

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 16
JULY 1, 2009 THROUGH JUNE 30, 2010**

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the Auditor of Public Accounts.**

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Issued on September 21, 2010

TABLE OF CONTENTS

	<u>Page</u>
Financial Section	
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 7
Basic Financial Statements:	
Statement of Net Assets – Cash Basis	8
Statement of Activities – Cash Basis	9
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balance – Governmental Funds	10
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis	
Fund Balance – Governmental Funds	11 - 12
Notes to Financial Statements	13 - 19
Required Supplementary Information:	
Budgetary Comparison Schedule – Budget and Actual – General Fund	
Cash Receipts According to Source and Purpose	20
Budgetary Comparison Schedule – Budget and Actual – General Fund	21 - 22
Notes to Required Supplementary Information	23
Supplementary Information:	
County Treasurer Funds – General Fund	24 - 25
 Government Auditing Standards and OMB Circular A-133 Section	
Schedule of Expenditures of Federal Awards	26
Notes to Schedule of Expenditures of Federal Awards	27
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>	28 - 29
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	30 - 31
Schedule of Findings and Questioned Costs	32 - 33
Summary Schedule of Prior Audit Findings	34



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EDUCATIONAL SERVICE UNIT NO. 16

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Service Unit No. 16
Ogallala, Nebraska:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Educational Service Unit No. 16 (ESU No. 16), as of and for the year ended June 30, 2010, which collectively comprise ESU No. 16's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Educational Service Unit No. 16's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, ESU No. 16 prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective assets and liabilities arising from cash transactions of the governmental activities, each major fund, and the aggregate remaining fund information of Educational Service Unit No. 16, as of June 30, 2010, and its respective receipts collected and disbursements paid during the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2010, on our consideration of Educational Service Unit No. 16's internal control over financial reporting and 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, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison information on pages 3 through 8 and 21 through 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Other supplementary information on pages 25 and 26 is included for additional analysis and is not required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required and other supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Educational Service Unit No. 16 basic financial statements. The accompanying supplementary information on pages 25 and 26 and schedule of expenditures of Federal awards on page 27 are presented for purposes of additional analysis. The schedule of expenditures of Federal awards is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

Signed Original on File

September 15, 2010

Deann Haeffner, CPA
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT NO. 16

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Educational Service Unit No. 16's (ESU No. 16) financial performance provides an overview of ESU No. 16's financial activity for the fiscal year ended June 30, 2010. Please read it in conjunction with ESU No. 16's financial statements, notes to the financial statements, and other supplemental information, which immediately follow this section.

This is the seventh year of implementing the new reporting model for ESU No. 16, as promulgated by the Governmental Accounting Standards Board (GASB). Certain comparative information between the current year and the prior year is required to be presented in this analysis.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2009 - 2010 are as follows:

1. The total fund equity arising from cash transactions was \$3,343,509 at June 30, 2010; an increase of \$86,349 from the prior fiscal year.
2. Total receipts of the governmental funds were \$7,388,703; an increase of 2.54% from the prior year's total receipts.
3. Disbursements for ESU No. 16's general funds were \$7,302,354 or a decrease of 1.61% from the prior year levels, but within ESU No. 16's budget estimates.
4. Outlays for new capital assets, including facility improvements, vehicle acquisition, and equipment upgrades and/or replacement, were \$212,050; a 70.41% decrease from the prior year, but within ESU No. 16's budget estimates.

Capital asset inventory changes included:

- deletion of cars; outdated or damaged equipment, computers, computer hardware, and disk drives.
- capital asset inventory reduction occurred in equipment for Special Education, including assistive technology equipment, supplies, and outdated furniture.
- capital asset inventory increases were due to the replacement of outdated equipment.

Facility improvements included:

- installation of screens, projectors, and light fixtures at the central office in Ogallala
- remodeling of the Central Office in Ogallala
- replaced cabinetry at ESU No. 16 Preschool Offices in Ogallala
- engineering design of parking lot at Ogallala Central Office
- general upkeep items

5. Actual receipts on interest were \$27,166 below the budgeted interest receipts.

EDUCATIONAL SERVICE UNIT NO. 16

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

6. ESU No. 16 began the year with \$1,444,000 in Certificates of Deposit (CDs) and ended the year with \$1,534,000 in CDs; a \$90,000 increase. However, interest rates went from an average of 2.74% at the beginning of the fiscal year to an average of 1.40% at the end of the fiscal year causing ESU No. 16 to cash in some CDs.
7. Core Service dollars increased a total of \$114,230; or 14.8%, from the prior fiscal year.
8. The Federal funds category fluctuates annually according to the payment schedule for each grant. Grant receipts and disbursements are often split between two fiscal years making the budgeted amounts estimates only.
9. This was the eighth year ESU No. 16 billed Medicaid for Administrative costs. Budgeted receipts were estimated at \$15,597 with actual receipts of \$104,165.
10. This was the third year ESU No. 16 operated the Southwest Nebraska Distance Education Network (SWNDEN). Receipts for the program totaled \$723,000 plus \$252,647 in E-Rate for a total of \$975,647. Disbursements totaled \$1,190,997. The second E-Rate reimbursement for 2009-2010 did not arrive prior to the end of the fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This financial section of the annual report consists of three parts:

1. Management's discussion and analysis (this section),
2. Financial statements including notes to the financial statements, and
3. Supplemental information.

The financial statements consist of two different kinds of statements that present different views of ESU No. 16's financial activities.

- Financial statements provide both short-term and long-term information about ESU No. 16's overall financial status. ESU No. 16's statements include the Statement of Net Assets and Statement of Activities.
- The remaining statements are fund financial statements that focus on reporting ESU No. 16's operations in more detail than the financial statements.

The financial statements also include notes that explain some of the information in the financial statements and also provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements.

EDUCATIONAL SERVICE UNIT NO. 16

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Educational Service Unit No. 16 Statements

ESU No. 16's statements report information about ESU No. 16 as a whole, using the cash basis of accounting. The two basic financial statements report ESU No. 16's net assets and how they have changed from the prior fiscal year. Net assets (the difference between ESU No. 16's assets and liabilities) are one way to measure ESU No. 16's financial health and/or financial position.

- Over time, increases or decreases in ESU No. 16's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess ESU No. 16's overall health, you need to consider additional non-monetary factors such as changes in ESU No. 16's property tax base and the condition of buildings and other facilities.

In ESU No. 16's financial statements, activities are categorized as *Governmental activities*.

Governmental activities: All of the basic services are included here, such as special education, transportation, and administration.

Fund Financial Statements

The fund financial statements provide more detailed information about ESU No. 16's funds, focusing on its most significant or "major" funds – not ESU No. 16 as a whole. Funds are accounting devices that ESU No. 16 uses to keep track of specific sources of funding and spending on particular programs. All funds are required by State law.

Educational Service Unit No. 16 maintains:

Governmental funds: All of ESU No. 16's basic services are included in governmental funds, which generally focus on

- how cash and other financial assets that can readily be converted to cash flow in and out, and
- the balances left at year end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance ESU No. 16 programs.

