

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF REVENUE
APRIL 1, 2011 THROUGH MARCH 31, 2012**

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Issued on September 5, 2012

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NEBRASKA DEPARTMENT OF REVENUE

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NEBRASKA DEPARTMENT OF REVENUE

BACKGROUND

The Department of Revenue (Department) was created by the 1969 Legislature's enactment of Section 77-360, R.R.S. 1943, effective on January 1, 1970, and the Tax Commissioner was designated as the Department's chief executive or director. The Tax Commissioner's office originated during the Constitutional Convention in 1919-1920. Article IV, Section 28, of the Constitution and Section 77-361 of the Revised Statutes of Nebraska, 1943, gives the Department under the direction of the Tax Commissioner, authority over the administration of all revenue laws of the State. Statutes regarding the Tax Commissioner and the Department are primarily contained in Chapters 66, 76, and 77 of the Revised Statutes of Nebraska, 1943.

The Department consists of six divisions, Policy, Compliance, Operations, Property Assessment, Motor Fuels, and Lottery and Charitable Gaming/Athletic Commission.

- Policy focuses on policy development, economic research, taxpayer education and assistance and communications.
- Compliance enforces Nebraska's revenue laws through its audit, enforcement, collections, and legal functions.
- Operations include processing operations, information technology, finance, budget, human resources, and administrative services.
- Property Assessment is responsible for the administration and enforcement of the assessment and appraisal functions related to real and personal property.
- Motor Fuels is responsible for the administration and enforcement of the motor fuels excise taxes.
- Lottery raises revenue for the beneficiaries as determined by the Legislature. Charitable Gaming administers and enforces the provisions of charitable gaming acts related to keno, pickle cards, bingo, and raffles. State Athletic Commission regulates mixed martial arts, wrestling, and boxing.

The Department maintains five offices across the state in Lincoln, Omaha, Norfolk, North Platte, and Scottsbluff that provide tax services to the public.

VISION

The Department will administer the revenue, property, motor fuels, charitable gaming, and lottery laws of the State in the most efficient and effective manner possible using current technology and resources to collect revenue, receive returns, and provide service to Nebraska taxpayers.

MISSION AND PRINCIPLES

Our mission is to serve the public by administering the State revenue laws with integrity, efficiency, and consistency.

NEBRASKA DEPARTMENT OF REVENUE

EXIT CONFERENCE

An exit conference was held August 23, 2012, with the Department to discuss the results of our examination. Those in attendance for the Department of Revenue were:

| NAME | TITLE |
|---------------|---------------------------------------|
| Doug Ewald | Tax Commissioner |
| Glen White | Director, Compliance Division |
| Kim Conroy | Deputy Tax Commissioner |
| Ron Gottula | Controller |
| Ruth Sorensen | Property Tax Administrator |
| Dennis Nelson | Lottery Finance Manager |
| Myle Nguyen | Accountant III |
| Chuck Long | Special Services Manager |
| Len Sloup | Director of Operations/Admin Services |

NEBRASKA DEPARTMENT OF REVENUE

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Revenue (Department), we noted certain deficiencies in internal control and other operational matters that are presented here.

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.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

- 1. *EnterpriseOne – Payroll:*** We noted timesheets for the Department were only maintained for one year, the Department's supervisor approval is not shown on the time card, the Department does not verify which supervisor approved the time card, and there is no method of tracking the delegates assigned by the supervisor to approve timesheets in the event of the supervisor's absence. These deficiencies were related to EnterpriseOne, the State Accounting System, which the Department utilizes to process payroll and where employees timesheets are entered and approved.
- 2. *Underpayment of Estimated Tax Penalty:*** For two of six corporate tax returns tested, the Estimated Tax Underpayment Penalty was calculated incorrectly by the corporation on Form 2220N. In addition, the Department did not have procedures, performed at the time of filing, to ensure self assessed penalties were correctly calculated or to determine when a company should have self assessed but did not.
- 3. *Tax Balances:*** The Department does not have a formal policy to document the approval to reclassify certain tax balances as inactive. The Department has an informal process but this process has not been formally adopted in policy. Tax balances are classified as inactive once the Department has exhausted all collection options. The total net tax liability of inactive accounts is \$14,554,948.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature as it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Nebraska Department of Revenue.

Draft copies of this report were furnished to the Department 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. 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 examination.

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

1. EnterpriseOne – Payroll

Nebraska Records Retention and Disposition Schedule 124, as issued by the Nebraska State Records Administrator, section 124-86 requires, “Any supporting records received or generated by an agency used to review, correct or adjust and certify agency payroll records” are to be retained for five years. Per this same section the supporting records may include timesheets.

Also, a good internal control plan requires only authorized supervisors approve employees’ timesheets. A good internal control plan also requires the accounting system track who has access to approve employee timesheets.

During our examination we noted the following issues with the State Accounting System (EnterpriseOne):

- EnterpriseOne timesheets for the Department’s employees are only retained for one year.
- EnterpriseOne does not show which supervisor approved an employee’s timesheet. In addition, the Department does not verify which supervisor approved the time card.
- EnterpriseOne does not track or record the delegates assigned by the supervisor to approve timesheets in the event of the supervisor’s absence.

A failure to retain important documentation risks noncompliance with the Nebraska Records Retention and Disposition Schedule 124. In addition, not monitoring approved delegates increases the risk of unauthorized supervisors approving timesheets which could lead to incorrect payroll costs.

We recommend the Department work with the Department of Administrative Services to make the necessary changes in EnterpriseOne so that EnterpriseOne retains timesheets in compliance with the Nebraska Records Retention and Disposition Schedule, tracks timesheet approval, and tracks individuals delegated to approve timesheets.

Department’s Response: Our Department will work with the Department of Administrative Services State Accounting in addressing the items that have been identified.

2. Underpayment of Estimated Tax Penalty

Title 316 NAC 20-002.01 states, “Every corporation or business which is taxed as a corporation under the Internal Revenue Code shall make payments of Nebraska corporation estimated income tax if the Nebraska tax liability for the taxable year can reasonably be expected to be \$400 or more after deducting the total estimated allowable credits...”

Title 316 NAC 20-008.01 states, “A penalty is due on any underpayment of estimated tax.”

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Underpayment of Estimated Tax Penalty (Concluded)

Title 316 NAC 20-008.05 states, “If there has been an underpayment of estimated tax as of any installment date, a Corporation Underpayment of Estimated Tax, Form 2220N, must be completed and attached to the Nebraska Corporation Income Tax Return, Form 1120N...”

A good internal control plan requires system checks be in place to ensure penalties reported to the Department are calculated correctly and tax penalties due are identified and assessed.

During testing we noted the Department’s corporate tax system (CTX) did not have system checks to ensure corporations were correctly calculating penalties due or that corporations that did not assess and pay penalties were in compliance with the Department’s rules and regulations.

Furthermore, the Department did not have procedures in place to manually review all penalty forms submitted by corporations for accuracy or to ensure corporations who should have paid penalties did so. Instead, the Department’s audit staff performed reviews of corporate tax returns identified as high risk for owing but not paying a penalty. According to the Department, for the tax years 2006 and 2007, 318 accounts were reviewed and 90 were assessed an underpayment penalty for a total of \$521,856. For tax year 2008, 200 accounts were reviewed and 28 were assessed an underpayment penalty for a total of \$246,691. The Department was still in the process of reviewing tax year 2009. It is unknown the number of corporations or possible penalty payments that were not assessed as not all corporations were subject to the Department’s audit reviews. However, as of 2010, according to the Department, there were approximately 20,500 corporations that filed in the State of Nebraska.

During our testing of corporate tax returns, we noted two of six corporations did not properly calculate the penalty, which were not corrected by the Department because they did not have procedures to review the penalty forms submitted by the corporations. The dollar errors noted were not significant (\$93 overpayment and a \$2 underpayment).

When system checks are not in place and procedures are not performed to ensure penalties are properly paid, in compliance with State regulations, it is likely penalties are being underpaid by corporations either intentionally or by error.

We recommend the Department implement changes so the system reviews corporate tax returns to ensure penalties are correctly identified and assessed.

Department’s Response: Our Department has a compensating control in place which we feel adequately addresses risks associated with corporate underpayment of estimated tax penalty. However, we will continue to monitor this issue from an internal control and tax administrative perspective and will consider implementing stronger controls to this system based upon a continuing evaluation of the risks involved and the availability of resources.

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Tax Balances

Good internal controls require appropriate authorization be received prior to classifying accounts as inactive and thus no longer actively pursuing collection for the tax. Good internal controls also require a formal policy be adopted to document how inactive accounts will be identified.

