

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

JULY 1, 2010 THROUGH JUNE 30, 2011

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the Auditor of Public Accounts.**

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Issued on December 23, 2011

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related to advertising and promotion provisions of the Nebraska-Western Iowa Federal Milk Order (Order 65) being rescinded.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

Neb. Rev. Stat. § 2-3958 (Reissue 2007) 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, the Dairy Council of Nebraska, Inc., and the Midwest Dairy Association 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 13, 2011, with the Nebraska Dairy Industry Development Board to discuss the results of our examination. Those in attendance for the Nebraska Dairy Industry Development Board were:

NAME	TITLE
James Eschliman (via Teleconference)	Board Chair
Robert Storant	Department of Agriculture – Administrator Finance and Personnel

Draft copies of this report were furnished to the Nebraska Dairy Industry Development Board to provide them an opportunity to review the report.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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, 2011, which collectively comprise the Nebraska Dairy Industry Development Board's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Nebraska Dairy Industry Development 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 Board are intended to present the cash balance and changes in cash balance of only that portion of the governmental activities and the major fund of the State that is attributable to the transactions of the Board. They do not purport to, and do not, present fairly the cash balance of the governmental activities and the major fund of the State of Nebraska as of June 30, 2011, and its changes in cash balance 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. This component unit relationship ended on December 31, 2010.

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 balance of the governmental activities and the major fund of the Board, as of June 30, 2011, and the respective changes in cash balance 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 13, 2011, on our consideration of the 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 Board's basic financial statements. The schedules on pages 21 through 23 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.

Signed Original on File

December 13, 2011

Don Dunlap, CPA
Assistant Deputy Auditor

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Dairy Industry Development Board's (Board) financial report presents a narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2011. 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 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. Non-financial factors also need to be considered to assess the overall health of the Board. 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 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. The Board's relationship with these two component units ended December 31, 2010.

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.

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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Supplementary Information. This Management's Discussion and Analysis and the Budgetary Comparison Schedule represent financial information which provide users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as a 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 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, 2011, net assets of the Board decreased 208 percent.

	Governmental Activities		
	2011	2010	% Change
ASSETS:			
Unrestricted	\$ 274,442	\$ 89,215	208%
Total Net Assets	<u>\$ 274,442</u>	<u>\$ 89,215</u>	<u>208%</u>

There are two reasons for the increase of \$185,227 in net assets. The Board terminated its contract with the ADA and DC effective December 31, 2010, and received a refund of \$84,882 in unexpended funds. The Board entered into a new contract with the Midwest Dairy Association effective January 1, 2011. Additionally, the Board authorized a payment of \$98,422 in June 2011, however the actual cash payment did not occur until July 1, 2011.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Continued)

Governmental Activities

Receipts for the Board's governmental activities increased six percent, in addition expenses decreased ten percent.

CHANGES IN NET ASSETS

	Governmental Activities		
	2011	2010	% Change
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 1,161,266	\$ 1,174,368	(1%)
General Receipts:			
Investment Interest	3,483	2,268	54%
Other	85,086	559	15,121%
Total Receipts	<u>1,249,835</u>	<u>1,177,195</u>	<u>6%</u>
DISBURSEMENTS:			
Economic Development and Assistance	<u>1,064,608</u>	<u>1,180,185</u>	<u>(10%)</u>
Total Disbursements	<u>1,064,608</u>	<u>1,180,185</u>	<u>(10%)</u>
Increase (Decrease) in Net Assets	185,227	(2,990)	6,295%
Beginning Net Assets July 1	<u>89,215</u>	<u>92,205</u>	<u>(3%)</u>
Ending Net Assets June 30	<u>\$ 274,442</u>	<u>\$ 89,215</u>	<u>208%</u>

The \$84,527 increase in General Receipts – Other was a result of the termination of the contract with the ADA and DC. The ADA refunded \$84,882 in unexpended funds back to the Board. This and the adjustment of a June 2011 payment that did not post until July 2011 account for the Increase (Decrease) in Net Assets of \$188,217.