EDUCATIONAL SERVICE UNIT NO. 16

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF ESU NO. 16 AS A WHOLE

The net assets of ESU No. 16 are summarized as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Cash and Investments	\$ 3,343,509	\$ 3,257,160
Net Assets	\$ 3,343,509	\$ 3,257,160

ESU No. 16's total net assets were \$3,343,509 as of June 30, 2010; the entire amount is unrestricted funds.

Total net assets increased by \$86,349 for the year ended June 30, 2010; an increase of 2.65% compared to the prior year.

Governmental Activities

The financial activities of ESU No. 16 for the year ended June 30, 2010, are summarized as follows:

	<u>Disbursements</u>	<u>Program Receipts</u>	<u>Net Disbursements</u>
Primary Government	\$ 7,302,354	\$ 6,174,163	\$ 1,128,191

General receipts were \$1,214,540 resulting in an increase of \$86,349 in net assets. Property taxes were the largest source of general receipts in the amount of \$792,953.

Educational Service Unit No. 16 primarily relies on local property taxes, special education funding, Distance Education contracts, and grants for funding its governmental program activities with 55% of receipts coming from local sources and 45% from State/Federal grants.

ESU No. 16's changes in net assets can be directly attributed to several factors:

- Increases in assessed valuation led to an increase in property tax receipts of \$87,909 over the prior year.
- Increases in special education funding were a direct result of increases in school district contracts. However, due to a 2008-2009 error in billing, schools were credited a total of \$97,031 during fiscal year 2009-2010.

Educational Service Unit No. 16's major governmental activity is education.

The cost of all governmental activities this year was \$7,302,354 compared to \$7,421,720 the previous year; a decrease of \$119,366.

EDUCATIONAL SERVICE UNIT NO. 16

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Education represents 100% of the total cost of all governmental activities of ESU No. 16.

Increases in assessed valuation led to a projected increase in receipts from property taxes. Application of .0015000 levy in 2008-2009 and .0014971 levy in 2009-2010 yielded \$728,148 and \$806,670, respectively. The difference between the 2008-2009 and 2009-2010 property tax request was \$78,522; an increase of 10.78%.

Actual property tax receipts from 2008-2009 to 2009-2010 increased \$87,909 or 12.47%.

FINANCIAL ANALYSIS OF ESU NO. 16'S FUNDS

On June 30, 2010, ESU No. 16's governmental funds reported combined fund balances of \$3,343,509, which is \$86,349 more than last year's ending fund balances of \$3,257,160.

General Fund Budgetary Highlights

- Actual local revenues were below budget primarily due to use of cash reserve to supplement the budget.
- During the fiscal year ended June 30, 2010, ESU No. 16 added a total of \$118,482 in new fixed assets to its inventory.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget for the year ending June 30, 2011, has been prepared and approved by the Board of Directors of Educational Service Unit No. 16. This budget includes several economic conditions that will produce reasonably certain results:

- The property tax increase will be used to maintain the viability of ESU No. 16.
- ESU No. 16 will receive additional Federal funds.
- ESU No. 16 will receive a reduction of \$265,998 funding for CORE Services from the State of Nebraska.

CONTACTING ESU NO. 16'S FINANCIAL MANAGEMENT

This financial report is designed to provide Educational Service Unit No. 16's citizens, taxpayers, customers, investors and creditors with a general overview of ESU No. 16's finances and to demonstrate ESU No. 16's accountability for the money it receives. Questions concerning any of the information provided in this report or to request additional information please contact ESU No. 16 Administrator, P O Box 915, Ogallala, Nebraska 69153.

EDUCATIONAL SERVICE UNIT NO. 16

STATEMENT OF NET ASSETS - CASH BASIS

June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,789,777
Investments (Note 3)	7,513
Certificates of Deposit	1,534,000
Funds held by County Treasurer	<u>12,219</u>
 Total Assets	 <u><u>\$ 3,343,509</u></u>
 NET ASSETS	
Unrestricted	<u>3,343,509</u>
 Total Net Assets	 <u><u>\$ 3,343,509</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 16

STATEMENT OF ACTIVITIES - CASH BASIS

For the Fiscal Year Ended June 30, 2010

	<u>Cash</u>	<u>Program Cash Receipts</u>		<u>Net Receipts (Disbursements) and Changes in Net Assets</u>
	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
FUNCTIONS/PROGRAMS:				
Primary Government				
Governmental Activities:				
Education	\$ 7,302,354	\$ 2,987,159	\$ 3,187,004	\$ (1,128,191)
Total Governmental Activities	<u>\$ 7,302,354</u>	<u>\$ 2,987,159</u>	<u>\$ 3,187,004</u>	<u>(1,128,191)</u>
General Receipts:				
Taxes				792,953
Interest				22,834
Other Local & Non-Program Receipts				<u>398,753</u>
Total General Receipts				<u>1,214,540</u>
Change in Net Assets				86,349
Net Assets - Beginning				<u>3,257,160</u>
Net Assets - Ending				<u>\$ 3,343,509</u>

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

EDUCATIONAL SERVICE UNIT NO. 16

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUNDS**

June 30, 2010

	General/Total Governmental Funds
ASSETS:	
Cash and Investments	\$ 3,331,290
Funds held by County Treasurer	<u>12,219</u>
TOTAL ASSETS	<u>\$ 3,343,509</u>
FUND BALANCE:	
Unreserved	2,769,509
Unreserved-Designated	<u>574,000</u>
TOTAL CASH BASIS FUND BALANCE	<u>\$ 3,343,509</u>

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

EDUCATIONAL SERVICE UNIT NO. 16

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCE
GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2010

	General Fund
	<u> </u>
RECEIPTS:	
LOCAL SOURCES:	
Local District Taxes	\$ 792,953
Special Education Tuition	2,185,883
SWNDEN Program	723,000
Interest Received	22,834
Other Local Receipts	78,276
Total Local Sources	<u>3,802,946</u>
STATE SOURCES:	
Special Education	731,825
Core Services	884,054
Other State Receipts	270,534
Total State Sources	<u>1,886,413</u>
FEDERAL SOURCES:	
Title I	280,974
Title II	166,931
Vocational Education	46,402
MAAPS	104,165
Parents Encouraging Parents	36,375
FLAP Grant	163,103
ECSE Prof Development	77,714
Federal Administrative Costs	13,850
Other Federal Funds	411,077
Total Federal Sources	<u>1,300,591</u>
TOTAL PROGRAM RECEIPTS	<u>6,989,950</u>
NON-PROGRAM RECEIPTS:	
Cooperative Purchasing	205,370
Section 125 Withholdings	73,802
Other Non-Program Receipts	119,581
Total Non-Program	<u>398,753</u>
TOTAL RECEIPTS	<u>7,388,703</u>
DISBURSEMENTS:	
PROGRAM:	
Current:	
Special Education	1,012,266
Speech/Language Pathologist	864,164
Resource Teacher	171,893
Vision/Assistive Technology Consultant	18,874
Health Services	2,193
Psychologist	221,555
High Ability Learner Consultant	11,367
Staff Development	264,068
Instructional Materials	81,011

(Continued)

EDUCATIONAL SERVICE UNIT NO. 16

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCE
GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2010