The Department does not have a formal policy to document the approval of reclassifying tax balances from active to inactive. In addition, the Department does not have a formal policy to describe the process of identifying which tax balances are determined to be inactive, nor does the Department have policies on removing records from their inactive file. Annually, the Department identifies certain tax balances and reclassifies them from active to inactive. This reclassification is done only after the Department has performed all its collection procedures. Once the balances have been identified as inactive they are moved to another database where they can be maintained at a lower cost.

Per the Department's separate database, inactive accounts have a debit balance (receivables) of \$21,426,578 and a credit balance (possible payables) of \$6,871,630. Per the Department, an example of a credit balance would be a corporation who made quarterly tax payments but never filed their final return. The inactive accounts date back to 1967. These records are kept by the Department in the event a taxpayer is required to make a payment due to liens placed against the taxpayer's property. According to the Department, these balances are never written off or forgiven. Per the Department, these balances are compared to tax refund requests so that any refund can be applied to the balance.

There is an increased risk balances will be incorrectly classified as inactive when there is no formal policy on the identification of inactive accounts or how the reclassification approval will be documented.

We recommend the Department implement a formal policy documenting the reclassification process and the approval to classify accounts as inactive. This policy should include: clearly defined collection procedures which have been performed and can be supported, as well as the level of management approval that will approve the balances to be purged, and how the approval will be documented. In addition, to ensure integrity and completeness of the inactive file, the above policy should also include procedures to be followed and documentation required to remove records from their inactive file.

Department's Response: The Department agrees with this recommendation and will develop and implement a formal policy and the associated procedures for classifying, approving and documenting inactive balance accounts.



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NEBRASKA DEPARTMENT OF REVENUE

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Revenue
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue (Department) for the period April 1, 2011, through March 31, 2012. The Department's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue for the period April 1, 2011, through March 31, 2012, based on the accounting system and procedures prescribed by the State of Nebraska Director of the Department of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the schedule of revenues, expenditures, and changes in fund balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the schedule of

revenues, expenditures, and changes in fund balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the schedule of revenues, expenditures, and changes in fund balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed a certain finding that is required to be reported under *Government Auditing Standards*, and the finding, along with the views of management, is described in the Comments Section of the report.

This report is intended solely for the information and use of management, the Department, others within the Department, and the appropriate regulatory agencies, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

August 31, 2012

Mike Foley
Auditor of Public Accounts

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period April 1, 2011 through March 31, 2012

| | State General Fund 10000 | Revenue Enforcement Fund 21540 | Property Assessment Fund 21550 | Airline and Carline Fund 21551 | Lottery Operating Revolving Fund 21560 | Marijuana & Controlled Substance Tax Admin Fund 21570 | Waste Red/ Recycling Incentive Fund 21580 | Petroleum Release Remedial Action Cash Fund 21590 |
|--|--------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---|--|--|--|
| REVENUES: | | | | | | | | |
| Appropriations | \$ 95,223,505 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Taxes | 3,555,155,514 | - | - | 5,965,145 | - | 11,003 | - | - |
| Intergovernmental | - | - | 682,951 | - | - | - | - | - |
| Sales & Charges | 148,889 | - | 350,351 | - | - | - | - | - |
| Miscellaneous | - | 18,394 | 16,035 | 25,969 | 47,323 | 1,486 | 436 | 837 |
| TOTAL REVENUES | 3,650,527,908 | 18,394 | 1,049,337 | 5,991,114 | 47,323 | 12,489 | 436 | 837 |
| EXPENDITURES: | | | | | | | | |
| Personal Services | 20,167,706 | 746,769 | 663,136 | - | 1,378,764 | 14,095 | 87,426 | 95,724 |
| Operating | 5,699,010 | 42,169 | 159,321 | - | 14,378,775 | - | 11,281 | - |
| Travel | 209,720 | - | 31,524 | - | 63,253 | - | - | - |
| Capital Outlay | 919,394 | 58,203 | 145,386 | - | 10,605 | - | - | - |
| Government Aid | 68,227,675 | - | - | - | - | - | - | - |
| TOTAL EXPENDITURES | 95,223,505 | 847,141 | 999,367 | - | 15,831,397 | 14,095 | 98,707 | 95,724 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 3,555,304,403 | (828,747) | 49,970 | 5,991,114 | (15,784,074) | (1,606) | (98,271) | (94,887) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Sales of Assets | 4,814 | - | 35 | - | 118 | - | - | - |
| Deposit to General Fund | (3,509,457,933) | - | - | - | - | - | - | - |
| Deposit from General Fund | - | - | - | - | - | - | - | - |
| Deposit from Highway Trust Fund | - | - | - | - | - | - | - | - |
| Deposit from Revenue Distribution Fund | 444,765 | - | - | - | - | - | - | - |
| Deposit from Severance Tax Fund | - | - | - | - | - | - | - | - |
| Deposit from Charitable Gaming Fund | 3,043,858 | - | - | - | - | - | - | - |
| Deposit to Common Fund | (48,589,907) | - | - | - | - | - | - | - |
| Operating Transfers In | - | 792,900 | 182,935 | - | 14,000,000 | - | 120,000 | 100,000 |
| Operating Transfers Out | (750,000) | (28,076) | (1,000,000) | (6,097,826) | - | (581) | (1,336) | (3,900) |
| TOTAL OTHER FINANCING SOURCES (USES) | (3,555,304,403) | 764,824 | (817,030) | (6,097,826) | 14,000,118 | (581) | 118,664 | 96,100 |
| Net Change in Fund Balances | - | (63,923) | (767,060) | (106,712) | (1,783,956) | (2,187) | 20,393 | 1,213 |
| FUND BALANCES, April 1, 2011 | 143,558 | 904,847 | 1,127,788 | 4,918,762 | 3,494,338 | 55,787 | 9,750 | 51,229 |
| FUND BALANCES, March 31, 2012 | \$ 143,558 | \$ 840,924 | \$ 360,728 | \$ 4,812,050 | \$ 1,710,382 | \$ 53,600 | \$ 30,143 | \$ 52,442 |
| FUND BALANCES CONSIST OF: | | | | | | | | |
| General Cash | \$ - | \$ 843,174 | \$ 343,623 | \$ 4,812,050 | \$ 2,214,863 | \$ 53,600 | \$ 30,143 | \$ 52,442 |
| Petty Cash | - | - | - | - | - | - | - | - |
| Deposits with Vendors | 143,558 | - | 3,916 | - | - | - | - | - |
| Accounts Receivable Invoiced | - | - | 20,598 | - | - | - | - | - |
| Due From Other Government | - | - | - | - | - | - | - | - |
| Received, not Vouchered | - | (2,250) | - | - | - | - | - | - |
| Due to Vendors | - | - | (7,409) | - | (504,481) | - | - | - |
| State Withholding | - | - | - | - | - | - | - | - |
| TOTAL FUND BALANCES | \$ 143,558 | \$ 840,924 | \$ 360,728 | \$ 4,812,050 | \$ 1,710,382 | \$ 53,600 | \$ 30,143 | \$ 52,442 |

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period April 1, 2011 through March 31, 2012

