

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

**JULY 1, 2015 THROUGH JUNE 30, 2016**

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**October 26, 2016**

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1
Vision	1
Mission and Principles	1
Goals	1
Key Officials and Agency Contact Information	2
<b>Comment Section</b>	
Comment and Recommendation	3 - 4
<b>Financial Section</b>	
Independent Auditor's Report	5 - 7
Management's Discussion and Analysis	8 - 10
Basic Financial Statements:	
Agency-Wide Financial Statements:	
Statement of Net Position - Cash Basis	11
Statement of Activities - Cash Basis	12
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balance - Governmental Fund	13
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance - Governmental Fund	14
Notes to Financial Statements	15 - 20
Other Information:	
Budgetary Comparison Schedule of Disbursements by Program - Budget and Actual - Nebraska Dairy Industry Development Fund	21
Schedules:	
Schedule of Checkoff Receipt Trend	22
Schedule of Dairy Contract Disbursements by Fiscal Year	23
Schedule of Other Disbursements by Fiscal Year	24
<b>Government Auditing Standards Section</b>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 - 26

# NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

## BACKGROUND

The Dairy Industry Development Act (Act), which is found at Neb. Rev. Stat. §§ 2-3948 to 2-3963 (Reissue 2012, Cum. Supp. 2014) 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related to advertising and promotion provisions of the Nebraska-Western Iowa Federal Milk Order (Order 65) being rescinded.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 CFR 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 Board.

Section 2-3958(1) of the Act requires “a mandatory assessment of ten cents per hundredweight on all milk produced in the State of Nebraska for commercial use.” The funds are used, pursuant to Neb. Rev. Stat. § 2-3950, for financing programs to do the following:

*[M]aintain and expand domestic sales of milk and dairy products, develop new products and new markets, improve methods and practices relating to marketing or processing of milk and dairy products, and inform and educate consumers of sound nutritional principles including the role of milk in a balanced diet.*

During the audit period, the Board contracted with the Midwest Dairy Association and the Southwest Dairy Museum, Inc., to assist in accomplishing the goals of the Act. The Board also contracted with the Nebraska Department of Agriculture for the administrative functions of collecting, disbursing, and auditing, as the Board has no employees to perform those duties.

## VISION

Increase sales, foster innovation, and inspire consumer confidence of dairy products and practices.

## MISSION AND PRINCIPLES

Contribute to the economic well-being of Nebraska dairy producers.

## GOALS

1. Health & Wellness: All people consume three servings of dairy every day because it tastes great and its benefits are indispensable to a health and sustainable lifestyle.
2. Consumer Confidence: Consumers support dairy’s freedom to operate, preserve, and increase our nation’s food security and increase sales.
3. Business Development: The Midwest will be a global leader in dairy sales through innovations in processing, marketing, and research; and through enhanced consumer communications.
4. Investor Relations: Dairy producers and government stakeholders understand and value the checkoff.
5. Governance: Board members successfully fulfill the mission of the dairy checkoff program.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

**KEY OFFICIALS AND AGENCY CONTACT INFORMATION**

**Nebraska Dairy Industry Development Board Members**

<b>Name</b>	<b>Title</b>	<b>Term Ending</b>
James Eschliman	Chair	November 1, 2017
Lowell Mueller	Vice Chair	November 1, 2017
Michael Henn	Member	November 1, 2018
David Murman	Member	November 1, 2017
Kent Pulfer	Member	November 1, 2016
Douglas Temme	Member	November 1, 2016
William Thiele	Member	November 1, 2016
Bobbie Kriz Wickham*	Ex Officio Member, Department of Agriculture Assistant Director	April 1, 2016
Mathew Habrock	Ex Officio Member, Department of Agriculture Assistant Director	

**Nebraska Dairy Industry Development Board Executive Management**

Robert Storant                      Department of Agriculture – Administrator Finance and Personnel

\*Terminated April 1, 2016, and was replaced by Mathew Habrock on April 18, 2016.