	General Fund
	<u> </u>
DISBURSEMENTS (Continued):	
Media Technology	164,192
Internet	205,977
Distance Learning	38,529
Administration	283,951
Custodial	78,511
Maintenance	22,257
Early Childhood Professional Development	86,687
Assistive Technology/Art/Videophone	74,300
Collaborative Staff Development	33,619
State Grants	81,037
Preschool	210,775
Applegate Grant	14,785
Other Federal Programs	439,507
Carl Perkins Grant	44,788
Title I	382,547
NCLB Title Grants	181,761
EDN Service Coordinator	97,755
SWNDEN Program	1,190,997
Core Services	25,232
Deaf Education	237,400
Capital Outlay:	
Buildings and Sites	198,113
Vehicle Acquisition	13,937
Total Program	<u>6,754,048</u>
NON-PROGRAM:	
Current:	
Administrative Services	161,228
Cooperative Purchasing	187,965
Section 125 Payments to Plan Administrator	77,329
Non-Program Miscellaneous	121,784
Total Non-Program	<u>548,306</u>
TOTAL DISBURSEMENTS	<u>7,302,354</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	86,349
CASH BASIS FUND BALANCE - BEGINNING	<u>3,257,160</u>
CASH BASIS FUND BALANCE - ENDING	<u>\$ 3,343,509</u>
The accompanying notes are an integral part of the financial statements.	(Concluded)

EDUCATIONAL SERVICE UNIT NO. 16

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2010

1. Summary of Significant Accounting Policies

A. Organization

Educational Service Unit No. 16 (ESU No. 16) operates under a board/administrator form of government. ESU No. 16 provides services to school districts in the following counties as identified by State law: Lincoln, Keith, Perkins, Arthur, McPherson, Logan, Grant, Hooker, and Thomas.

B. Reporting Entity

ESU No. 16 is a governmental entity established under and governed by the laws of the State of Nebraska. In evaluating how to define ESU No. 16 for financial reporting purposes, all potential component units have been considered. The basic – but not the only – criteria for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Based upon the above criteria, the accompanying combined financial statements include all funds for which ESU No. 16 has oversight responsibility.

Basis of Accounting – ESU No. 16 prepares its financial statements on the cash basis, which is consistent with the Commissioner of Education and the Nebraska Department of Education’s requirements. Under the cash basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial information in accordance with generally accepted governmental accounting standards.

Basis of Presentation – On September 1, 2003, ESU No. 16 adopted the provisions of Statement No. 34 (“Statement 34”) of the Government Accounting Standards Board (GASB) “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” Statement 34 established standards for external financial reporting for all state and local government entities, which includes government-wide financial statements, fund financial statements, and the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements – The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and any component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental receipts, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct disbursements of a given function or segment are 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. Taxes and other items not properly included among program receipts are reported instead as general receipts.

Separate financial statements are provided for governmental funds with any major individual governmental funds reported as separate columns in the fund financial statements, if applicable. The major, and only, fund for ESU No. 16 is the General Fund.

Fund Types – The accounts of ESU No. 16 are organized on the basis of funds which are grouped into the following fund type:

Governmental Fund Types:

- **General Fund** – This fund is the operating fund of ESU No. 16. It is used to account for all financing resources except those required to be accounted for in other funds.

Capital Assets – Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets were not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Property Taxes – The tax levied for all political subdivisions in each county are certified by the County Board on or before October 15. Real estate and personal property taxes are due and become an enforceable lien on property on December 31. The first half of real estate and personal property taxes become delinquent on May 1 and the second half becomes delinquent September 1 following the levy date. Delinquent taxes bear a statutory rate (currently 14%) of interest. Property taxes levied are recognized when received from each county.

Compensated Absences – As a result of the use of the cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the government-wide or fund financial statements. Expenditures/expenses related to compensated absences are recorded when paid.

Net Asset Classification

Government-Wide Statements:

Net Assets are displayed in two components:

- a) Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation. ESU No. 16 had no restricted net assets.
- b) Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is ESU No. 16’s policy to first use any restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balances are further classified as reserved or unreserved. Reservations of fund balances are established to identify the existence of assets that are not available for subsequent year appropriations or have been legally segregated for specific purposes. ESU No. 16 had no reservation of fund balance.

Investments – Investments are reported at fair value. Certificates of Deposit (CDs) are recorded at cost (see Comment Number 2 in the separately dated Management Letter for additional information on CD valuations).

EDUCATIONAL SERVICE UNIT NO. 16

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **Property Tax Request**

ESU No. 16 requested taxes for the year ended June 30, 2010, in the amount of \$806,670 for the General Fund.

ESU No. 16's tax levy is as follows:

<u>Fiscal Year</u>	<u>Valuation Of Property</u>	<u>Tax Levy Per \$100 Valuation</u>
2009-2010	\$ 5,388,324,036	.014971

3. **Cash and Investments**

Cash and Cash Equivalents, Investments, and CDs are all carried at cost. At June 30, 2010, ESU No. 16's carrying amount of cash and cash equivalents, investments, and CDs was \$3,331,290. The bank balance for all funds totaled \$3,459,014. The deposits of ESU No. 16 were covered by Federal Depository Insurance Corporation (FDIC) or secured by collateral held by ESU No. 16's agent in ESU No. 16's name.

State statute authorizes ESU No. 16's Board to invest funds in securities the nature of which individuals of prudence, discretion, and intelligence acquire or retain in dealing with the property of others.

The Nebraska Liquid Asset Fund (NLAF) was established in March 1988 through the Interlocal Cooperation Act. NLAF was established to assist Nebraska school districts, educational service units, and technical community colleges with the investment of their available cash reserves. NLAF's activities are directed by a Board of Trustees, all of whom are representatives of Nebraska public agencies. The NLAF Board of Trustees contracts for services with professional service providers. The objective of NLAF is to provide its owner members with a conservative and effective investment alternative tailored to the needs of its members. NLAF portfolio management generally follows established investment criteria developed by the Securities and Exchange Commission for money market funds designed to offer acceptable yield while maintaining liquidity. NLAF is not registered with the Securities and Exchange Commission as an investment company. ESU No. 16 had \$7,513 invested with NLAF as of June 30, 2010.

NLAF's short-term investment portfolio consists of cash and short-term investments valued at amortized cost, which is determined to approximate fair value due to the short-term nature of the instruments. This involves valuing a portfolio security at its original cost on the date of purchase and thereafter amortizing any premium or discount on the straight-line basis to maturity. The amount of premium or discount amortized to income under the straight-line method does not differ materially from the amount which would be amortized to income under the interest method. Procedures are followed to maintain a constant net asset value of \$1.00 per unit in NLAF.

EDUCATIONAL SERVICE UNIT NO. 16

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Cafeteria Plan**

ESU No. 16 provides for a qualifying “Cafeteria Plan” within the meaning of Section 125 of the Internal Revenue Code of 1986, as amended, and that the benefits which an employee elects to receive under the Cafeteria Plan be includable or excludable from the employee’s income under Section 125(a) and other applicable sections of the Internal Revenue Code of 1986, as amended. At June 30, 2010, \$14,138 of the Section 125 book balance represented monies due ESU No. 16 in repayment of its prior funding contributions to the Cafeteria Plan with the remaining \$1,961 representing funds held by ESU No. 16 until proper claims are filed by the employees.