| | Energy Conservation Improvement Fund 21605 | Litter Fee Collection Fund 21610 | Severance Tax Admin Fund 21630 | Nebraska Incentives Fund 21640 | Miscellaneous Receipts Fund 21650 | Charitable Gaming Operations Fund 21660 | Tobacco Products Admin Fund 21670 | Motor Fuel Tax Enforcement Fund 21700 |
|--|---|--|--------------------------------------|--------------------------------------|---|--|--|--|
| REVENUES: | | | | | | | | |
| Appropriations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Taxes | - | - | - | - | - | 5,078,297 | 7,532,854 | - |
| Intergovernmental | - | - | - | - | - | - | - | - |
| Sales & Charges | - | - | - | 164,100 | 1,141 | 139,531 | 425 | - |
| Miscellaneous | 1,562 | 140 | 1,267 | 5,686 | 680 | 41,915 | 208,815 | 35,014 |
| TOTAL REVENUES | 1,562 | 140 | 1,267 | 169,786 | 1,821 | 5,259,743 | 7,742,094 | 35,014 |
| EXPENDITURES: | | | | | | | | |
| Personal Services | - | 13,446 | 6,615 | 264,447 | 31,900 | 1,328,749 | 24,353 | 1,279,155 |
| Operating | - | 1,274 | - | - | - | 279,570 | 10,946 | 100,512 |
| Travel | - | - | - | - | - | 68,871 | - | 46,468 |
| Capital Outlay | - | - | - | - | - | - | - | - |
| Government Aid | 107,129 | - | - | - | - | - | - | - |
| TOTAL EXPENDITURES | 107,129 | 14,720 | 6,615 | 264,447 | 31,900 | 1,677,190 | 35,299 | 1,426,135 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (105,567) | (14,580) | (5,348) | (94,661) | (30,079) | 3,582,553 | 7,706,795 | (1,391,121) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Sales of Assets | - | - | - | - | - | 127 | - | - |
| Deposit to General Fund | - | - | - | - | - | (3,043,858) | - | - |
| Deposit from General Fund | - | - | - | - | - | - | - | - |
| Deposit from Highway Trust Fund | - | - | - | - | - | - | - | - |
| Deposit from Revenue Distribution Fund | - | - | - | - | - | - | - | - |
| Deposit from Severance Tax Fund | - | - | 52,707 | - | - | - | - | - |
| Deposit from Charitable Gaming Fund | - | - | - | - | - | - | - | - |
| Deposit to Common Fund | - | - | - | - | - | - | - | - |
| Operating Transfers In | - | 20,000 | - | - | - | - | - | 1,775,000 |
| Operating Transfers Out | - | - | - | (7,792) | (1,726) | (358,409) | (7,500,000) | (47,350) |
| TOTAL OTHER FINANCING SOURCES (USES) | - | 20,000 | 52,707 | (7,792) | (1,726) | (3,402,140) | (7,500,000) | 1,727,650 |
| Net Change in Fund Balances | (105,567) | 5,420 | 47,359 | (102,453) | (31,805) | 180,413 | 206,795 | 336,529 |
| FUND BALANCES, April 1, 2011 | 117,089 | 5,769 | 30,172 | 264,997 | 75,620 | 1,278,244 | 9,524,466 | 1,094,284 |
| FUND BALANCES, March 31, 2012 | \$ 11,522 | \$ 11,189 | \$ 77,531 | \$ 162,544 | \$ 43,815 | \$ 1,458,657 | \$ 9,731,261 | \$ 1,430,813 |
| FUND BALANCES CONSIST OF: | | | | | | | | |
| General Cash | \$ 11,522 | \$ 11,189 | \$ 76,831 | \$ 162,544 | \$ 43,815 | \$ 1,477,895 | \$ 9,731,261 | \$ 1,445,892 |
| Petty Cash | - | - | 700 | - | - | - | - | - |
| Deposits with Vendors | - | - | - | - | - | - | - | - |
| Accounts Receivable Invoiced | - | - | - | - | - | - | - | - |
| Due From Other Government | - | - | - | - | - | - | - | 101 |
| Received, not Vouchered | - | - | - | - | - | (13,279) | - | (3,501) |
| Due to Vendors | - | - | - | - | - | (5,959) | - | (11,679) |
| State Withholding | - | - | - | - | - | - | - | - |
| TOTAL FUND BALANCES | \$ 11,522 | \$ 11,189 | \$ 77,531 | \$ 162,544 | \$ 43,815 | \$ 1,458,657 | \$ 9,731,261 | \$ 1,430,813 |

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Period April 1, 2011 through March 31, 2012

| | Nebraska Health Care Fund 22640 | Athletic Commission Cash Fund 24310 | Oil & Gas Conservation Fund 25710 | Grade Cross Const Fund 26710 | Waste Red & Recycling Incentive Fund 28390 | Litter Reduct & Recycle Fund 28400 | Petroleum Release Cash Fund 28490 | Property Tax Credit Fund 29610 |
|--|--|--|--|---------------------------------------|---|---|--|--------------------------------------|
| REVENUES: | | | | | | | | |
| Appropriations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Taxes | - | 100,526 | 452,649 | 2,750,319 | 2,494,556 | 1,872,176 | 12,406 | - |
| Intergovernmental | - | - | - | - | - | - | - | - |
| Sales & Charges | - | 21,618 | - | - | - | - | - | - |
| Miscellaneous | - | 3,622 | - | - | - | - | - | 1,350,741 |
| TOTAL REVENUES | - | 125,766 | 452,649 | 2,750,319 | 2,494,556 | 1,872,176 | 12,406 | 1,350,741 |
| EXPENDITURES: | | | | | | | | |
| Personal Services | 76,298 | 71,754 | - | - | - | - | - | - |
| Operating | - | 13,160 | - | - | - | - | - | - |
| Travel | - | 2,277 | - | - | - | - | - | - |
| Capital Outlay | - | - | - | - | - | - | - | - |
| Government Aid | - | - | - | - | - | - | - | 171,140,687 |
| TOTAL EXPENDITURES | 76,298 | 87,191 | - | - | - | - | - | 171,140,687 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (76,298) | 38,575 | 452,649 | 2,750,319 | 2,494,556 | 1,872,176 | 12,406 | (169,789,946) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Sales of Assets | - | - | - | - | - | - | - | - |
| Deposit to General Fund | - | - | - | - | - | - | - | - |
| Deposit from General Fund | - | - | - | - | - | - | - | - |
| Deposit from Highway Trust Fund | - | - | - | - | - | - | 10,754,421 | - |
| Deposit from Revenue Distribution Fund | - | - | - | - | - | - | - | - |
| Deposit from Severance Tax Fund | - | - | - | - | - | - | - | - |
| Deposit from Charitable Gaming Fund | - | - | - | - | - | - | - | - |
| Deposit to Common Fund | (184,103) | - | (452,649) | (2,750,319) | (2,374,556) | (1,852,176) | (10,666,827) | - |
| Operating Transfers In | 260,401 | - | - | - | - | - | - | 110,000,000 |
| Operating Transfers Out | - | - | - | - | (120,000) | (20,000) | (100,000) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | 76,298 | - | (452,649) | (2,750,319) | (2,494,556) | (1,872,176) | (12,406) | 110,000,000 |
| Net Change in Fund Balances | - | 38,575 | - | - | - | - | - | (59,789,946) |
| FUND BALANCES, April 1, 2011 | - | 131,670 | - | - | - | - | - | 64,901,282 |
| FUND BALANCES, March 31, 2012 | \$ - | \$ 170,245 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,111,336 |
| FUND BALANCES CONSIST OF: | | | | | | | | |
| General Cash | \$ - | \$ 172,445 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,111,336 |
| Petty Cash | - | - | - | - | - | - | - | - |
| Deposits with Vendors | - | 28 | - | - | - | - | - | - |
| Accounts Receivable Invoiced | - | - | - | - | - | - | - | - |
| Due From Other Government | - | - | - | - | - | - | - | - |
| Received, not Vouchered | - | - | - | - | - | - | - | - |
| Due to Vendors | - | (2,228) | - | - | - | - | - | - |
| State Withholding | - | - | - | - | - | - | - | - |
| TOTAL FUND BALANCES | \$ - | \$ 170,245 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,111,336 |

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period April 1, 2011 through March 31, 2012