Nebraska Dairy Industry Development Board  
c/o Midwest Dairy Association  
6409 Tanglewood Lane  
Lincoln, NE 68516  
Nebraskadairyindustry.org

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

COMMENT AND RECOMMENDATION

During our audit of the Nebraska Dairy Industry Development Board (Board), we noted a certain matter involving the internal control over financial reporting and other operational matters that is presented here.

**Conflict of Interest**

We noted that two Board members failed to disclose an apparent conflict of interest with a contractor.

During the fiscal year tested, two Board members served also on the board of the Midwest Dairy Association (Association). The Association was one of two contractors selected by the Board to perform dairy promotion activities. Per their annual Statement of Financial Interest forms filed with the Nebraska Accountability and Disclosure Commission (NADC) for calendar year 2015, both of these members listed the Association as a source of income over \$1,000. They also reported their positions as board members of the Association. However, neither member filed a Potential Conflict of Interest Statement with the NADC regarding their role in voting for the Board to award the contract to the Association.

The contract with the Association was approved at the June 18, 2015, Board meeting by all members. During the fiscal year ended June 30, 2016, the Board paid the Association \$1,280,058 under the contract, which is 96% of the Board's fiscal year expenditures.

Neb. Rev. Stat. § 49-1499.02 (Reissue 2010) of the Nebraska Political Accountability and Disclosure Act (NPADA) requires the following when a potential conflict of interest arises:

*(1) An official or employee of the executive branch of state government who would be required to take any action or make any decision in the discharge of his or her official duties that may cause financial benefit or detriment to him or her, a member of his or her immediate family, or a business with which he or she is associated, which is distinguishable from the effects of such action on the public generally or a broad segment of the public, shall take the following actions as soon as he or she is aware of such potential conflict or should reasonably be aware of such potential conflict, whichever is sooner:*

*(a) Prepare a written statement describing the matter requiring action or decision and the nature of the potential conflict; and*

*(b) Deliver a copy of the statement to the commission and to his or her immediate superior, if any, who shall assign the matter to another. If the immediate superior does not assign the matter to another or if there is no immediate superior, the official or employee shall take such action as the commission shall advise or prescribe to remove himself or herself from influence over the action or decision on the matter.*

*(2) This section does not prevent such a person from (a) making or participating in the making of a governmental decision to the extent that the individual's participation is legally required for the action or decision to be made or (b) making or participating in the making of a governmental decision if the potential conflict of interest is based upon a business association and the business association exists only as the result of his or her position on a commodity board. A person acting pursuant to subdivision (a) of this subsection shall report the occurrence to the commission.*

*(3) For purposes of this section, commodity board means only the following:*

*\* \* \* \**

*(b) Nebraska Dairy Industry Development Board . . . .*

# NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

## COMMENT AND RECOMMENDATION

(Concluded)

Without procedures to ensure that potential conflicts of interest by its members are handled in accordance with the applicable provisions of the NPADA, there is an increased risk for not only the loss or misuse of public funds but also the violation of State law. Because this comment addresses possible noncompliance with the NPADA, the Auditor of Public Accounts is forwarding the information herein to the NADC.

We recommend the Board implement procedures to ensure potential conflicts of interest involving its members are handled in accordance with the applicable provisions of the NPADA. This issue will be reported to the NADC.

*Board's Response: A meeting was held with a representative of the Nebraska Accountability & Disclosure Commission in which dairy industry staff and other commodities board staff were present. The potential for conflict of interest and steps to be taken was discussed with the representative. From the discussion it was decided that the relationship of Nebraska Dairy Industry Development Board (NDIDB) with the Nebraska Division Board, of Midwest Dairy Association, is not a conflict of interest because the Nebraska Division Board is not a decision maker but simply an advisory board. It was also noted that the current NDIDB chairman is also an ex-officio on the Midwest Dairy Board but does not have voting privileges and therefore does not have a conflict of interest. Another board member does need to file a conflict of interest and should abstain from voting on approval of the contract because that board member also serves on the Midwest Dairy Association. This will be on the next board meeting agenda to further discuss.*

It should be noted this report is critical in nature, containing only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the Board to provide its members with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

### INDEPENDENT AUDITOR'S REPORT

Nebraska Dairy Industry Development Board  
Lincoln, Nebraska

#### **Report on the Financial Statements**

We have audited the accompanying cash-basis 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, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, as listed in the Table of Contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash-basis financial position of the governmental activities and the major fund of the Board, as of June 30, 2016, and the respective changes in cash-basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Board are intended to present the financial position and the changes in financial position 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 financial position of the State of Nebraska as of June 30, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our report is not modified with respect to this matter.