5. **Retirement Plan**

Plan Description. ESU No. 16, Ogallala, Nebraska, contributes to the Nebraska School Employees Retirement System (NSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement Systems (NPERS). NSERS provides retirement and disability benefits to plan members and beneficiaries. Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2009) – the School Employees Retirement Act – establishes benefit provisions. NPERS issues a publicly available financial report that includes financial statements and required supplementary information for NPERS. That report may be obtained by writing to NPERS, 1221 N Street, Suite 325, P.O. Box 94816, Lincoln, Nebraska 68509-4816 or by calling 1-800-245-5712.

Funding Policy. Plan members were required to contribute 7.28% of their annual salary from September 1, 2008, through August 31, 2009, and 8.28% of their annual salary from September 1, 2009, through August 31, 2010. ESU No. 16 is required to contribute 101% of the employee contribution. During the fiscal year 65 ESU No. 16 employees contributed \$215,305 to the NSERS plan and ESU No. 16 contributed \$217,458. In addition to the NSERS retirement plan, ESU No. 16 offered its employees the opportunity to participate in an elective, tax-deferred 403(b) retirement plan. ESU No. 16 provided 403(b) employer contributions *only* to the participant account of the ESU No. 16 Administrator and not to the participant accounts of any other ESU No. 16 employees. During the fiscal year five ESU No. 16 employees contributed \$19,327 to their 403(b) participant accounts and ESU No. 16 additionally contributed \$11,502 to the 403(b) participant account of the ESU No. 16 Administrator.

6. **Film Contracts on Yearly Basis**

ESU No. 16 enters into a number of agreements for the rental of films each year. These agreements fluctuate in total annually. The cost is based on a percentage of the purchase price of each film. The percentage charged is determined by each individual vendor. ESU No. 16 can choose to either add or delete individual film titles annually resulting in a new rental cost.

EDUCATIONAL SERVICE UNIT NO. 16

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. Designated Fund Balances

ESU No. 16 has designated \$574,000 in CDs for specific needs, including: (1) \$180,000 for future unemployment compensation needs. ESU NO. 16 has adopted the reimbursable option of the State's Unemployment Compensation Insurance Program. Under this option, a claimant would receive unemployment compensation from the State. ESU No. 16 is liable to reimburse the State for the actual amount of the claim. The \$180,000 in CDs ESU No. 16 designated to establish a reserve for this contingent liability; (2) \$90,000 reserve for future equipment needs; and (3) \$304,000 reserve for future building needs.

8. Cooperative Purchasing

ESU No. 16 participates in a consolidated state-wide program on behalf of school districts within the boundaries of ESU No. 16 for the purchase of administrative instructional supplies, equipment, and personal property. This program is operated and administered by the personnel of Educational Service Unit No. 17 (ESU No. 17) in Ainsworth, Nebraska. Cooperative purchasing revenues represent monies received from school districts. Cooperative purchasing disbursements represent payments to ESU No. 17.

9. Capital Leases Payable

Changes to ESU No. 16's commitment under a 0% interest lease agreement for computer equipment and amounts to provide for annual payments are as follows:

Balance July 1, 2009	\$	64,228
Payments		32,114
Purchases		-
Balance June 30, 2010	\$	<u>32,114</u>
Future Payments:		
Year		Total
2011	\$	<u>32,114</u>
Total Payments		32,114
Less Interest		-
Present Value of Future		
Minimum Lease Payments	\$	<u>32,114</u>

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. Contingencies and Commitments

Risk Management. ESU No. 16 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. ESU No. 16 has chosen to purchase insurance for:

A. General Liability with the following limits –

- \$5,000,000-Each Occurrence Limit
- \$5,000,000-General Aggregate Limit
- \$1,000,000-Personal and Advertising Injury Limit
- \$5,000-Medical Expense Limit (Any One Person)

B. Property – Various Limits and Coverages.

C. Employee Dishonest – \$1,000,000 Limit (Each and Every Loss).

D. Auto – \$5,000,000 Combined Single Limit (Each Accident); \$500 deductible comprehensive coverage for each vehicle.

E. Errors and Omissions – \$5,000,000 policy aggregate with a \$2,500 deductible.

F. Workers Compensation – Coverage as required by Nebraska law.

G. Employer's Liability – \$2,500,000 Each Accident

EDUCATIONAL SERVICE UNIT NO. 16

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
GENERAL FUND CASH RECEIPTS ACCORDING TO SOURCE AND PURPOSE
 For the Fiscal Year Ended June 30, 2010

	2010		Variance with Final Budget Positive (Negative)
	Original/Final Budget	Actual Revenues	
RECEIPTS:			
Local:			
Local district taxes	\$ 806,670	\$ 792,953	\$ (13,717)
Special Education	2,315,088	2,185,883	(129,205)
SWNDEN Program	723,000	723,000	-
Interest	50,000	22,834	(27,166)
Other	98,404	78,276	(20,128)
Total Local Receipts	<u>3,993,162</u>	<u>3,802,946</u>	<u>(190,216)</u>
State:			
Special Education - School Age	782,334	731,825	(50,509)
Core Services	884,054	884,054	-
Other	310,415	270,534	(39,881)
Total State Receipts	<u>1,976,803</u>	<u>1,886,413</u>	<u>(90,390)</u>
Federal:			
Title I	331,528	280,974	(50,554)
Other	2,532,717	1,019,617	(1,513,100)
Total Federal Receipts	<u>2,864,245</u>	<u>1,300,591</u>	<u>(1,563,654)</u>
Non-Program:			
Other	311,000	398,753	87,753
Total Non-Program	<u>311,000</u>	<u>398,753</u>	<u>87,753</u>
GRAND TOTAL OF ALL RECEIPTS	<u>\$ 9,145,210</u>	<u>\$ 7,388,703</u>	<u>\$ (1,756,507)</u>

See Independent Auditor's Report.

EDUCATIONAL SERVICE UNIT NO. 16

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2010

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
RECEIPTS			
Local	\$ 3,993,162	\$ 3,802,946	\$ (190,216)
State	1,976,803	1,886,413	(90,390)
Federal	2,864,245	1,300,591	(1,563,654)
Non-Program	311,000	398,753	87,753
Total Receipts	9,145,210	7,388,703	(1,756,507)
DISBURSEMENTS			
Special Education Programs	1,231,474	1,012,266	219,208
Speech/Language Pathologist	897,466	864,164	33,302
Production and Media Services	195,831	171,893	23,938
Vision/Assistive Technology Consultant	21,925	18,874	3,051
Health Services	7,990	2,193	5,797
Psychologist	254,146	221,555	32,591
High Ability Learner Consultant	15,528	11,367	4,161
Staff Development	276,160	264,068	12,092
Instructional Materials	99,013	81,011	18,002
Media Technology	171,069	164,192	6,877
Internet	235,000	205,977	29,023
Distance Learning	38,529	38,529	-
Administration	382,682	283,951	98,731
Custodial	115,666	78,511	37,155
Maintenance	50,992	22,257	28,735
Early Childhood Professional Development	90,500	86,687	3,813
Assistive Technology/Art/Videophone	75,965	74,300	1,665
Collaborative Staff Development	46,658	33,619	13,039
State Grants	145,650	81,037	64,613
Preschool	286,732	210,775	75,957
Applegate Grant	25,000	14,785	10,215
Other Federal Programs	1,258,123	439,507	818,616
Carl Perkins Grant	46,891	44,788	2,103
Title I	479,646	382,547	97,099
NCLB Title Grants	416,830	181,761	235,069
EDN Service Coordinator	100,401	97,755	2,646
SWNDEN Program	1,292,642	1,190,997	101,645
Core Services	58,456	25,232	33,224