| | Highway Trust Fund 61240 | Common School Fund 61270 | State Lottery Operation Fund 61610 | State Lottery Prize Fund 61620 | Municipal Equalization Fund 61630 | Revenue Distribution Fund 71620 | Severance Tax Fund 77610 | Totals (Memorandum Only) |
|--|--------------------------------|--------------------------------|--|--------------------------------------|---|---------------------------------------|--------------------------------|---|
| REVENUES: | | | | | | | | |
| Appropriations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 95,223,505 |
| Taxes | 307,133,259 | - | - | - | - | 192,353,983 | 5,480,770 | 4,086,393,457 |
| Intergovernmental | - | - | - | - | - | - | - | 682,951 |
| Sales & Charges | - | - | 75,701,050 | - | 9,940 | - | - | 76,537,045 |
| Miscellaneous | - | 500 | 199,146 | 43,473 | 72,924 | - | - | 2,075,965 |
| TOTAL REVENUES | 307,133,259 | 500 | 75,900,196 | 43,473 | 82,864 | 192,353,983 | 5,480,770 | 4,260,912,923 |
| EXPENDITURES: | | | | | | | | |
| Personal Services | - | - | - | - | - | - | - | 26,250,337 |
| Operating | - | - | - | 25,361,929 | - | - | - | 46,057,947 |
| Travel | - | - | - | - | - | - | - | 422,113 |
| Capital Outlay | - | - | - | - | - | - | - | 1,133,588 |
| Government Aid | - | - | - | - | 18,803,112 | - | - | 258,278,603 |
| TOTAL EXPENDITURES | - | - | - | 25,361,929 | 18,803,112 | - | - | 332,142,588 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 307,133,259 | 500 | 75,900,196 | (25,318,456) | (18,720,248) | 192,353,983 | 5,480,770 | 3,928,770,335 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Sales of Assets | - | - | - | - | - | - | - | 5,094 |
| Deposit to General Fund | - | - | - | - | - | (444,765) | - | (3,512,946,556) |
| Deposit from General Fund | 7,548,354 | - | - | - | 9,295,026 | - | - | 16,843,380 |
| Deposit from Highway Trust Fund | - | - | - | - | - | - | - | 10,754,421 |
| Deposit from Revenue Distribution Fund | 168,379,350 | - | - | - | 833,272 | - | - | 169,657,387 |
| Deposit from Severance Tax Fund | - | - | - | - | - | - | - | 52,707 |
| Deposit from Charitable Gaming Fund | - | - | - | - | - | - | - | 3,043,858 |
| Deposit to Common Fund | (483,060,963) | (500) | - | - | - | (189,896,588) | (5,480,770) | (745,309,358) |
| Operating Transfers In | - | - | - | 24,500,000 | 8,575,906 | - | - | 160,327,142 |
| Operating Transfers Out | - | - | (73,432,758) | - | - | - | - | (89,469,754) |
| TOTAL OTHER FINANCING SOURCES (USES) | (307,133,259) | (500) | (73,432,758) | 24,500,000 | 18,704,204 | (190,341,353) | (5,480,770) | (3,987,041,679) |
| Net Change in Fund Balances | - | - | 2,467,438 | (818,456) | (16,044) | 2,012,630 | - | (58,271,344) |
| FUND BALANCES, April 1, 2011 | - | - | 1,024,451 | 1,498,971 | 57,363 | 15,854,646 | - | 106,565,083 |
| FUND BALANCES, March 31, 2012 | \$ - | \$ - | \$ 3,491,889 | \$ 680,515 | \$ 41,319 | \$ 17,867,276 | \$ - | \$ 48,293,739 |
| FUND BALANCES CONSIST OF: | | | | | | | | |
| General Cash | \$ - | \$ - | \$ 3,491,589 | \$ 1,114,635 | \$ 41,319 | \$ 17,867,276 | \$ - | \$ 49,109,444 |
| Petty Cash | - | - | 300 | 300 | - | - | - | 1,300 |
| Deposits with Vendors | - | - | - | - | - | - | - | 147,502 |
| Accounts Receivable Invoiced | - | - | - | - | - | - | - | 20,598 |
| Due From Other Government | - | - | - | - | - | - | - | 101 |
| Received, not Vouchered | - | - | - | - | - | - | - | (19,030) |
| Due to Vendors | - | - | - | (406,782) | - | - | - | (938,538) |
| State Withholding | - | - | - | (27,638) | - | - | - | (27,638) |
| TOTAL FUND BALANCES | \$ - | \$ - | \$ 3,491,889 | \$ 680,515 | \$ 41,319 | \$ 17,867,276 | \$ - | \$ 48,293,739 |

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

For the Period April 1, 2011 through March 31, 2012

1. Criteria

The accounting policies of the Nebraska Department of Revenue (Department) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the State of Nebraska Director of the Department of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. As such, certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures and related accounts payables recorded in the general ledger as of March 31, 2012, include only those payables posted in the general ledger before March 31, 2012, and not yet paid as of that date. The amount recorded as expenditures as of March 31, 2012, **does not** include amounts for goods and services received before March 31, 2012, which had not been posted to the general ledger as of March 31, 2012.

Other liabilities are recorded in accounts titled State Withholding and Due to Vendors for the Department. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

The Department had significant accounts receivable not included in the Schedule. Accounts Receivable for taxes are prepared annually by the Department for the Comprehensive Annual Financial Report for the State of Nebraska. The Department compiles their accounts receivable, not included on the Schedule, based on the State’s fiscal year, and since our report is not for the fiscal year, the Department’s accounts receivables were not disclosed. State Accounting did not require the Department to record their receivables on the general ledger and these amounts are not reflected in revenues or fund balances on the Schedule. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

The fund types established by the State that are used by the Department are:

10000 – General Fund – accounts for activities funded by general tax dollars and related expenditures and transfers.

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

70000 – Distributive Funds – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

The major revenue account classifications established by State Accounting used by the Department are:

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consists of income taxes, sales and use taxes, motor fuels taxes, and various other taxes.

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

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure account classifications established by State Accounting used by the Department are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Department.

Operating – Expenditures directly related to a program's primary service activities.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

Capital Outlay – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant accounting classifications and procedures established by State Accounting and used by the Department include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to the fund balance on the schedule. Cash accounts and deposits with vendors are also included in the fund balance and are reported as recorded in the general ledger.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures resulting in a decrease to the fund balance.

Other Financing Sources – Operating transfers, proceeds of fixed asset dispositions, and deposits to/from various funds.

2. Reporting Entity

The Nebraska Department of Revenue is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department included in the general ledger.

The Nebraska Department of Revenue is part of the primary government for the State of Nebraska.

3. 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 because interfund balances and transactions have not been eliminated.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

4. General Cash

General cash accounts 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 those investments is allocated to funds based on their percentage of the investment pool.

5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory and accounts for all equipment that has a cost of \$1,500 or more at the date of acquisition in the State Accounting System.

For the CAFR, the State requires the Department to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,500 or more at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of three to ten years.

Capital asset activity of the Department recorded in the State Accounting System for the period April 1, 2011, through March 31, 2012, was as follows:

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

5. Capital Assets (Concluded)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Capital Assets | | | | |
| Equipment | \$ 1,945,290 | \$ 1,181,067 | \$ (91,395) | \$ 3,034,962 |
| Less accumulated depreciation for: | | | | |
| Equipment | | | | <u>(1,883,961)</u> |
| Total capital assets, net of depreciation | | | | <u>\$ 1,151,001</u> |

6. Transfers

Neb. Rev. Stat. § 9-812 (Supp. 2011) requires the Department to transfer funds from the State Lottery Operation Trust Fund to the State Lottery Prize Trust Fund, the Lottery Operation Cash Fund, and various other beneficiary funds.

Neb. Rev. Stat. § 77-913 (Reissue 2009) requires the State Treasurer to transfer thirty percent of the balance in the Insurance Tax Fund to the Municipal Equalization Fund on May 1 of each year.

Neb. Rev. Stat. § 90-520 (Cum. Supp. 2010) requires the State Treasurer to transfer \$1,000,000 from the Revenue Property Assessment Division Cash Fund and \$500,000 from the Tobacco Products Administration to the General Fund on or before June 30, 2011.

Neb. Rev. Stat. § 77-5601 (Supp. 2011) requires twenty percent of all proceeds received during the previous calendar year due to the efforts of auditors and investigators hired for enforcement of the Nebraska Revenue Act of 1967, not to exceed seven hundred fifty thousand dollars, shall be deposited in the Department of Revenue Enforcement Fund for purposes of employing investigators and auditors or continuing such employment for purposes of increasing enforcement of the Act.

2011 Neb. Laws LB 378, Sec. 3 requires the State Treasurer to transfer \$110,000,000 from the General Fund to the Property Tax Credit Cash Fund on or before December 15, 2011.