### ***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole, which collectively comprise the Board's basic financial statements. The Management's Discussion and Analysis, budgetary comparison information, schedule of checkoff receipt trend, schedule of dairy contract disbursements by fiscal year, and schedule of other disbursements by fiscal year are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Management's Discussion and Analysis, budgetary comparison information, schedule of checkoff receipt trend, schedule of dairy contract disbursements by fiscal year, and schedule of other disbursements by fiscal year have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2016, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.



October 5, 2016

Kris Kucera, CPA, CFE  
Audit Manager

# 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, 2016. 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 Agency-Wide financial statements include two statements: the Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis. These statements provide a broad overview of the Board's operations in a manner similar to the private sector, providing both a short-term and a long-term view of the Board's financial position. Over time, increases or decreases in the Board's net position are one indicator of whether its financial health is improving or deteriorating. The Agency-Wide financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivables and payables, or long-term debt activity, which would need to be considered to assess the overall health of the Board. Nonfinancial factors also need to be considered to assess the overall health of the Board. The Board's Agency-Wide financial statements show governmental activities

Governmental activities – The Board's basic services are included here. These activities are generally financed through the first purchasers assessment.

**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 financial statements by providing information about the Board's most significant "major" fund. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes. The Board has only one fund, and it is reported as a Governmental Fund.

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.

**Other Information.** This report includes optional financial information, such as the Management Discussion and Analysis, the Budgetary Comparison Schedule, the schedule of checkoff receipt trend, the schedule of dairy contract disbursements by fiscal year, and the schedule of other disbursements by fiscal year. This information is provided to address certain specific needs of various users of the report.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

**FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE**

**Net Position**

For the year ended June 30, 2016, net position of the Board decreased four percent.

**NET POSITION**

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2016</u>	<u>2015</u>	
NET POSITION			
Unrestricted	\$ 108,267	\$ 112,519	(3.78%)
Total Net Position	<u>\$ 108,267</u>	<u>\$ 112,519</u>	<u>(3.78%)</u>

**Governmental Activities**

Receipts for the Board's governmental activities increased nine percent, while disbursements increased ten percent.

**CHANGES IN NET POSITION**

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2016</u>	<u>2015</u>	
RECEIPTS			
General Receipts:			
First Purchasers Assessment	\$ 1,330,523	\$ 1,224,322	8.67%
Investment Interest	2,734	1,866	46.52%
Total Receipts	<u>1,333,257</u>	<u>1,226,188</u>	<u>8.73%</u>
DISBURSEMENTS			
Economic Development and Assistance	<u>1,337,509</u>	<u>1,217,406</u>	<u>9.87%</u>
Total Disbursements	<u>1,337,509</u>	<u>1,217,406</u>	<u>9.87%</u>
Increase (Decrease) in Net Position	(4,252)	8,782	(148.42%)
Beginning Net Position July 1	<u>112,519</u>	<u>103,737</u>	<u>8.47%</u>
Ending Net Position June 30	<u>\$ 108,267</u>	<u>\$ 112,519</u>	<u>(3.78%)</u>

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Concluded)

**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 of the Board are presented on the cash basis of accounting and, therefore, do not include capital assets or long-term debt.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Board.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD  
**STATEMENT OF NET POSITION - CASH BASIS**  
 June 30, 2016

	<b>Governmental Activities TOTAL</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 107,476
Deposits with Nebraska Department of Agriculture	791
Total Assets	\$ 108,267
<b>Net Position</b>	
Unrestricted	\$ 108,267
Total Net Position	\$ 108,267