(Continued)

EDUCATIONAL SERVICE UNIT NO. 16

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2010

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
DISBURSEMENTS (Continued)			
ESU No. 16 Scholarships	250	-	250
Deaf Education	356,129	237,400	118,729
Capital Outlay:			
Buildings and Sites	250,000	198,113	51,887
Capital Outlay Vehicle Acquisition	18,000	13,937	4,063
Non-Program:			
Current:			
Administrative Services	168,988	161,228	7,760
Cooperative Purchasing	252,257	187,965	64,292
Section 125 Payments to Plan Administrator	71,000	77,329	(6,329)
Non-Program Miscellaneous	-	121,784	(121,784)
Total Disbursements	<u>9,433,589</u>	<u>7,302,354</u>	<u>2,131,235</u>
EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS	(288,379)	86,349	374,728
FUND BALANCE - BEGINNING	<u>3,257,160</u>	<u>3,257,160</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 2,968,781</u>	<u>\$ 3,343,509</u>	<u>\$ 374,728</u>

See Independent Auditor's Report.

(Concluded)

EDUCATIONAL SERVICE UNIT NO. 16

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2010

BUDGETARY COMPARISON SCHEDULES

Budget

Budget Process and Property Taxes – ESU No. 16 follows these procedures in establishing the budgetary data reflected in the accompanying statements:

- Public hearings are conducted at a public meeting to obtain taxpayer comments.
- Prior to September 20, the budget is legally adopted by the Board through passage of a resolution. Total expenditures may not legally exceed total appropriations. Appropriations lapse at year end and any revisions require Board approval.
- The property tax requirement resulting from the budget process is utilized by the County Assessors to establish the tax levy, which attaches as an enforceable lien on property as of December 31.

EDUCATIONAL SERVICE UNIT NO. 16

COUNTY TREASURER FUNDS - GENERAL FUND

For the Fiscal Year Ended June 30, 2010

(Unaudited)

	<u>Arthur</u>	<u>Chase</u>	<u>Cherry</u>	<u>Deuel</u>	<u>Garden</u>	<u>Grant</u>	<u>Hayes</u>	<u>Hooker</u>
BALANCES ON HAND								
July 1, 2009 *	\$ 501	\$ 352	\$ 802	\$ 722	\$ 1	\$ 44	\$ 24	\$ 4,493
REVENUES								
Net Tax Collections (includes net property tax, motor vehicle prorated, homestead exemption, and property tax credit collections)	16,898	3,936	30,290	11,711	118	20,994	933	26,051
DISBURSEMENTS								
Remitted to ESU 16	<u>17,333</u>	<u>4,233</u>	<u>30,806</u>	<u>12,361</u>	<u>118</u>	<u>21,018</u>	<u>956</u>	<u>30,361</u>
BALANCES ON HAND								
June 30, 2010	<u>\$ 66</u>	<u>\$ 55</u>	<u>\$ 286</u>	<u>\$ 72</u>	<u>\$ 1</u>	<u>\$ 20</u>	<u>\$ 1</u>	<u>\$ 183</u>

* ESU No. 16 had been audited by other auditors for the fiscal year ended June 30, 2009. The predecessor auditor reported a total of County Treasurer cash on deposit of \$10,260 as of June 30, 2009. However, ESU No. 16 records supported a June 30, 2009, County Treasurer cash on deposit balance of \$19,194.

(Continued)

EDUCATIONAL SERVICE UNIT NO. 16

COUNTY TREASURER FUNDS - GENERAL FUND

For the Fiscal Year Ended June 30, 2010

(Unaudited)

	<u>Keith</u>	<u>Lincoln</u>	<u>Logan</u>	<u>McPherson</u>	<u>Perkins</u>	<u>Sheridan **</u>	<u>Thomas</u>	<u>Total</u>
BALANCES ON HAND								
July 1, 2009 *	\$ 1,900	\$ 5,129	\$ 4,251	\$ 138	\$ 493	\$ 80	\$ 264	\$ 19,194
REVENUES								
Net Tax Collections (includes net property tax, motor vehicle prorated, homestead exemption, and property tax credit collections)	133,766	401,074	17,372	20,563	75,312	9,641	19,281	787,940
DISBURSEMENTS								
Remitted to ESU 16	<u>134,257</u>	<u>399,761</u>	<u>19,291</u>	<u>20,550</u>	<u>74,937</u>	<u>9,653</u>	<u>19,280</u>	<u>794,915</u>
BALANCES ON HAND								
June 30, 2010	<u>\$ 1,409</u>	<u>\$ 6,442</u>	<u>\$ 2,332</u>	<u>\$ 151</u>	<u>\$ 868</u>	<u>\$ 68</u>	<u>\$ 265</u>	<u>\$ 12,219</u>

* ESU No. 16 had been audited by other auditors for the fiscal year ended June 30, 2009. The predecessor auditor reported a total of County Treasurer cash on deposit of \$10,260 as of June 30, 2009. However, ESU No. 16 records supported a June 30, 2009, County Treasurer cash on deposit balance of \$19,194.

** \$3,921 ACH (Concluded) received by ESU No. 16 on 5/7/10 was not recorded in ESU No. 16's accounting records during the fiscal year ended June 30, 2010.

EDUCATIONAL SERVICE UNIT NO. 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2010

	Federal CFDA No.	Pass-Through Entity Identifying No.	Federal Disburse- ments
U.S. DEPARTMENT OF EDUCATION			
PASSED THROUGH NEBRASKA DEPARTMENT OF EDUCATION:			
Title I Program	84.010	10-16-000-0016-00	\$ 272,200
ARRA - Title I Program	84.389A	10-16-000-0016-00	94,355
SCIP/Continuous Improvement	84.027	00-0016-248-2B14B-10 00-0016-248-2B14C-10 00-0016-248-2B27B-09 00-0016-248-2B27C-09	30,958
Early Childhood Professional Development	84.173	10-03-16-000-0016 09-03-16-000-0016	86,687
Preschool Program	84.027	N/A	210,775
Transition Program Expansion	84.027	00-0016-248-3B6-10 00-0016-248-3B3-09	8,513
Parents Encouraging Parents	84.027A	00-0016-248-1B25-10	18,020
Preschool Regional System	84.181	10-16-000-0016-00 00-0016-248-2C16-09	11,114
ARRA - Part C	84.393A	00-0016 ARRA-C-09	16,228
FLAP Grant	84.293B	T293B070008-09	150,625
Carl Perkins	84.048	10-16-000-0016-00	44,788
ESEA Title II Part A	84.367	10-16-000-0016-00 09-16-000-0016-00	171,420
ESEA Title II Consortium Grant	84.318	10-16-000-0016-00	3,372
NDE/ESU Collaborative Project	84.027	10-16-000-0016-00 09-16-000-0016-00	41,941
Safe & Drug Free Schools	84.186	10-16-000-0016-00	<u>6,969</u>
TOTAL DEPARTMENT OF EDUCATION EXPENDITURES			<u><u>\$ 1,167,965</u></u>
U.S. DEPARTMENT OF AGRICULTURE			
RUS Grant	10.855	N/A	<u>\$ 195,728</u>
TOTAL DEPARTMENT OF AGRICULTURE EXPENDITURES			<u><u>\$ 195,728</u></u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,363,693</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2010

(1) General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all Federal awards programs of Educational Service Unit No. 16 (ESU No. 16).