2009 Neb. Laws LB 315, Sec. 281 and subsection 2b required \$7,000,000 to be transferred from the Tobacco Products Administration Cash Fund to the General Fund prior to June 15, 2011.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE
(Continued)

7. Deposits to/from Common Funds

Deposits are used to (1) move revenues from the fund that statutes require to collect them to the fund that statutes require to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

Deposits to/from Common Funds during the period April 1, 2011, through March 31, 2012, consisted of the following:

| | Funds Where Receipts Were Originally Deposited To: | | | | | TOTALS |
|--|---|-------------------------------------|---------------------------|----------------------------------|---------------------------|-----------------------|
| | General Fund | Charitable Gaming Operations | Highway Trust Fund | Revenue Distribution Fund | Severance Tax Fund | |
| Funds Where Receipts Were Transferred To: | | | | | | |
| Affordable Housing Trust Fund | \$ 7,285,358 | \$ - | \$ - | \$ - | \$ - | \$ 7,285,358 |
| Agricultural Alcohol Fuel Tax Fund | - | - | 553,565 | - | - | 553,565 |
| Aircraft Fuels Tax Fund | - | - | 1,411,933 | - | - | 1,411,933 |
| Behavior Health Services – Housing Fund | 1,974,916 | - | - | - | - | 1,974,916 |
| Building Renewal Task Force Fund | 9,163,271 | - | - | - | - | 9,163,271 |
| Cancer Research Fund | 3,927,116 | - | - | - | - | 3,927,116 |
| Energy Office Cash Fund | - | - | - | - | 300,000 | 300,000 |
| Ethanol Production Incentive Fund | - | - | 2,496 | - | - | 2,496 |
| General Fund | - | 3,043,858 | - | 444,765 | - | 3,488,623 |
| Highway Allocation Fund | 754,835 | - | - | 16,702,390 | - | 17,457,225 |
| Highway Trust Fund | 7,548,354 | - | - | 168,379,350 | - | 175,927,704 |
| Homeless Shelter Assistance Fund | 1,646,532 | - | - | - | - | 1,646,532 |
| Metro Class Development Fund | 1,500,000 | - | - | - | - | 1,500,000 |
| Municipal Equalization Fund | 9,295,026 | - | - | 833,272 | - | 10,128,298 |
| Outdoor Recreation Fund | 1,309,039 | - | - | - | - | 1,309,039 |
| Permanent School Fund | - | - | - | - | 5,128,063 | 5,128,063 |
| Petroleum Release Cash Fund | - | - | 10,754,421 | - | - | 10,754,421 |
| Primary Class Development Fund | 1,000,000 | - | - | - | - | 1,000,000 |
| Public Safety Communications Fund | 2,570,000 | - | - | - | - | 2,570,000 |
| Severance Tax Admin Fund | - | - | - | - | 52,707 | 52,707 |
| Site and Building Development Fund | 615,460 | - | - | - | - | 615,460 |
| State Visitor’s Promotion Cash Fund | - | - | - | 3,981,576 | - | 3,981,576 |
| TOTALS | \$ 48,589,907 | \$ 3,043,858 | \$12,722,415 | \$190,341,353 | \$5,480,770 | \$ 260,178,303 |

The \$12,722,415, in the table above, was deposited into the Highway Trust Fund but was then transferred out to other funds. The Deposit to Common Fund on the financial schedule is \$483,060,963, this was the total amount of funds deposited into the Highway Trust Fund. The difference between the \$483,060,963 and the \$12,722,415 is what stays in the Highway Trust Fund, which is administered by another State agency.

A number of funds on the Schedule of Revenues, Expenditures, and Changes in Fund Balances show Deposit to Common Fund but are not listed on the table above. These funds include: the Nebraska Health Care Fund, Oil & Gas Conservation Fund, Grade Cross Construction Fund,

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

7. Deposits to/from Common Funds (Concluded)

Waste, Reduce & Recycling Incentive Fund, Litter Reduction & Recycle Fund, and the Common School Fund. These funds do not appear in the above table because, for these funds, the Department simply receives and deposits receipts into these funds and then another State agency is responsible for the program administration. For the Nebraska Health Care Fund, the Deposit to Common Fund amount is the difference between the Personal Services amount and the Operating Transfers In. For the Common School Fund, the Department received \$500 and then deposited it into the Common School Fund, which is administered by a different State agency.

8. Sales Tax on Motor Vehicles

Neb. Rev. Stat. § 77-27,132 (Supp. 2011) requires the State Treasurer to credit to the Highway Trust Fund all the proceeds of the sales taxes derived from motor vehicles, trailers, and semitrailers, except the proceeds in excess of five percent which are required to be credited to the General Fund. The Department initially deposits all sales tax on motor vehicles into the Revenue Distribution Fund. The Department then reduces the revenue in the Distribution Fund and credits the Highway Trust Fund and the General Fund. Additionally, Neb. Rev. Stat. § 77-27,144 (Reissue 2009) allows the Department to deduct three percent from the sales tax remitted for credit to the Municipal Equalization Fund. Below is a summary of the activity recorded through the revenue account to Motor Vehicle Sales Tax.

| | | |
|--|---------------|----------------------|
| Amount Received | | \$ 214,759,942 |
| Refunds to Cities | (26,871,627) | |
| Transfers to Highway Trust Fund and State General Fund | (185,081,740) | |
| Department of Revenue Sales Tax Administration Fee | (833,272) | |
| Taxpayer Refunds | (93,287) | |
| Nebraska Advantage Act State Motor Vehicle Refund | (958) | |
| Total Refunds | | <u>(212,880,884)</u> |
| Amount to be Distributed at year end | | <u>\$ 1,879,058</u> |

9. Tax Refunds

Tax revenues shown on the Schedule of Revenues, Expenditures, and Changes in Fund Balances are net of refunds issued. Below is a summary of the amounts refunded for significant types deposited in the State General Fund.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

9. Tax Refunds (Concluded)

| | | |
|---|------------------|-------------------------|
| Retailers Sales and Use Tax Amount Received | | \$ 1,819,520,656 |
| Refunds to Cities | (297,696,921) | |
| Employment and Investment Growth City and State Sales Tax Refunds | (67,679,832) | |
| Nebraska Advantage Act City and State Sales Tax Refunds | (8,518,856) | |
| Department of Revenue Sales Tax Administration Fee Taxpayer Refunds | (9,207,999) | |
| Miscellaneous Refunds | (7,316,783) | |
| | (119,137) | |
| Total Refunds | | <u>(390,539,528)</u> |
| Retailers Sales and Use Tax Net of Refunds | | <u>\$ 1,428,981,128</u> |
| Individual Income Tax | | |
| Withholdings Income Tax | \$ 1,560,341,183 | |
| Estimated Income Tax | 268,119,782 | |
| Final Income Tax Return | 316,253,981 | |
| Total Received | | 2,144,714,946 |
| Refunds to Taxpayers | | <u>(350,707,900)</u> |
| Individual Income Tax Net of Refunds | | <u>\$ 1,794,007,046</u> |
| Corporate Income Tax | | |
| Amount Received | | \$ 249,016,450 |
| Refunds to Taxpayers | | <u>(30,823,185)</u> |
| Corporate Income Tax Net of Refunds | | <u>\$ 218,193,265</u> |

10. Adjustments to Financial Schedule Data

As stated in the Independent Accountant's Report, the financial schedule is based on the accounting system and procedures prescribed by the State of Nebraska Director of the Department of Administrative Services. This means the financial schedule is prepared based on the data entered into the State's Accounting System, EnterpriseOne, in accordance with State accounting policies. The Department enters their financial data in EnterpriseOne in accordance with State accounting policies; however, due to State statutes, which require certain taxes be distributed to multiple funds, adjustments to the EnterpriseOne data were made so the financial schedule better reflects the Department's activity. A number of State statutes require specific tax revenues, received by the Department, to be transferred to other State funds. The Department makes these transfers and the resulting entries reduce the Department's revenues and increase the revenues of the other funds. As a result of the adjustments, all the Department's revenues are shown in the fund where they were initially deposited. The table below shows the financial statement fund and revenue type, the revenue according to EnterpriseOne, the adjustment amount, and the amount shown on the financial schedule.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

10. Adjustments to Financial Schedule Data (Concluded)

| Fund - Account | Amount per EnterpriseOne | Adjustment | Amount on Financial Schedule |
|---|-----------------------------|-----------------|---------------------------------|
| General Fund - Tax Revenue | \$ 3,509,609,465 | \$ 45,546,049 | \$ 3,555,155,514 |
| General Fund - Sales and Charges | \$ 599,079 | \$ (450,190) | \$ 148,889 |
| Alcohol Fuel Fund - Tax Revenue | \$ 553,565 | \$ (553,565) | \$ 0 |
| Severance Tax Admin Fund - Tax Revenue | \$ 52,707 | \$ (52,707) | \$ 0 |
| Charitable Gaming Fund - Tax Revenue | \$ 2,034,439 | \$ 3,043,858 | \$ 5,078,297 |
| Ethanol Production Incentive Fund - Tax Revenue | \$ 2,496 | \$ (2,496) | \$ 0 |
| Petro Release Cash Fund - Tax Revenue | \$ 10,766,827 | \$ 10,754,421 | \$ 12,406 |
| Highway Trust Fund - Tax Revenue | \$ 294,410,844 | \$ 12,722,415 | \$ 307,133,259 |
| Municipal Equalization Trust Fund - Sales & Charges | \$ 10,138,238 | \$ (10,128,298) | \$ 9,940 |
| Revenue Distribution Fund - Tax Revenue | \$ 2,012,630 | \$ 190,341,353 | \$ 192,353,983 |
| Severance Tax Fund - Tax Revenue | \$ 0 | \$ 5,480,770 | \$ 5,480,770 |

The Alcohol Fuel Fund and the Ethanol Production Incentive Fund are not shown on the financial schedule because the Tax Revenues for these funds are originally deposited into the Highway Trust Fund and are shown as Tax Revenues in that fund.