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, 2016

	<b>Governmental  Activities  TOTAL</b>
Disbursements:	
Operating	\$ 1,336,625
Travel	884
Total Disbursements	1,337,509
General Receipts:	
First Purchasers Assessment	1,330,523
Unrestricted Investment Interest	2,734
Total General Receipts	1,333,257
Change in Net Position	(4,252)
Net Position July 1, 2015	112,519
Net Position June 30, 2016	\$ 108,267

The accompanying notes are an integral part of the financial statements.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD  
**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE**  
**GOVERNMENTAL FUND**

June 30, 2016

	<b>Major Fund</b>
<b>Assets:</b>	Fund 26100 Nebraska Dairy Industry Development
Cash and Cash Equivalents	\$ 107,476
Deposits with Nebraska Department of Agriculture	791
Total Assets	\$ 108,267
<b>Fund Balance:</b>	
Assigned	\$ 108,267
Fund Balance	\$ 108,267

The accompanying notes are an integral part of the financial statements.

**NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BASIS FUND BALANCE  
GOVERNMENTAL FUND**

For the Fiscal Year Ended June 30, 2016

	<b>Major Fund</b>
	Fund 26100 Nebraska Dairy Industry Development
<b>RECEIPTS:</b>	
First Purchasers Assessment	\$ 1,330,523
Miscellaneous:	
Investment Interest	2,734
<b>TOTAL RECEIPTS</b>	<b>1,333,257</b>
<b>DISBURSEMENTS BY FUNCTION:</b>	
Economic Development and Assistance	1,337,509
<b>TOTAL DISBURSEMENTS</b>	<b>1,337,509</b>
Net Change in Fund Balance	(4,252)
FUND BALANCE, JULY 1, 2015	112,519
FUND BALANCE, JUNE 30, 2016	\$ 108,267

The accompanying notes are an integral part of the financial statements.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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 in conformity with 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 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, as well as other organizations that are either fiscally dependent on the Board or maintain a significant relationship with the Board, 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. The Board is also considered financially accountable if an organization is fiscally dependent on, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Board, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present the Board. No component units were identified. The Board is part of the primary government for the State of Nebraska's reporting entity.

**C. Agency-Wide and Fund Financial Statements**

**Agency-Wide Financial Statements.** The Statement of Net Position - Cash Basis and Statement of Activities - Cash Basis display information about the activities of the Board and are in the format of government-wide statements, prescribed by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Board. The Board reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental receipts, and other nonexchange transactions.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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

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

The Statement of Activities - Cash Basis 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, which the Board has chosen to present. The Board uses only the Governmental Fund category. The emphasis of fund financial statements is on the major Governmental Fund.

The Board reports the following major Governmental Fund type:

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

The Board designates the fund balance as follows:

**Assigned.** The fund balance has not been designated by the Board for a specific purpose, but it has been separated based on the type of receipt.

**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 accounting records of the Board are maintained and the agency-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Position - Cash Basis. Receipts are recognized when received, and disbursements are recognized when paid from the fund of the Board. This differs from governmental GAAP, which requires agency-wide financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting, receipts are recorded when earned, and disbursements are recorded when a liability is incurred, regardless of the timing of related cash flows.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental GAAP, which requires 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 are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Disbursements are generally 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, 2016, 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, which 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.

**F. 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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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*.

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 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.

2. **Deposits and Investments**

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

3. **Contingencies and Commitments**

**Risk Management.** The Board is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Board, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) 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:

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

- A. Motor vehicle liability with vehicular pursuit, which is insured for the first \$5 million of exposure per accident with a self-insured retention of \$300,000 and \$300,000 corridor retention. Motor vehicle liability is insured for \$1 million with a self-insured retention of \$200,000, and with excess coverage of \$250 million. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles. There is a \$5,000 deductible for this coverage.
- 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 \$251 million, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$10 million for 120 days and after 120 days, if the property has not been reported, the limit decreases to \$5 million. 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. 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. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions.