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS

As noted earlier, the 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 cash balance or results of operations of the Board.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
June 30, 2011

	GOVERNMENTAL ACTIVITIES TOTAL
Assets	
Cash and Cash Equivalents	\$ 273,651
Deposits with Nebraska Department of Agriculture	<u>791</u>
Total Assets	<u><u>\$ 274,442</u></u>
Net Assets	
Unrestricted	\$ 274,442
Total Net Assets	<u><u>\$ 274,442</u></u>

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, 2011

	GOVERNMENTAL ACTIVITIES TOTAL
Disbursements:	
Operating (Note 5)	\$ 1,062,814
Travel	<u>1,794</u>
Total Disbursements	<u>1,064,608</u>
Program Receipts:	
Charges for Services	<u>1,246,352</u>
Net Program Receipts	<u>181,744</u>
General Receipts and Other:	
Unrestricted Investment Interest	<u>3,483</u>
Change in Net Assets	185,227
Net Assets July 1, 2010	<u>89,215</u>
Net Assets June 30, 2011	<u>\$ 274,442</u>

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, 2011

	Major Fund
Nebraska Dairy Industry Development Fund 26100	
Assets:	
Cash and Cash Equivalents	\$ 273,651
Deposits with Nebraska Department of Agriculture	<u>791</u>
Total Assets	<u><u>\$ 274,442</u></u>
Fund Balance:	
Assigned	<u><u>\$ 274,442</u></u>
Fund Balance	<u><u>\$ 274,442</u></u>

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, 2011

Major Fund
Nebraska Dairy Industry Development Fund 26100

RECEIPTS:

Sales and Charges	\$ 1,161,266
Miscellaneous:	
Investment Interest	3,483
Other Miscellaneous (Note 4)	85,086
TOTAL RECEIPTS	<u>1,249,835</u>

DISBURSEMENTS BY FUNCTION:

Economic Development and Assistance (Note 5)	<u>1,064,608</u>
TOTAL DISBURSEMENTS	<u>1,064,608</u>

Net Change in Fund Balance	185,227
<hr/>	
FUND BALANCE, JULY 1, 2010	<u>89,215</u>

FUND BALANCE, JUNE 30, 2011	<u>\$ 274,442</u>
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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, 2011

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 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. The Board's relationship with the component units terminated on December 31, 2010. As of June 30, 2011, no component units were identified.

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

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

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

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

Fund Financial Statements. The fund financial statements provide information about the Board's fund. Generally accepted accounting principles (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 funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Assigned fund balance is constrained by the Legislature's intent to be used for specific purposes, by directive of the Executive Committee of the Legislature or in some cases by legislation.

The Board reports the following major governmental fund:

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

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 using the cash receipts and disbursements basis of accounting. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis. Receipts are recognized when received and disbursements are recognized when paid for all funds of the Board. This differs from governmental GAAP, which require Agency-Wide fund financial statements to be

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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, 2011, 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 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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. Contingencies and Commitments

Risk Management. The Board is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Board, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, employee health care, employee indemnification, 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 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. Life insurance for eligible employees.
- C. Crime coverage, with a limit of \$31 million for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- 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 coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverages are available from DAS - Risk Management Division.

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 Board's financial statements.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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.

3. **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 almost 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 those activities. During fiscal year 2011, the Board terminated its contract with the ADA and DC effective December 31, 2010. The ADA and DC, component units of the Board, voted to merge with the Midwest Dairy Association effective December 31, 2010. The Board formed a new contract with the Midwest Dairy Association with an effective date of January 1, 2011.

The Midwest Dairy Association is a non-profit organization, currently financed and directed by the dairy producers in ten states. The ten states consist of Arkansas, Illinois, Iowa, Kansas, Minnesota, Missouri, North Dakota, South Dakota, eastern Oklahoma, and Nebraska (as of January 1, 2011). The Midwest Dairy Association is funded through the ten cent national checkoff program. Each state is represented by a division board. The ADA and DC board became the Nebraska Division Board of Midwest Dairy Association. Five members of the Nebraska Dairy Industry Development Board are also on the Nebraska Division Board of Midwest Dairy Association.

The Nebraska Division Board of the Midwest Dairy Association has two members who are elected by the Nebraska Division Board members to sit on the thirty-seven member Midwest Dairy Association Corporate Board. The Corporate Board makes the final determination of activities and the funding for those activities based upon recommendations made by each of the Division Boards. As the Midwest Dairy Association is not fiscally dependent upon the Nebraska Dairy Industry Development Board and the Nebraska Division of Midwest Dairy Association does not have a majority interest on the Corporate Board for Midwest Dairy Association, the Midwest Dairy Association is not considered to be a component unit of the Nebraska Dairy Industry Development Board.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Other Miscellaneous Receipts

The Board received a refund of \$84,882 in unexpended funds from the ADA and DC as a result of their contract terminations.

5. Cash Basis Adjustment

The Board authorized a payment of \$98,422 in June 2011, which was recorded on the State Accounting System – EnterpriseOne, however the actual cash payment did not post until July 1, 2011. This payment was not included in the disbursements on the financial statements.