NEBRASKA DEPARTMENT OF REVENUE

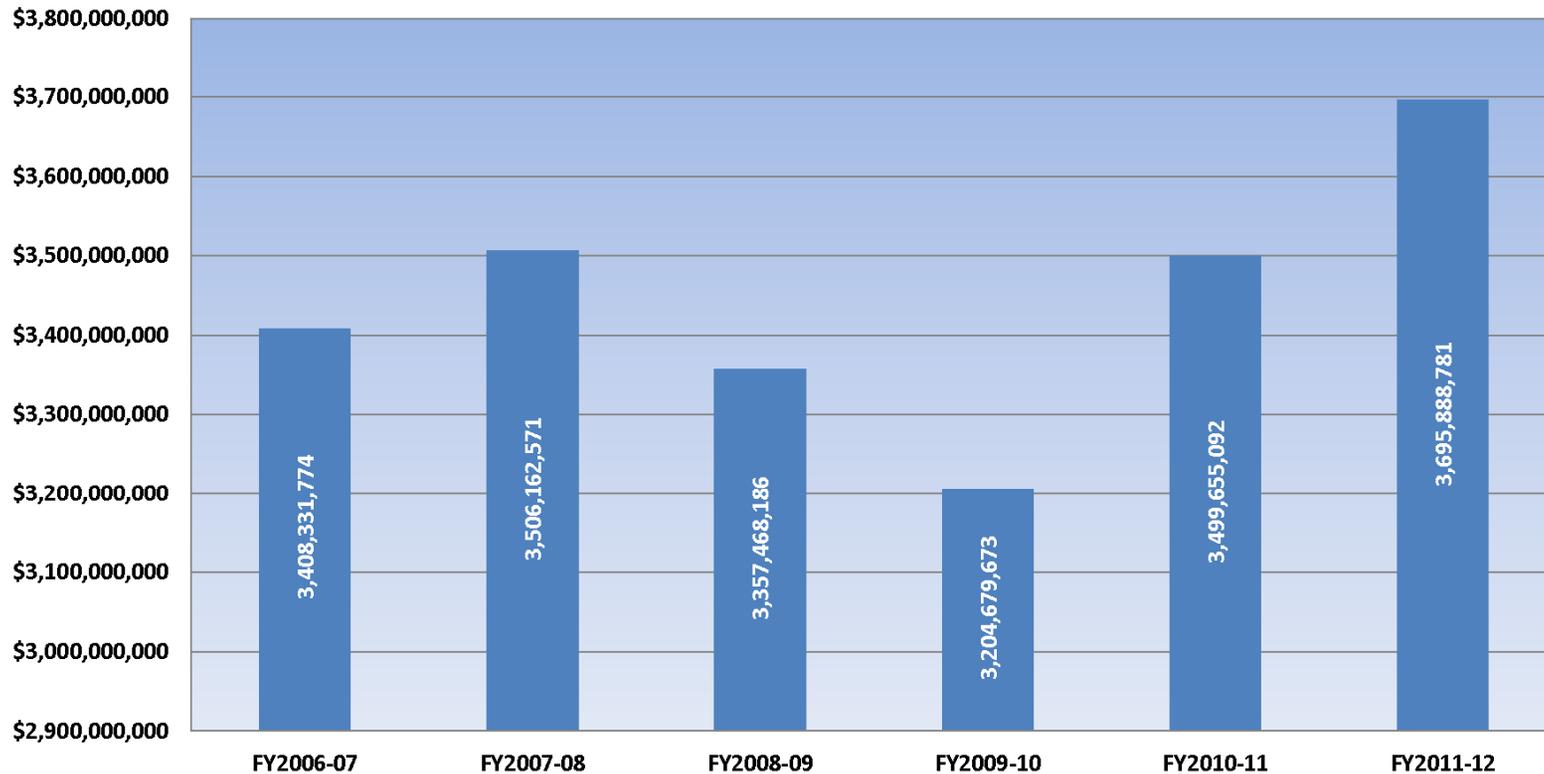
SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

While the period of our report is from April 1, 2011, through March 31, 2012, the following data is based on the State's fiscal year, July 1 through June 30. The Supplementary Information was based on the State's fiscal year since this historic data was readily available because the Department normally prepares this information, for internal reports, on the fiscal year basis.

Nebraska Department of Revenue

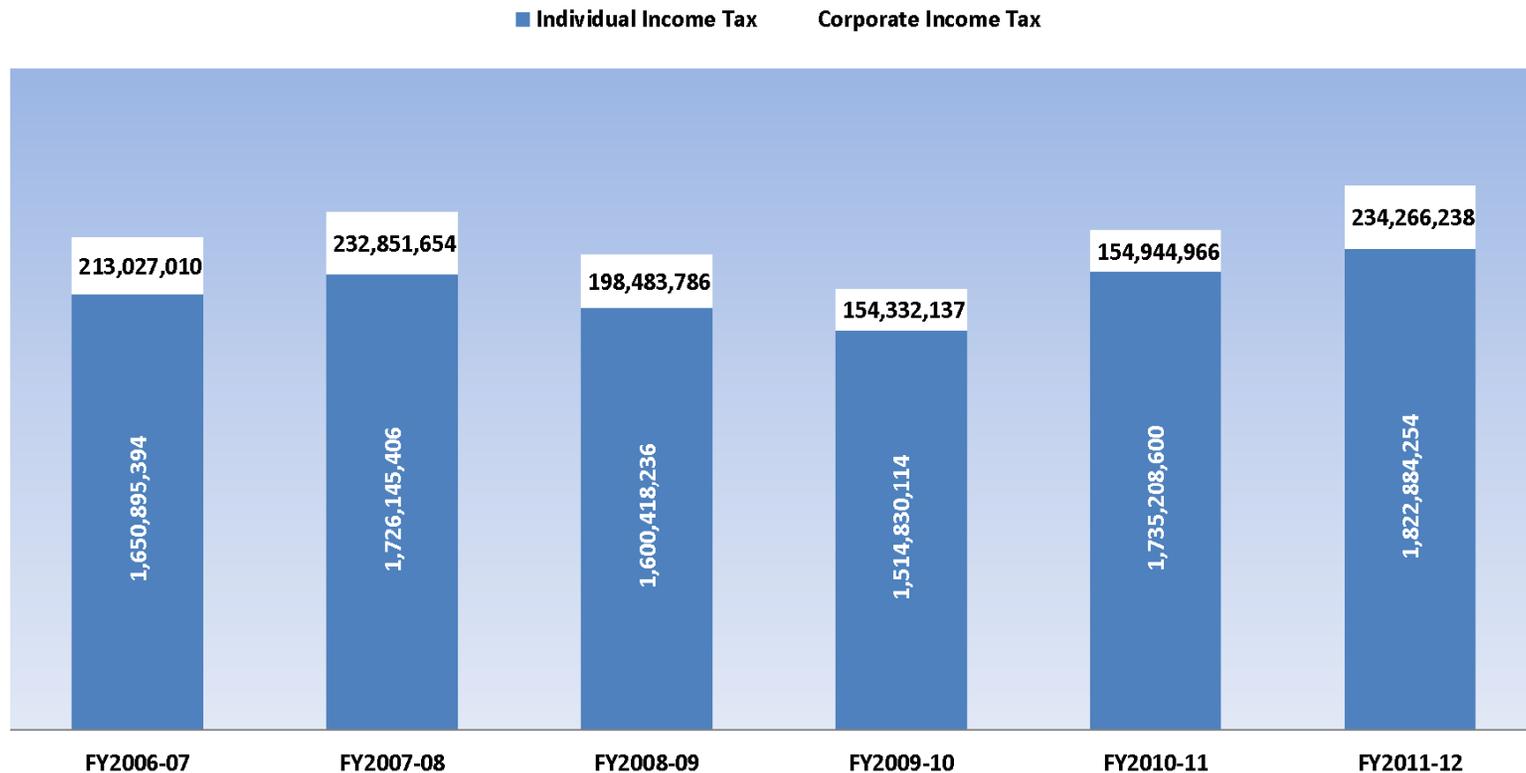
Schedule of Total Net General Fund Tax Revenues



Note: The x axis is for the fiscal year beginning July 1, and ending June 30.