**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.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD

NOTES TO THE FINANCIAL STATEMENTS  
(Concluded)

4. **Operating, Economic Development, and Assistance Disbursements**

Neb. Rev. Stat. § 2-3950 (Reissue 2012) designates the Board as the agency of the State of Nebraska responsible for carrying out the purposes of the Dairy Industry Development Act (Act). As made clear by § 2-3950, the purpose of the Act is to do the following:

*[M]aintain and expand domestic sales of milk and dairy products, develop new products and new markets, improve methods and practices relating to marketing or processing of milk and dairy products, and inform and educate consumers of sound nutritional principles including the role of milk in a balanced diet.*

The Act also authorizes the Board to sponsor joint projects with any private or public organization that is a qualified program (any State or regional dairy product promotion, research, or nutrition education program which is certified pursuant to 7 CFR 1150.153 as amended) to meet the objectives of the Act. The Board has entered into cooperative agreements with Midwest Dairy Association and Southwest Dairy Museum, Inc., non-profit organizations, to carry out the purpose of the Act. For the fiscal year ended June 30, 2016, the Board paid Midwest Dairy Association \$1,280,058 and Southwest Dairy Museum, Inc., \$44,052 pursuant to those agreements.

5. **Related Party**

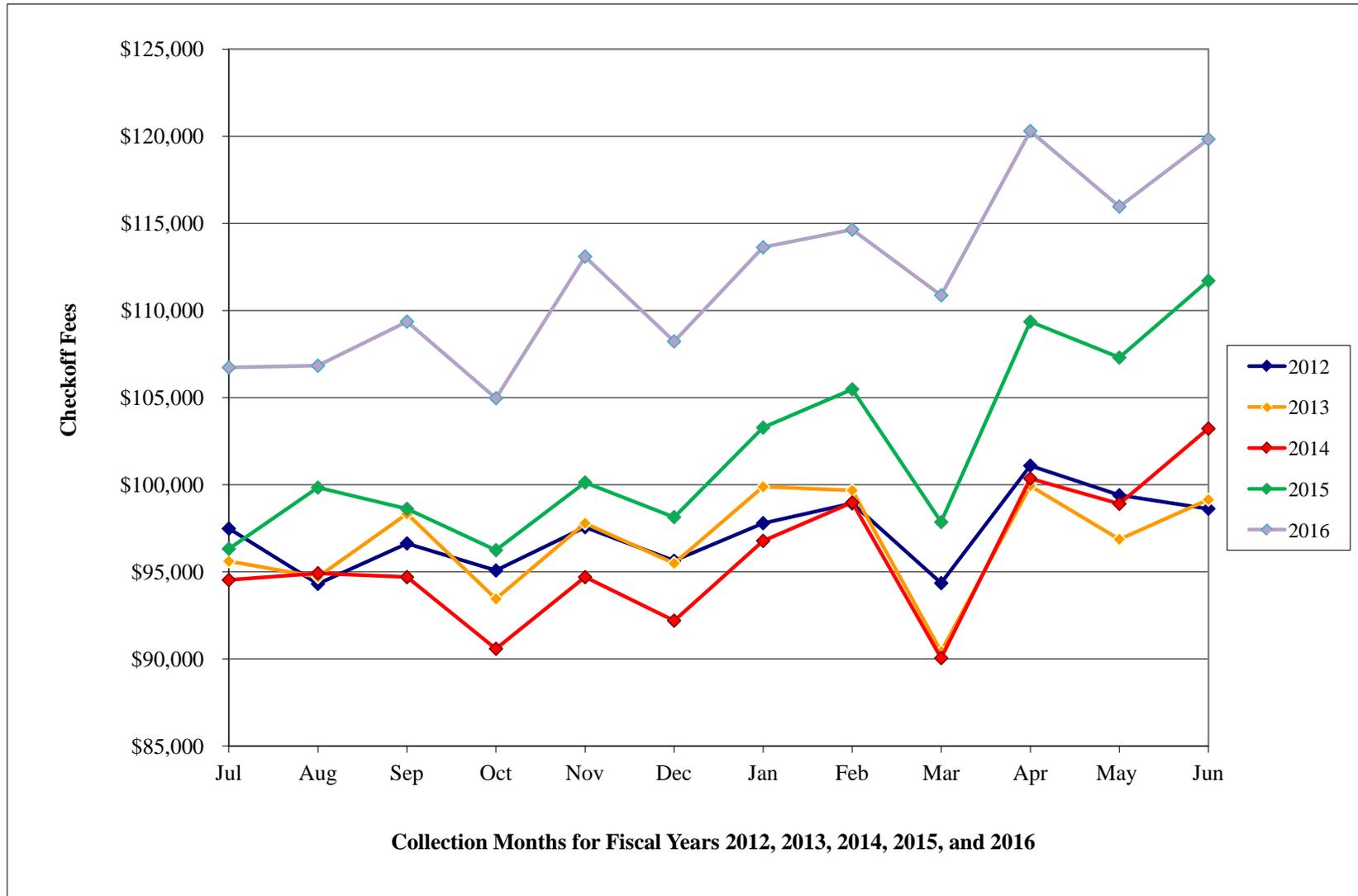
The Board contracts with the Midwest Dairy Association (Association), a related organization through similar control and management, to implement and administer programs intended to contribute to the betterment of Nebraska's dairy farmers and the state's dairy industry. Such programs include, but are not limited to: nutrition affairs, consumer confidence, strategic initiatives, Fuel Up to Play 60, producer relations and communications, and dairy product and economic research. The Association also provides the Board with administrative and reporting services. Payments under the contract amounted to \$1,280,058 for the period ended June 30, 2016.