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, 2011

	<u>BUDGETED AMOUNTS</u>		<u>VARIANCE WITH FINAL BUDGET -</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	<u>POSITIVE (NEGATIVE)</u>
PROGRAM:				
Dairy Industry Development Board	\$ 1,620,542	\$ 1,620,542	\$ 1,064,608	\$ 555,934
TOTAL DISBURSEMENTS	\$ 1,620,542	\$ 1,620,542	\$ 1,064,608	\$ 555,934

See Independent Auditors' Report and Notes to the Supplementary Information.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2011

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 Nebraska Dairy Industry Development 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

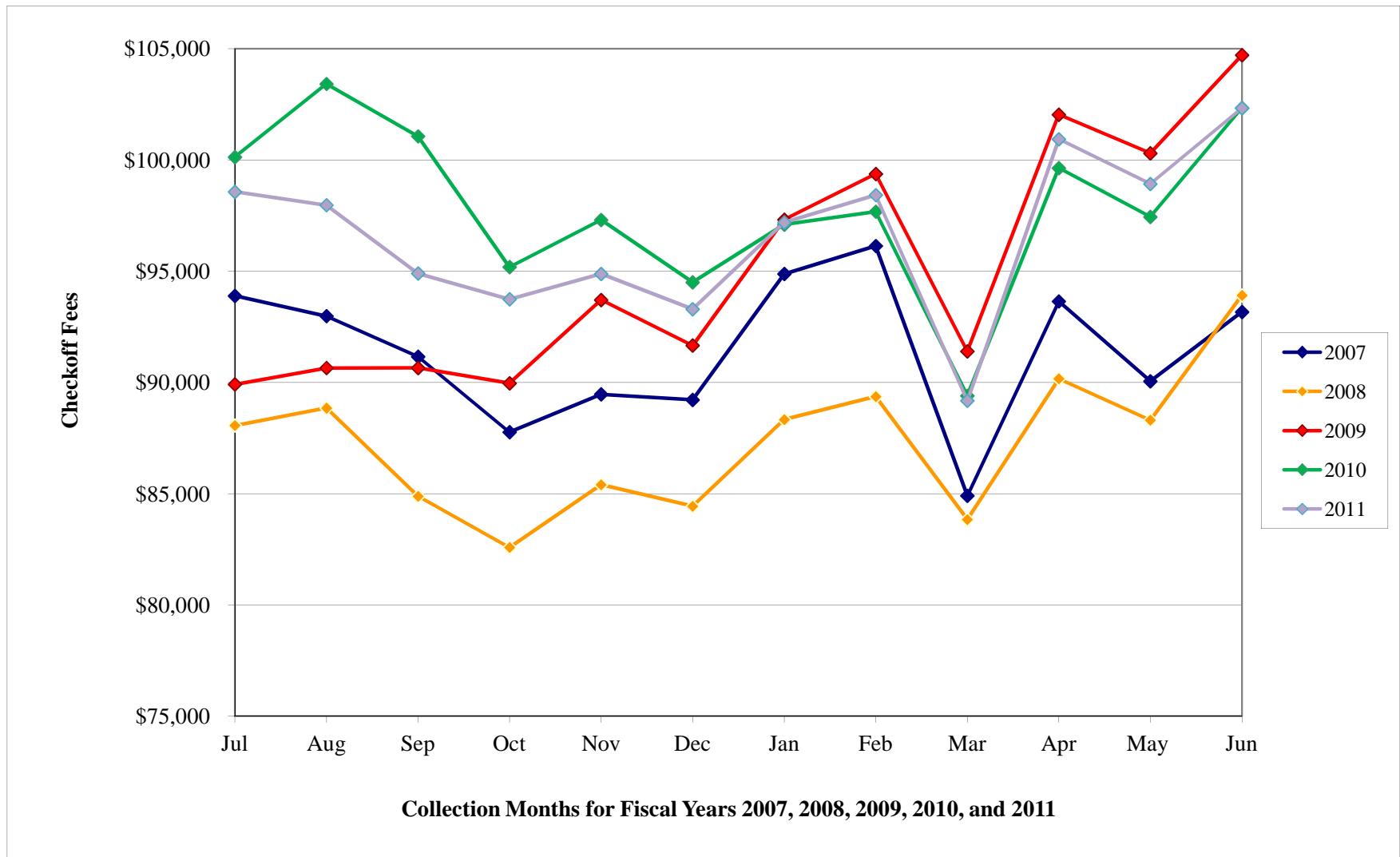
NOTES TO THE SUPPLEMENTARY INFORMATION
(Continued)

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 expenditures 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.