Nebraska Department of Revenue

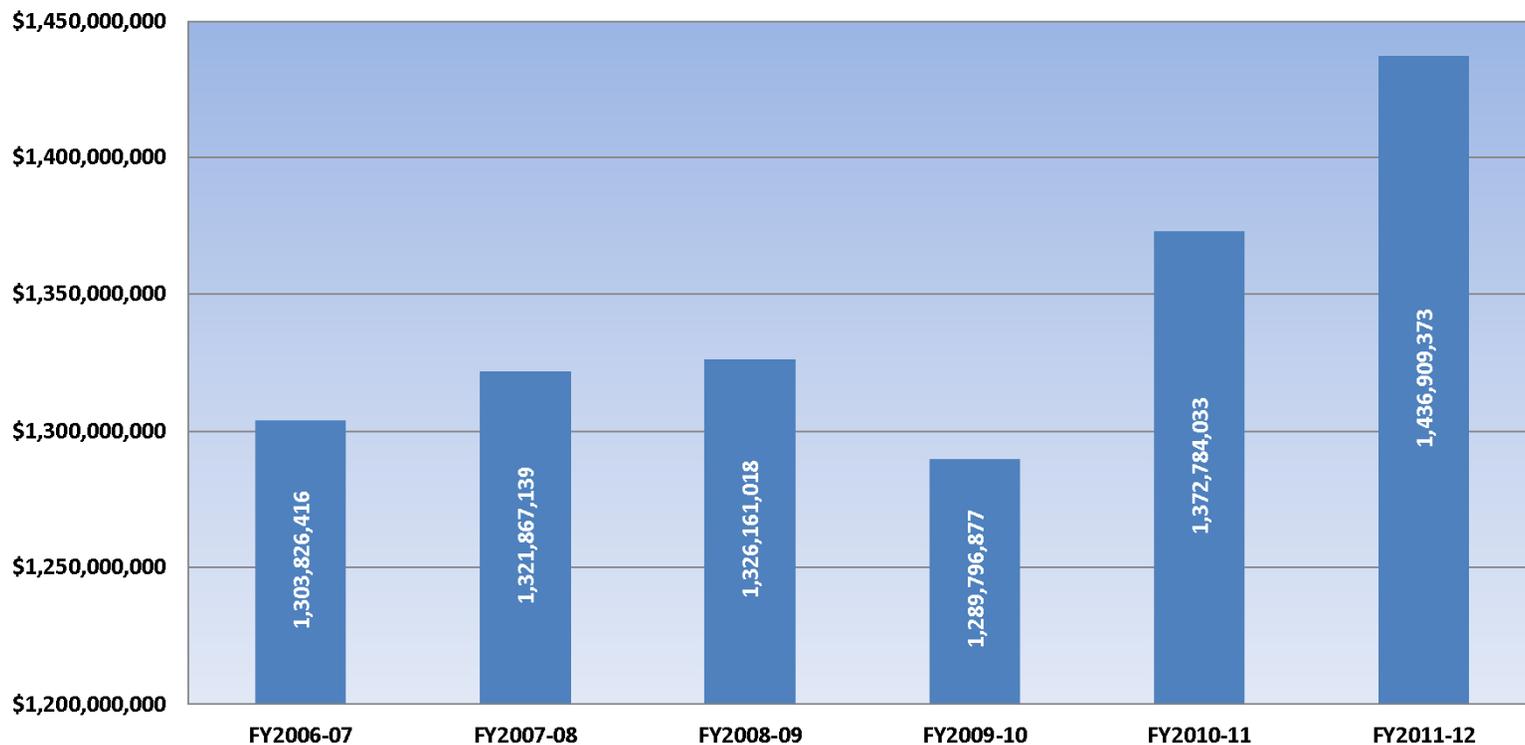
Schedule of Net Corporate & Individual Income Tax Revenues



Note: The x axis is for the fiscal year beginning July 1, and ending June 30.

Nebraska Department of Revenue

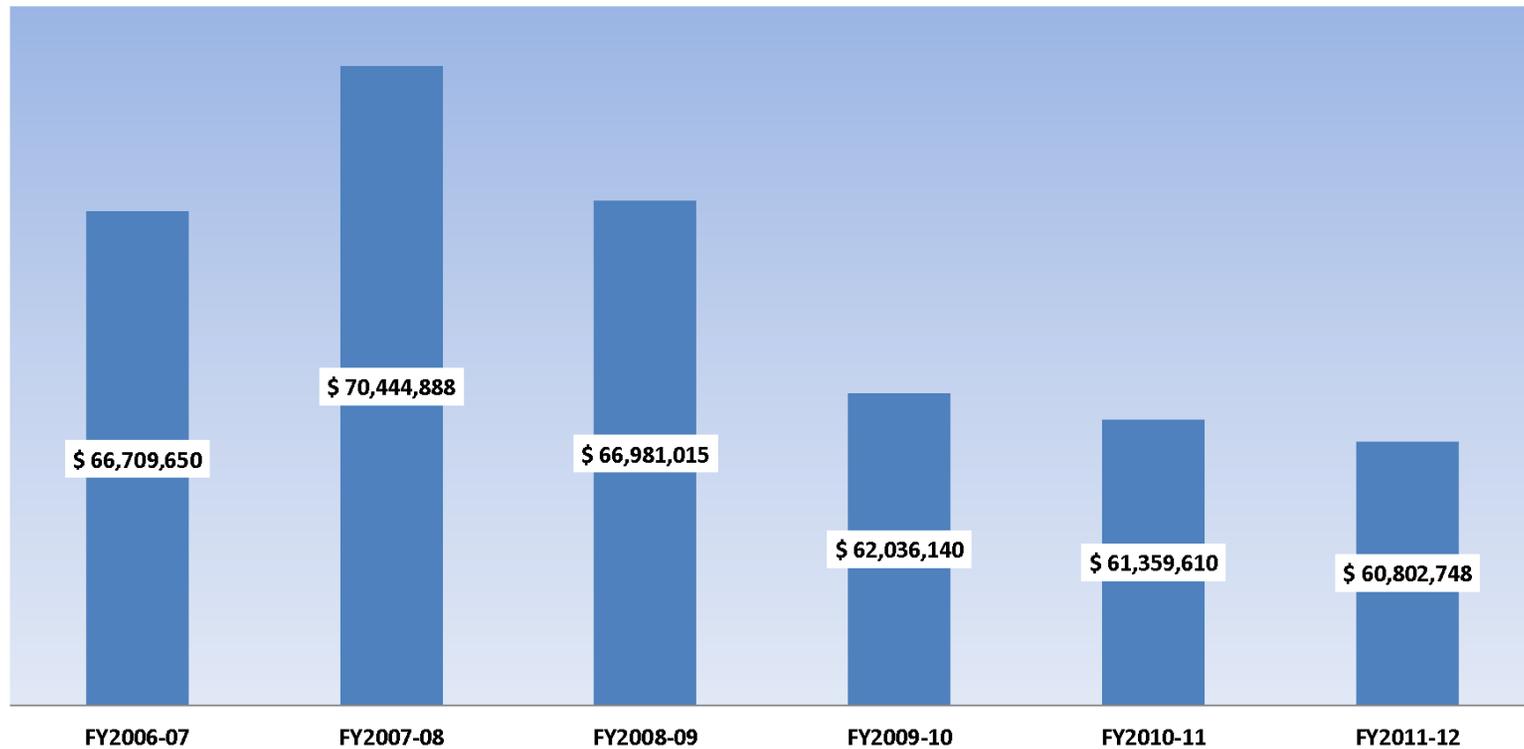
Schedule of Net Sales & Use Tax Revenues



Note: The x axis is for the fiscal year beginning July 1, and ending June 30.

