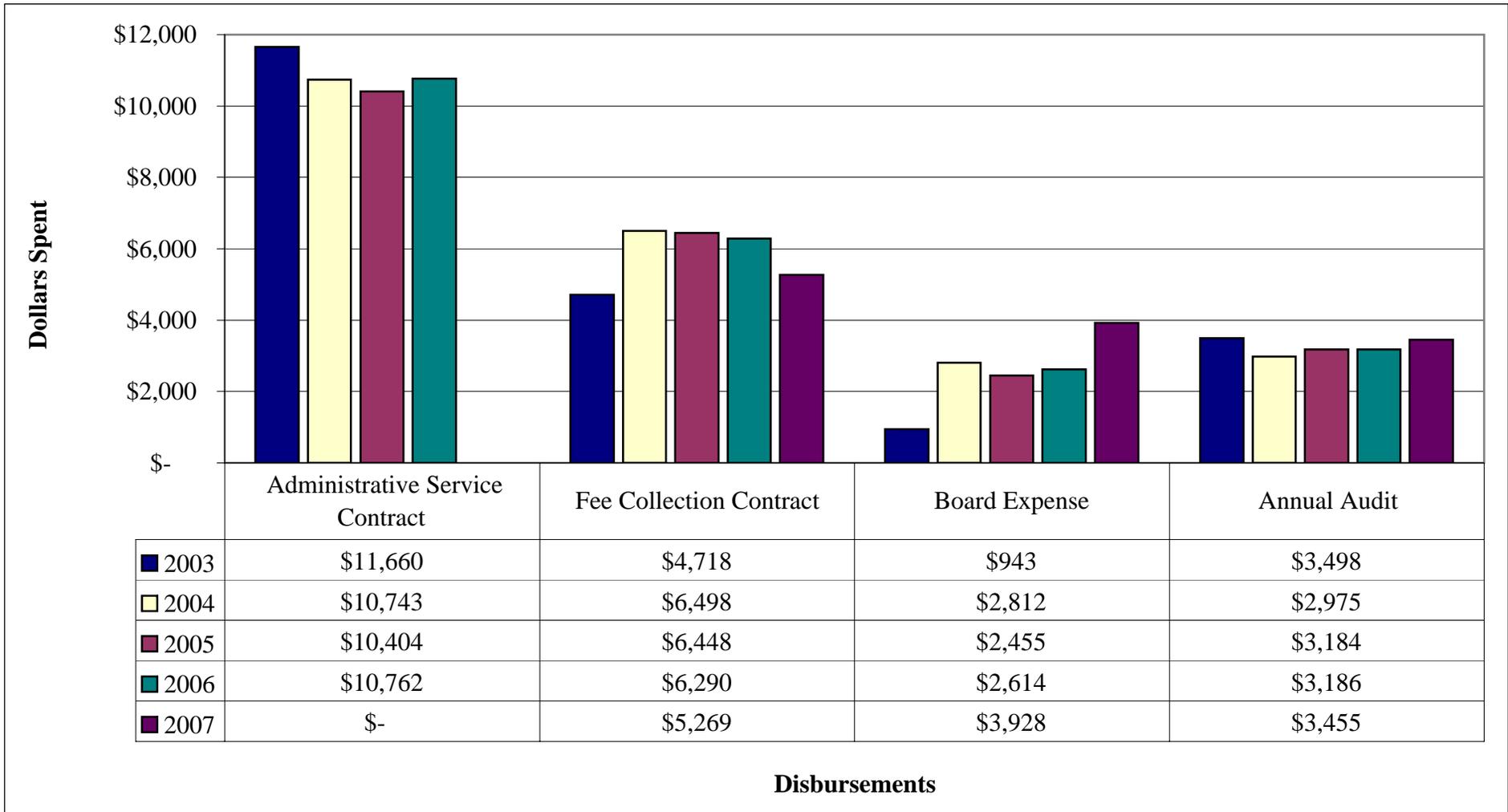


NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF DAIRY CONTRACT DISBURSEMENTS BY FISCAL YEAR
For the Fiscal Years Ended June 30, 2003, 2004, 2005, 2006, and 2007
(Unaudited)



Note: Prior to July 1, 2005, the Nebraska Dairy Industry Development Board had two contracts, as noted above. Effective July 1, 2005, the contract with the Dairy Council was combined with the American Dairy Association of Nebraska.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF OTHER DISBURSEMENTS BY FISCAL YEAR
For the Fiscal Years Ended June 30, 2003, 2004, 2005, 2006, and 2007
(Unaudited)



Note: The American Dairy Association/Dairy Council of Nebraska contracted with the Board on July 1, 2006, to provide the administrative services free of charge as long as it remained the only qualified program funded by the Board.



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

Nebraska Dairy Industry Development Board
Lincoln, Nebraska

We have audited the financial statements of the governmental activities and the major fund of the Nebraska Dairy Industry Development Board as of and for the year ended June 30, 2007, and have issued our report thereon dated December 11, 2007. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was qualified because the financial statements present only governmental activities and the major fund of the Nebraska Dairy Industry Development Board, and does not include the financial data of the American Dairy Association of Nebraska and the Dairy Council of Nebraska, Inc., component units of the Nebraska Dairy Industry Development Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Dairy Industry Development Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Dairy Industry Development Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Dairy Industry Development Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska Dairy Industry Development Board's

ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Nebraska Dairy Industry Development Board's financial statements that is more than inconsequential will not be prevented or detected by the Nebraska Dairy Industry Development Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Nebraska Dairy Industry Development Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, and contracts, including compliance with the requested United States Department of Agriculture's specific program requirements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain additional item that we reported to management of the Nebraska Dairy Industry Development Board in the Comments Section of this report as Audits of First Purchasers of Milk.

The Nebraska Dairy Industry Development Board's written response to the findings identified in our audit are described in the Comments Section of the report. We did not examine the Nebraska Dairy Industry Development Board's response and accordingly, we express no opinion on it. Where no response is indicated, the Board declined to respond.

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



Assistant Deputy Auditor

December 11, 2007