The Association's Corporate Board is the governing body of the Association and has 34 voting members. One member of the Board, and the wife of one member of the Board serve on the Association's Corporate Board. The Nebraska Division Board of the Association provides input to the Association's Corporate Board. Two members of the Nebraska Dairy Industry Development Board also serve on the Nebraska Division Board of the Association, with one serving as an ex-officio, non-voting member. Two Nebraska Dairy Industry Development Board Members' wives also serve on the Nebraska Division Board of the Association.

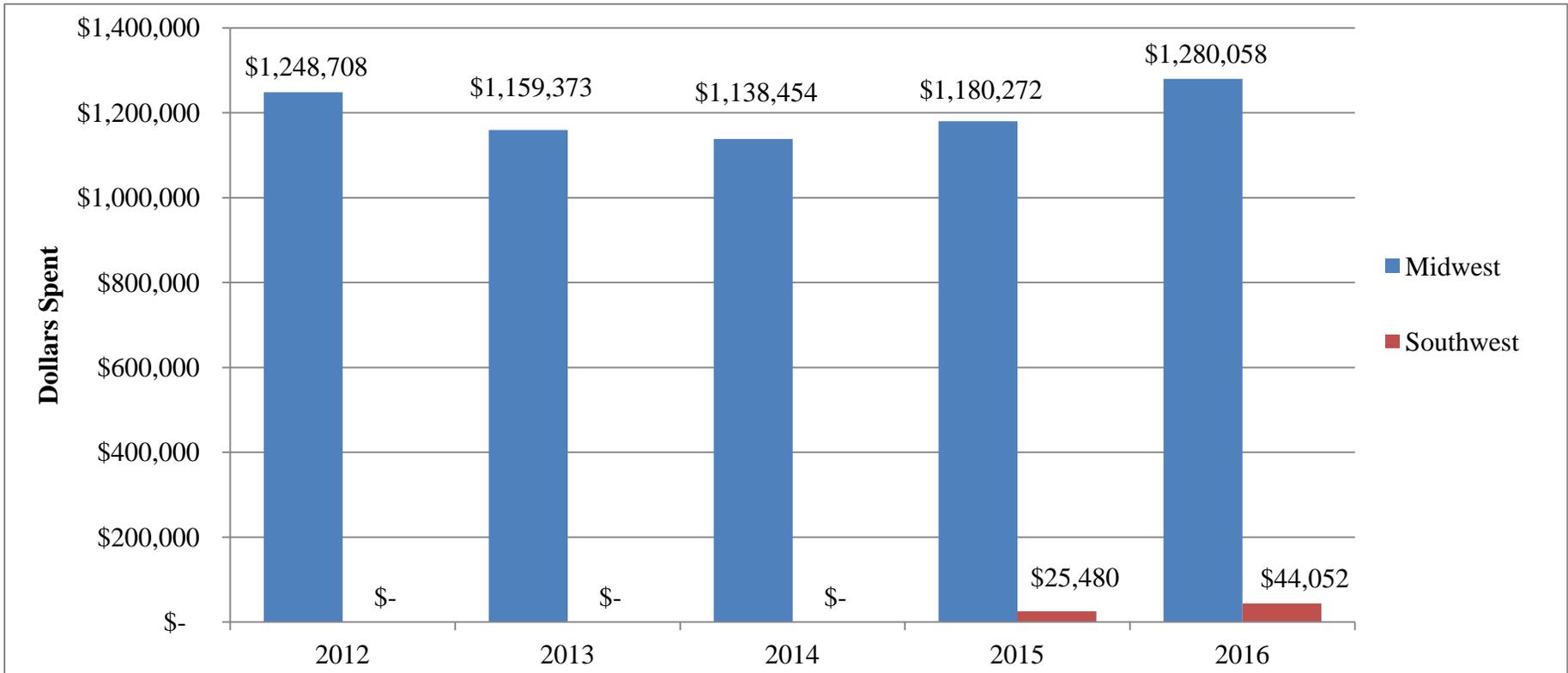
**NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD**  
**OTHER INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM**  
**BUDGET AND ACTUAL**  
**NEBRASKA DAIRY INDUSTRY DEVELOPMENT FUND**  
 For the Fiscal Year Ended June 30, 2016

PROGRAM:	ORIGINAL/FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Dairy Industry Development Board	\$ 1,400,568	\$ 1,337,509	\$ 63,059
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 1,400,568</b>	<b>\$ 1,337,509</b>	<b>\$ 63,059</b>

**NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD**  
**SCHEDULE OF CHECKOFF RECEIPT TREND**  
 For the Years Ended June 30, 2012, 2013, 2014, 2015 and 2016