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

ESU No. 16's reporting entity is defined in Note 1.B to the financial statements. The accompanying Schedule includes the Federal awards programs administered by ESU No. 16 for the fiscal year ended June 30, 2010.

(b) Basis of Presentation

The accompanying Schedule presents total expenditures for each Federal awards program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Federal program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA).

Federal Awards – Pursuant to OMB Circular A-133, Federal awards are defined as assistance provided by a Federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. All Federal awards for ESU No. 16 were passed through from State agencies of the State of Nebraska.

Major Programs – In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. Title I Grants to Local Educational Agencies CFDA #84.010 is the only major program of ESU No. 16.

(c) Basis of Accounting

The accompanying Schedule was prepared on the cash basis of accounting.

Matching Costs – The Schedule does not include matching expenditures from general revenues of ESU No. 16.

(3) Reconciliation Between Statements

The Schedule of Expenditures of Federal Awards on page 27 reports \$1,363,693 in Federal expenditures. The Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance on pages 12 and 13 includes \$1,379,684 in Federal program disbursements. The difference of \$15,991 is related to Title I program expenditures ESU No. 16 incurred in excess of the reimbursable grant award amount.



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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*

Board of Directors
Educational Service Unit No. 16
Ogallala, Nebraska:

We have audited the financial statements of Educational Service Unit No. 16, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 15, 2010. The report was modified to emphasize the financial statements present only the funds of Educational Service Unit No. 16. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Educational Service Unit No. 16's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Educational Service Unit No. 16's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 16's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we consider to be a significant

deficiency that is described in the Schedule of Findings and Questioned Costs as Finding #10-01 (Segregation of Duties). 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educational Service Unit No. 16's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional items that we reported to the management of Educational Service Unit No. 16 in a separate letter.

Educational Service Unit No. 16's written response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not examine Educational Service Unit No. 16's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Educational Service Unit No. 16 Board of Directors, others within Educational Service Unit No. 16, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

September 15, 2010

Deann Haeffner, CPA
Assistant Deputy Auditor



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Educational Service Unit No. 16
Ogallala, Nebraska:

Compliance

We have audited the compliance of Educational Service Unit No. 16, with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2010. Educational Service Unit No. 16's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Educational Service Unit No. 16's management. Our responsibility is to express an opinion on Educational Service Unit No. 16's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Educational Service Unit No. 16's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Educational Service Unit No. 16's compliance with those requirements.

In our opinion, Educational Service Unit No. 16 complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which are required to be reported in accordance with *OMB Circular A-133* and which is described in the accompanying schedule of findings and questioned costs as Finding #10-01.

Internal Control Over Compliance

The management of Educational Service Unit No. 16 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Educational Service Unit No. 16's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 16's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding #10-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Educational Service Unit No. 16's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Educational Service Unit No. 16's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of Educational Service Unit No. 16's Board of Directors, others within Educational Service Unit No. 16 and management, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Signed Original on File

September 15, 2010

Deann Haeffner, CPA
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT NO. 16

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2010

I. Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

Material weakness identified? Yes No

Significant deficiency identified that is not considered to be a material weakness? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes No

Significant deficiency identified that is not considered to be a material weakness? Yes None Reported

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 and are included in the schedule of findings and questioned costs in Part III: #10-01 Yes No

Identification of major program:

CFDA Number
84.010

Name of Federal Program or Cluster
Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee: Yes No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*:

Finding #10-01

Segregation of Duties

Good internal control includes a plan of organization, procedures, and records, all designed to safeguard assets and provide reliable financial records. Furthermore, a system of internal control requires a proper segregation of duties so that no one individual has the ability to process transactions from beginning to end.

In our review of Educational Service Unit No. 16's (ESU No. 16) receipt, disbursement, and payroll procedures, we noted there was an overall lack of segregation of duties as one individual, ESU No. 16's bookkeeper, is essentially able to handle all aspects of transaction processing from beginning to end with little, or no, documented oversight. This includes the recording of receipt and disbursement activity, the ability to print and sign disbursement checks, including access to the signature stamps of others, performance of the monthly reconciliation of ESU No. 16's bank accounts, and the ability to add and/or remove employees from payroll system, change pay rates, and mail out paychecks.

When one person has a largely unchecked ability to process transactions from beginning to end, there is an increased risk errors and/or irregularities may occur and not be detected in a timely manner.

We recommend ESU No. 16 segregate, to the extent possible, the duties of its receipt, disbursement, and payroll processes. If such duties cannot be adequately segregated, we recommend a strong, documented independent review of transactions be implemented in order to provide an adequate compensating control. As always, the cost of hiring any additional personnel versus the benefit of a proper segregation of duties must be weighed.

Views of Responsible Officials and Planned Corrective Actions: Thank you for bringing this matter to our attention. ESU #16 has hired an additional staff member, and the duties of billing, receipt, disbursement, and payroll procedures have been segregated. The ESU #16 Board will discuss and consider further action regarding the segregation of the identified duties to assure continued compliance with the established procedures.

III. Findings and Questioned Costs Related to Federal Awards:

Finding #10-01

EDUCATIONAL SERVICE UNIT NO. 16

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no prior audit findings.



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September 15, 2010

Board of Directors
Educational Service Unit No. 16
Ogallala, Nebraska

Dear Members:

We have audited the basic financial statements of Educational Service Unit No. 16 (ESU No. 16) for the fiscal year ended June 30, 2010, and have issued our report thereon dated September 15, 2010. In planning and performing our audit of the basic financial statements of ESU No. 16, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of ESU No. 16's compliance with certain provisions of laws, regulations, contracts, and grants.

During our audit, we noted certain matters involving internal control over financial reporting and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the areas as follows:

1. Budget Document

Neb. Rev. Stat. § 13-504 (Reissue 2007) regarding contents of a proposed budget statement requires, in part, identification of actual unencumbered cash balances available at the beginning of each year. Neb. Rev. Stat. § 79-1226 (Reissue 2008) requires the board of each educational service unit to prepare a budget which itemizes the contemplated expenditures and expected revenues from all sources. Neb. Rev. Stat. § 13-518 (Supp. 2009) defines Capital Improvements for tax limitation purposes as (a) acquisition of real property or (b) acquisition, construction, or extension of any improvements on real property.