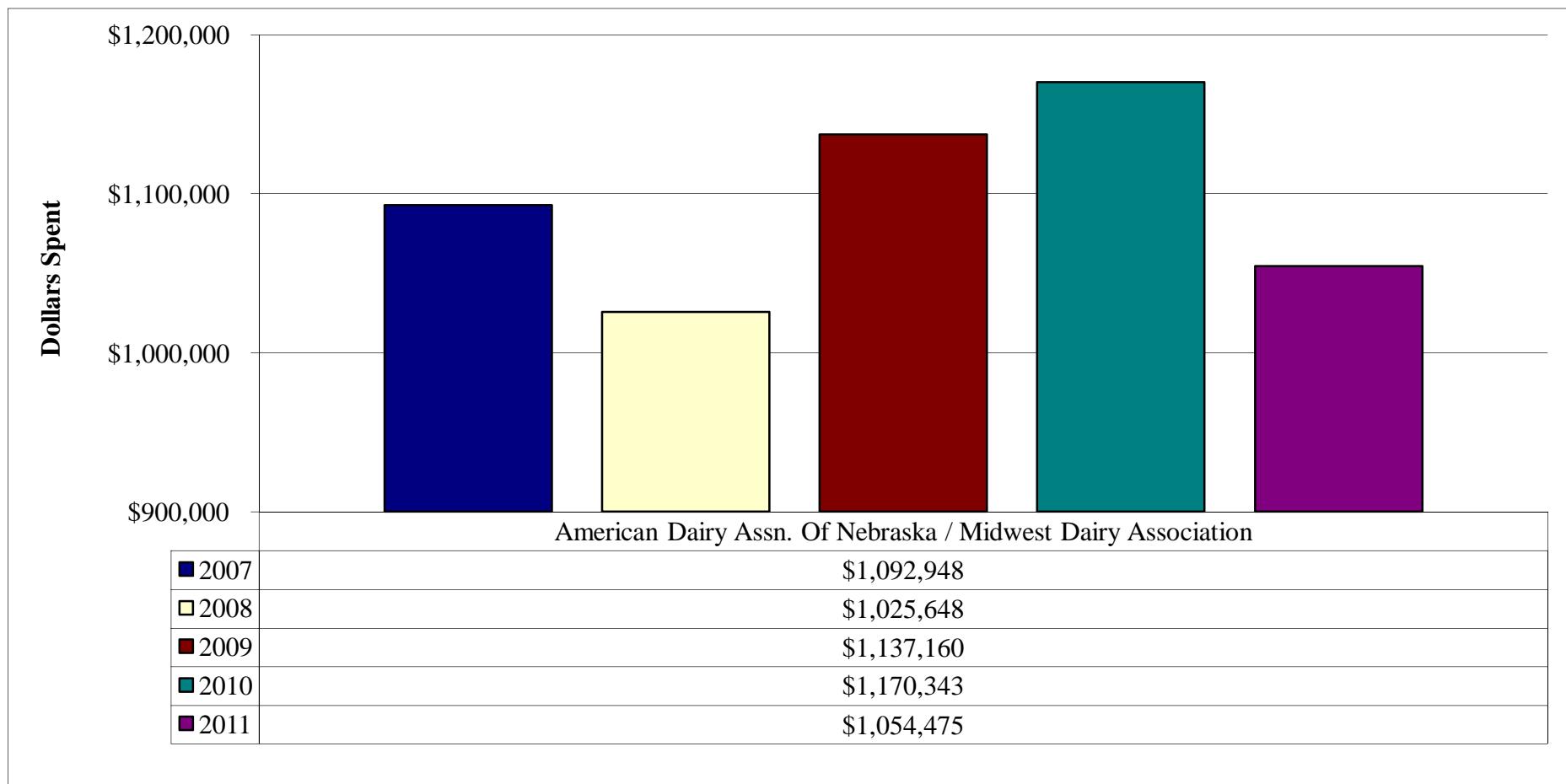
NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF CHECKOFF RECEIPT TREND
For the Fiscal Years Ended June 30, 2007, 2008, 2009, 2010, and 2011
(Uaudited)



NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF DAIRY CONTRACT DISBURSEMENTS BY FISCAL YEAR

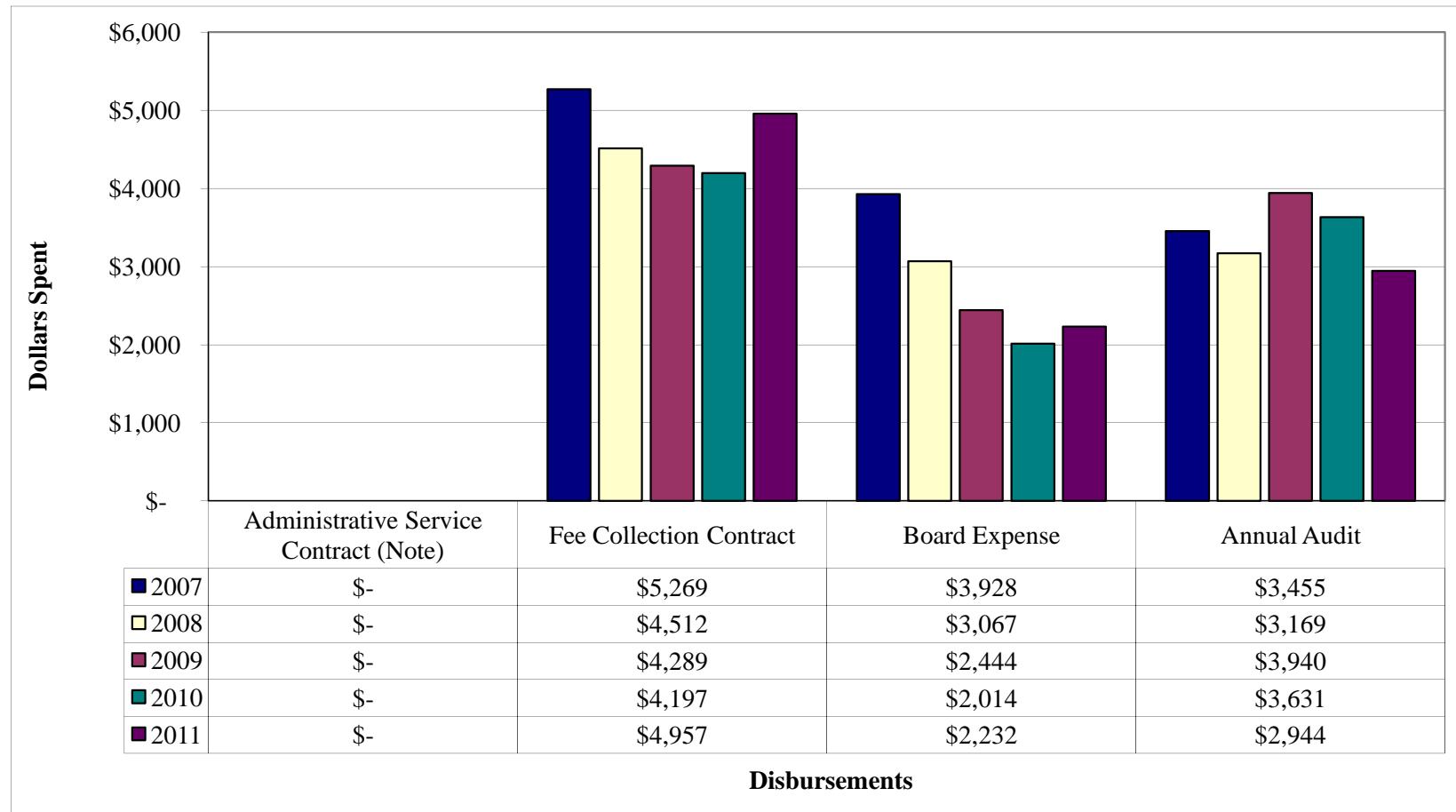
For the Fiscal Years Ended June 30, 2007, 2008, 2009, 2010, and 2011

(Unaudited)



Note: During fiscal year 2011, the Board terminated its contract with the American Dairy Association of Nebraska/Dairy Council of Nebraska (ADA/DC) effective December 31, 2010, and began contracting with Midwest Dairy Association effective January 1, 2011. Dairy contract disbursements during fiscal year 2011 included \$577,181 to the ADA/DC and \$477,294 to Midwest Dairy Association.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD
SCHEDULE OF OTHER DISBURSEMENTS BY FISCAL YEAR
For the Fiscal Years Ended June 30, 2007, 2008, 2009, 2010, and 2011
(Uunaudited)



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 until December 31, 2010, then Midwest Dairy Association contracted with the Board effective January 1, 2011. The same contract clause regarding free administrative services was included in the contract with the Midwest Dairy Association.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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

Nebraska Dairy Industry Development Board
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Dairy Industry Development Board as of and for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011. 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 the 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 until December 31, 2010. 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 (internal control) 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.

A deficiency in internal control 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 material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control 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*.

This report is intended solely for the information and use of the Nebraska Department of Agriculture's 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.

Signed Original on File

December 13, 2011

Don Dunlap, CPA
Assistant Deputy Auditor