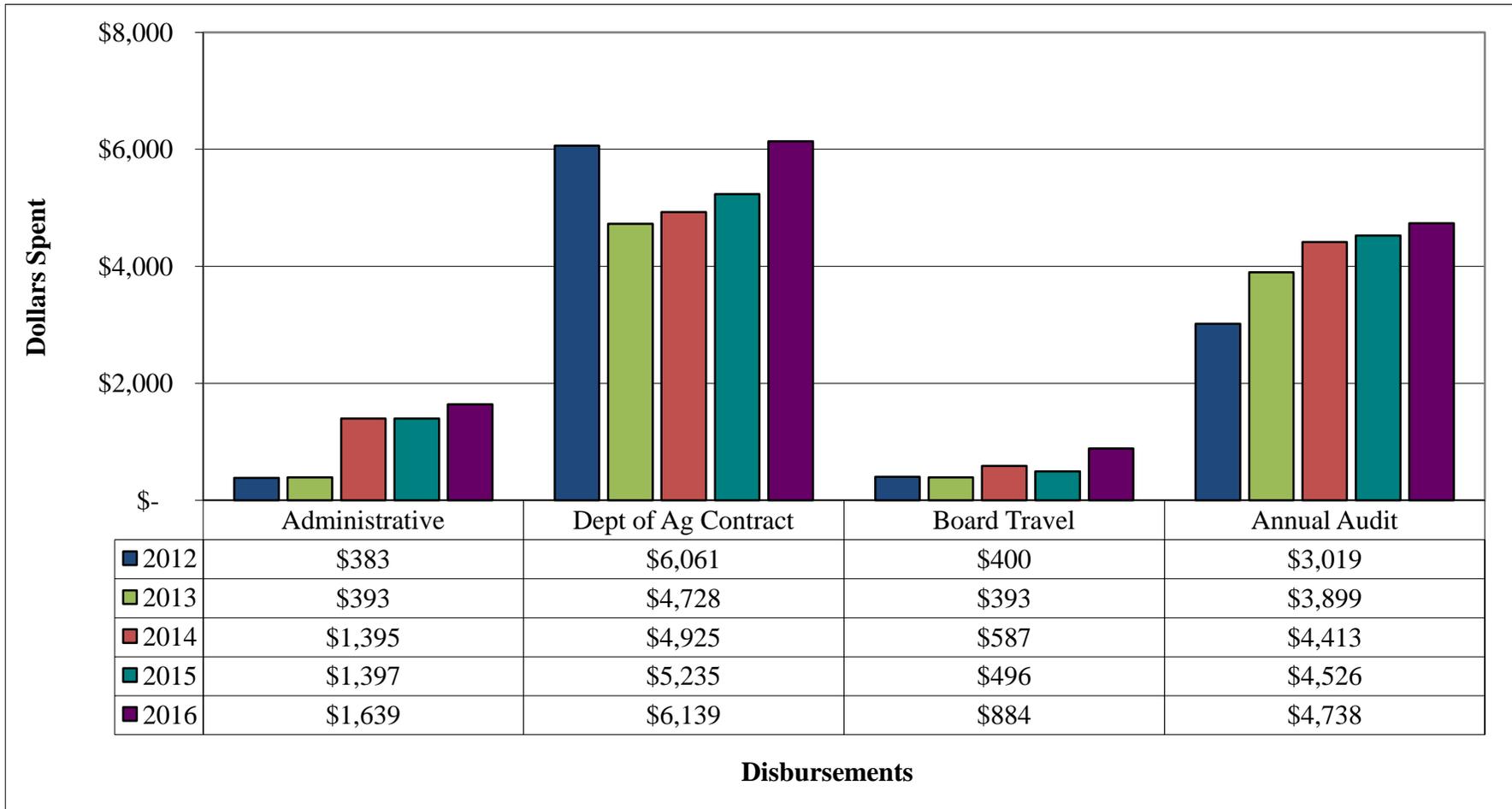


**NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD**  
**SCHEDULE OF DAIRY CONTRACT DISBURSEMENTS BY FISCAL YEAR**  
 For the Fiscal Year Ended June 30, 2012, 2013, 2014, 2015, and 2016



Note: During fiscal year 2015, the Board entered into a contract with Southwest Dairy Museum, Inc. effective November 13, 2014, due to a producer's request to have their promotion checkoff dollars directed to Southwest Dairy Museum, Inc. rather than Midwest Dairy Association. According to the contracts, the payments to Southwest Dairy Museum are the checkoff dollars received less a 1% administrative service fee, which is paid to Midwest Dairy Association since it is no longer the only qualified program funded by the Board. The fiscal year 2015 and fiscal year 2016 payments to Midwest Dairy Association include \$257 and \$445, respectively, in administrative service fees.

NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD  
**SCHEDULE OF OTHER DISBURSEMENTS BY FISCAL YEAR**  
 For the Fiscal Years Ended June 30, 2012, 2013, 2014, 2015, and 2016





## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DAIRY INDUSTRY DEVELOPMENT BOARD  
**INDEPENDENT AUDITOR'S 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, 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, the 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, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated October 5, 2016. The report was modified to emphasize that the financial statements present only the fund of the Board. The report notes the financial statements were prepared on the basis of cash receipts and disbursements.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and correct, 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 Board's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

### **Additional items**

We noted a certain additional item that we reported to the Board in the Comment and Recommendation Section of this report as Conflict of Interest.

### **Board's Response to Findings**

The Board's response to the finding identified in our audit is described in the Comment Section of the report. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



October 5, 2016

Kris Kucera, CPA, CFE  
Audit Manager