During our review of ESU No. 16's budget document for the period of July 1, 2009, through June 30, 2010, the following was noted:

- ESU No. 16 has historically “plugged” its investments beginning balance asset line item in order to get its total beginning balances to agree to prior year ending balances. ESU No. 16’s 2009-2010 budget document reported beginning asset balances totaling \$4,222,364 despite ESU No. 16’s audited financial statements for the fiscal year ended June 30, 2009, having reported actual total asset balances of \$3,257,160; a variance of \$965,204.
- The “local receipts-other” on ESU No. 16’s budget program summary totaled \$3,497,492, however, when input into the official budget document it had been entered as \$3,447,492; a \$50,000 difference which appears to have been an error, clerical in nature.
- \$41,000 for new copy machines had been included in ESU No. 16’s LC-3 lid exceptions as Capital Improvements. The purchase of copy machines does not meet the definition of Capital Improvements eligible for inclusion as an official lid exception. However, this \$41,000 inclusion did not cause ESU No. 16 to exceed its lid on restricted funds.

When official budgets are not completed and adopted in accordance within Statutory requirements, there is an increased risk of noncompliance, false budget assumptions and/or decisions, and an increased risk of exceeding lid limitations.

We recommend ESU No. 16 implement controls to ensure all budget documents are complete, accurate, and in compliance with all applicable State statutes.

Educational Service Unit No. 16’s Response:

A. Beginning Balances

ESU #16 was aware of the reported "variance" from the time of the variance’s inception. Although the computer-generated figure on the budget line for Beginning Balances was inaccurate, the budget document did not allow ESU #16 to manually correct the "variance." The ESU #16 Administrator sent a letter to the State Auditor's office on July 28, 2010 explaining the "variance" and requesting that the budget be amended. The 2009-2010 budget was amended to eliminate the "variance" well within the time period provided by law for budget amendments. ESU #16 personnel were aware of the "variance" at all times and took it into account in the daily operation of ESU #16 to ensure that the agency remained well within budget limits.

B. Program Budget Clerical Error

Thank you for bringing this matter to our attention. The typographical error has been corrected.

C. Capital Improvements

It is necessary for staff members to estimate the total amount of capital improvements in ESU #16’s LC-3 lid exceptions when preparing the budget document. Staff included both building improvements and equipment when preparing the LC-3 lid exception estimate. However, the actual submission of expenditures in Capital Improvements did not include equipment purchases. Equipment purchases will be removed from the Capitol Outlay Program Budget to avoid confusion in the future.

2. Investment Activity

Sound accounting practice requires timely and accurate recording of all financial activity, including recognition of interest earnings, in order to provide ESU No. 16's management with the most comprehensive asset information possible as it makes various management decisions.

During our review of ESU No. 16's assets it was noted ESU No. 16 only records interest earnings on its Certificates of Deposit (CDs) at the time of redemption and on its savings accounts at the time of account closing. As a result, at June 30, 2010, ESU No. 16's records reported a total of \$1,605,121 in CDs and savings accounts, despite the actual bank balances of those accounts having totaled \$1,619,359; a difference of \$14,238.

When ESU No. 16's asset balances are not maintained on a current basis, ESU No. 16's management lacks complete and accurate information about its available assets when making management, expenditure, and budget decisions for ESU No. 16.

We recommend all interest earnings be recorded in a timely manner in order to provide ESU No. 16's management with timely information regarding available assets.

Educational Service Unit No. 16's Response: Thank you for bringing this matter to our attention. The ESU #16 Board will discuss and consider further action regarding the manner in which interest earnings will be recorded.

3. Bank Reconciliation Procedures

Sound accounting practice requires comprehensive and timely reconciliation of bank records with ESU No. 16's accounting records to ensure errors, omissions, and/or other irregularities are detected and resolved in a timely manner.

During our review of ESU No. 16's monthly bank reconciliation procedures, we noted the following:

- While ESU No. 16 prepares monthly bank reconciliations its reconciliation procedures have included "unidentified variances" between its bank balance and book balance since the March 2010 reconciliation; these "variances" have ranged from \$47 to \$591. At the time of audit fieldwork, ESU No. 16's bookkeeper continued to attempt to identify and resolve the June 30, 2010, "unidentified variance" of \$47.
- Identified reconciling items were not addressed and resolved in a timely manner. The May 2010 reconciliation identified two ACH payments totaling \$113,822 (\$109,901 State ACH payment on May 20, 2010, and \$3,921 Sheridan County ACH payment on May 7, 2010) in ESU No. 16's bank account. Subsequent to identifying these two ACH payments in its reconciliation process, ESU No. 16 did not get the revenues recorded in their books during the fiscal year ended June 30, 2010.

When variances between bank and book balances are not identified and addressed in a timely manner, there is an increased risk errors, omissions, and/or other irregularities might occur and not be detected.

We recommend ESU No. 16 implement procedures to ensure complete, accurate, and timely reconciliation of bank and book balances. Such procedures must include timely identification and resolution of all reconciling items.

Educational Service Unit No. 16's Response: Thank you for bringing this matter to our attention. The ESU #16 Board will discuss and consider further action regarding the reconciliation of bank and book balances.

4. Disbursement Issues

ESU No. 16 Board policy requires, in part, supervisory review and approval of all disbursements via a claim form and competitive bids for all purchases in excess of \$40,000. U.S. Department of Agriculture's Rural Utilities Services (RUS) grant agreements require vendor selection to occur via a "free and open competition." With regard to entity disbursements sound accounting practices discourage pre-payment of goods and services; require independent review and/or approval of employee leave and expenses; and require voiding of any physically printed and signed disbursement checks which are not going to be transmitted.

During our review of ESU No. 16's disbursements, the following was noted:

- No documentation was available to indicate the basis of vendor selection or the obtaining of competitive bids for the purchase of \$195,728 in telecommunications equipment purchased as part of ESU No. 16's RUS grant agreement. In addition, the purchase of the \$195,728 in telecommunications equipment was pre-paid in June 2010 with ESU No. 16 not having received the equipment at the time of audit fieldwork in August 2010.
- 2 of 5 travel disbursements tested had a claim form for travel expense which had not been approved by someone independent of the claimant. The first disbursement was for hotel rooms for the Administrator and one Board member at a hotel for the State Education Conference and the second disbursement was for a new battery for the Administrator's ESU-owned and assigned vehicle. In both instances, the claim forms had been submitted and approved by the Administrator with no independent review and/or approval.
- ESU No. 16's Administrator approves their own absentee records and leave request forms with no independent review and/or approval.
- ESU No. 16 pays its monthly tax deposits via ACH; however, a separate physical check is also generated, printed on ESU No. 16 check stock, and physically signed for the amount of the tax deposits. These physical checks are not voided in any way and are retained on file in ESU No. 16's payroll files.

- A claim form, with \$69 invoice attached for maintenance of a document camera, was not signed as approved by ESU No. 16's Administrator. The invoice for this disbursement had been approved by the appropriate department head; however, the claim form had not been subsequently signed by the Administrator.