Nebraska Department of Revenue

Schedule of Net Cigarette Tax Revenues



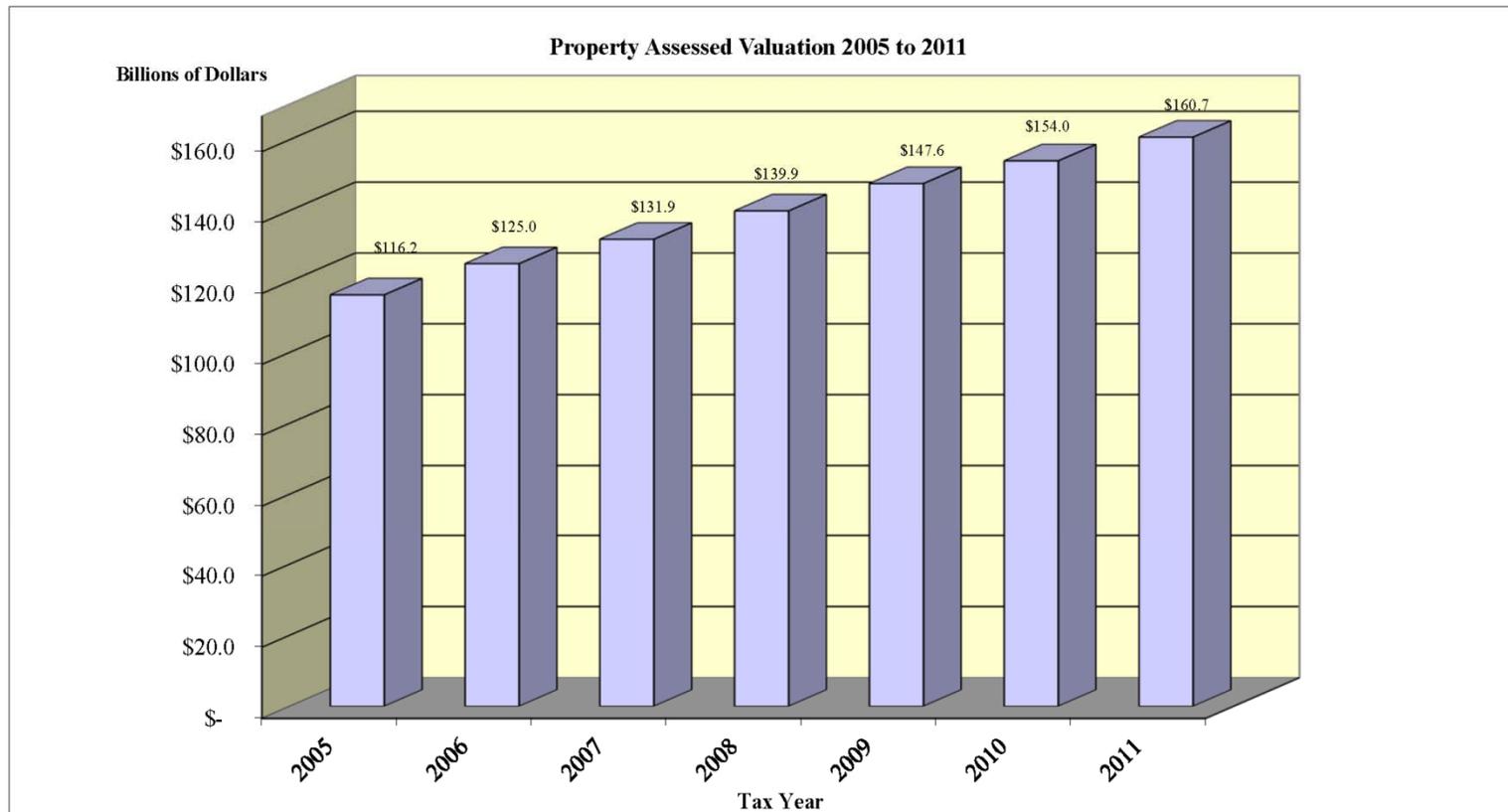
Note: The x axis is for the fiscal year beginning July 1, and ending June 30.

**NEBRASKA DEPARTMENT OF REVENUE
PROPERTY ASSESSMENT DIVISION**

STATE OF NEBRASKA TOTAL PROPERTY ASSESSED VALUATION 2005 - 2011 ¹

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Total Assessed Valuation | \$ 116.2 | \$ 125.0 | \$ 131.9 | \$ 139.9 | \$ 147.6 | \$ 154.0 | \$ 160.7 |

¹ Amounts in billions of dollars.



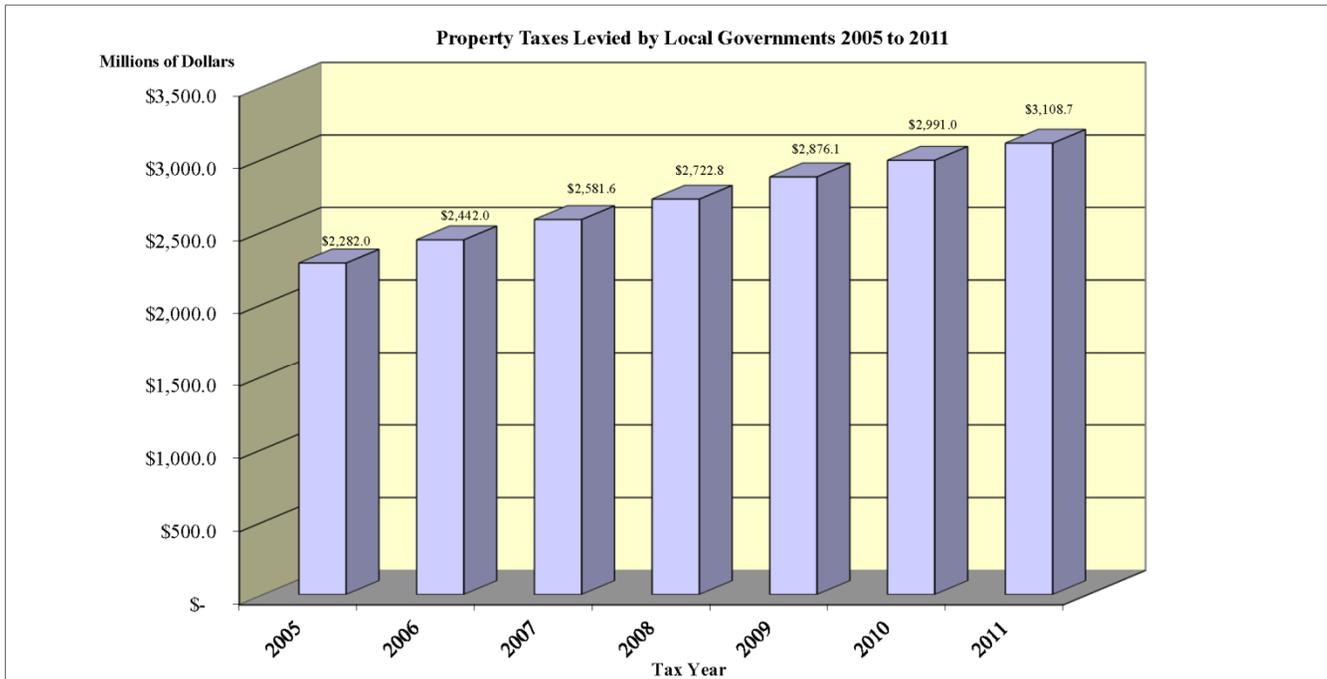
Source: Dept. of Revenue, Property Assessment Division, 2011 Annual Report Table 1

**NEBRASKA DEPARTMENT OF REVENUE
PROPERTY ASSESSMENT DIVISION**

STATE OF NEBRASKA TOTAL PROPERTY TAXES BY TAX YEAR 2005 - 2011 ¹

| Government Subdivision | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Counties | 368.6 | 393.8 | 417.0 | 442.5 | 464.2 | 492.5 | 513.3 |
| Cities & Villages | 242.0 | 253.7 | 274.2 | 290.5 | 311.3 | 320.8 | 333.7 |
| Townships | 10.5 | 11.1 | 11.8 | 12.6 | 13.1 | 13.9 | 14.6 |
| Rural Fire Districts | 26.0 | 27.7 | 29.4 | 31.4 | 34.6 | 36.0 | 37.3 |
| Natural Resource Districts | 43.3 | 48.7 | 54.1 | 53.0 | 55.7 | 55.5 | 60.1 |
| Miscellaneous Districts | 105.4 | 117.8 | 123.5 | 128.4 | 130.7 | 134.6 | 138.9 |
| Educational Service Units | 18.1 | 19.1 | 21.7 | 23.1 | 24.0 | 25.3 | 26.3 |
| Community Colleges | 89.2 | 95.8 | 97.1 | 109.1 | 126.3 | 133.6 | 141.3 |
| School Districts | 1,378.9 | 1,474.3 | 1,552.8 | 1,632.2 | 1,716.2 | 1,778.8 | 1,843.2 |
| Total Property Taxes | \$ 2,282.0 | \$ 2,442.0 | \$ 2,581.6 | \$ 2,722.8 | \$ 2,876.1 | \$ 2,991.0 | \$ 3,108.7 |

¹ Amounts in millions of dollars.



[Source: Dept. of Revenue, Property Assessment Division, 2011 Annual Report Table 2](#)