In the case of ESU No. 16's disbursements, including employee leave reporting, which occur without supervisory and/or independent review, there is an increased risk of loss, theft, or misuse of ESU No. 16 funds. In addition, without documentation of a competitive bidding process being carried out in accordance with ESU No. 16 Board policy, as well as Federal grant agreement requirements, there is an increased risk of noncompliance and litigation. Lastly, when vendor pre-payments are made and physical checks are fully prepared and not voided on their face when there is no intention of sending those to vendors, there is a significantly increased risk of loss, theft, or misuse of ESU No. 16 funds.

We recommend ESU No. 16 implement disbursement procedures which include, at a minimum: appropriate supervisory and/or independent review of all disbursement transactions, including employee leave reporting; comprehensive documentation of all required competitive bidding and/or vendor selection documentation in accordance with ESU No. 16 policy and/or grant agreements; prohibition of vendor pre-payments; and physical voiding of any checks which are not to be transmitted.

Educational Service Unit No. 16's Response:

A. Documentation for Competitive Bidding

The documentation related to the competitive bid process for the purchase of the telecommunication equipment purchased as part of ESU #16's U.S. Department of Agriculture's Rural Utilities Services grant was at an offsite location during the audit process. This documentation is now onsite at ESU #16's main office and available for review.

B. Payment for Equipment

Thank you for bringing this matter to our attention. The ESU #16 Administrator will review standard operating procedures and ESU #16 policies regarding equipment purchases with staff.

C. Administrator and Board Travel Expenses

All Administrative and Board travel expenses and purchases are reviewed by the bookkeeper prior to payment and reported to the Board on a monthly basis. Further, ESU #16's standard procedure requires the Administrator's signature on all board member claims. ESU #16 will continue all of these practices and procedures.

D. Administrator Absentee Records and Leave Requests

The Administrator is the highest-ranking ESU #16 employee. Therefore, there is no other employee that can approve Administrator leave and absences. However, the Administrator submits all leave requests and forms to the bookkeeper for review and record keeping. Further, ESU #16 is a public body subject to the Open Meetings Act. As such, no individual board member may act on behalf of the board to approve Administrator leave and absences,

and any board action to approve Administrator leave and absences must occur at a public meeting. Such meetings can only occur with reasonable advance publicized notice. Ignoring the fact that holding a public meeting to approve Administrator leave is impractical if not a waste of taxpayer time and money, many absences and leaves occur with little to no advance notice to the Administrator making “reasonable advance publicized notice” impossible.

In any event, all Administrative absences of which the Administrator has knowledge are reported to the Board at public meetings in advance of the absence or leave. All other Administrative absences and periods of leave are reviewed with the Board a minimum of annually if not on a monthly basis. ESU #16 will continue these practices and procedures.

E. ACH Physical Checks for Tax Deposits

Thank you for bringing this matter to our attention. In order to void the physical checks the word “void” is written across the face of the check and a line is drawn through the check. The ESU #16 Board will discuss and consider further action regarding the retention of physical checks.

5. Tax-Sheltered 403(b) Contributions

Good internal control and sound accounting practices require adequate procedures be in place to accurately identify the tax status of all employee and employer payroll benefits and required withholdings.

During our review of ESU No. 16’s payroll, the following was noted:

- ESU No. 16 offered its employees the opportunity to participate in an elective, tax-deferred 403(b) retirement plan. ESU No. 16 provided 403(b) employer contributions *only* to the participant account of the ESU No. 16 Administrator and not to the participant accounts of any other ESU No. 16 employees.
- ESU No. 16 403(b) contributions to the Administrator’s participant account for July and August 2009 were in excess of the Administrator’s contract by a total of \$232 due to the bookkeeper having miscalculated the contribution for those two months.
- ESU No. 16 403(b) contributions to the Administrator’s participant account had been incorrectly reported as a taxable State and Federal wage. For the 2009 tax year, the Board contributed \$10,477 to the Administrator’s 403(b) participant account. As a result of ESU No. 16’s error in subjecting these contributions to State and Federal income tax, the Administrator will be taxed twice on the contributions; once at the time of contribution and then again at the time of withdrawal from the participant account.

When the tax status of all employee and employer payroll benefits and required withholdings are not completely and accurately identified, there is an increased risk of liability.

We recommend ESU No. 16 implement procedures to ensure complete and accurate identification of the tax status of all employee and employer payroll benefits and required withholdings. In addition, ESU No. 16 should provide the Administrator with an amended W-2 Wage and Tax Statements, as might be necessary, should the Administrator decide to file amended State and Federal personal income tax filings for the affected tax years.

Educational Service Unit No. 16's Response:

A. Employer Contributions

Employer contributions to the 403(b) plan are made in compliance with the 403(b) plan documents approved by the Internal Revenue Service and in accordance with law and the Administrator's employment contract. Employer contributions to non-administrative employees are subject to the terms of a collective bargaining agreement. The collective bargaining agreement does not authorize employer contributions to employees covered by the agreement.

B. Excess Payment

Thank you for bringing this matter to our attention. The excess payment has been corrected. The ESU #16 Board will discuss and consider further action regarding 403(b) withholding and payment procedures.

C. Inaccurate Reporting of Taxable State and Federal Wages

Thank you for bringing this matter to our attention. ESU #16 has provided the Administrator with amended W-2 statements. The ESU #16 Board will discuss and consider further action regarding payroll benefits and tax withholding procedures.

6. Fixed Assets

Good internal control and sound accounting practices require complete and accurate inventory of fixed assets in order to reduce the risk of loss, theft, or misuse of ESU No. 16-owned property.

During our review of ESU No. 16's lease agreements, the following was noted:

- On August 11, 2008, ESU No. 16 purchased 79 computers (1 desktop and 78 laptops) under a 0% Master Public School Lease-Purchase agreement. The total purchase cost of these computers was \$96,342.
- ESU No. 16's formal inventory included 29 of the purchased computers; however, the remaining 50 computers were not added to ESU No. 16's formal inventory and not tagged as being ESU No. 16's property. Of these 50 computers, 25 were reported to be located at ESU No. 16's North Platte facility computer lab and 25 were physically observed at ESU No. 16's Ogallala facility computer lab.
- ESU No. 16's formal inventory did not associate a purchase cost with each of the 29 inventoried computers but instead listed the item cost as "lease."

- When a complete and accurate inventory of fixed assets is not maintained, there is an increased risk of loss, theft, or misuse of ESU No. 16-owned property.

We recommend ESU No. 16 implement ongoing procedures to ensure all asset activity is recorded in a timely manner. In addition, we recommend that, on at least an annual basis, ESU No. 16 perform a comprehensive physical inventory to ensure the completeness and accuracy of its formal inventory listings.

Educational Service Unit No. 16's Response: Fifty computers housed in two onsite labs were included in a "leased computer" inventory that was separate from the ESU #16 formal inventory. Serial numbers from each computer were recorded for identification purposes. The ESU #16 Board will discuss and consider further action regarding the procedures associated with physical inventories for leased equipment.

It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of ESU No. 16.

Draft copies of this report were furnished to ESU No. 16 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 audit.

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

This report is intended solely for the information and use of ESU No. 16, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Signed Original on File

Deann Haeffner, CPA
Assistant Deputy Auditor