

**AUDIT REPORT  
OF THE  
EDUCATIONAL SERVICE UNIT  
COORDINATING COUNCIL**

**SEPTEMBER 1, 2009 THROUGH AUGUST 31, 2010**

**This document is an official public record of the State of Nebraska, issued by  
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original document  
and may be prohibited by law.**

**Issued on October 14, 2011**

# EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

## TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| <b>Background Information Section</b>   |             |
| Background  | 1 - 4       |
| Mission Statement   | 5           |
| Organizational Charts:  |             |
| Original Organization Chart   | 6           |
| Transitional Organization Chart   | 7           |
| <b>Comments Section</b>   |             |
| Exit Conference   | 8           |
| Summary of Comments   | 9           |
| Comments and Recommendations  | 10 - 19     |
| <b>Financial Section</b>  |             |
| Independent Auditors' Report  | 20 - 21     |
| Management's Discussion and Analysis  | 22 - 27     |
| Basic Financial Statements:   |             |
| Statement of Net Assets   | 28          |
| Statement of Activities   | 29          |
| Fund Financial Statements:  |             |
| Statement of Assets, Liabilities, and Fund Balance – Governmental Fund  | 30          |
| Statement of Receipts/Revenues, Disbursements/Expenditures, and<br>Changes in Fund Balance – Governmental Fund  | 31          |
| Notes to Financial Statements   | 32 - 39     |
| Required Supplementary Information:   |             |
| Budgetary Comparison Schedule – Budget and Actual – General Fund  | 40          |
| Notes to Required Supplementary Information   | 41          |
| Supplementary Information:  |             |
| Combining Schedule of Assets, Liabilities, and Fund Balance – General Fund  | 42          |
| Combining Schedule of Receipts/Revenues, Disbursements/Expenditures,<br>and Changes in Fund Balance – General Fund  | 43 - 44     |
| <b>Government Auditing Standards Section</b>  |             |
| Independent Auditors' Report on Internal Control Over Financial Reporting and<br>on Compliance and Other Matters Based on an Audit of Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> | 45 - 46     |

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### BACKGROUND

The Educational Service Unit Coordinating Council (ESUCC) was created in statute to coordinate statewide activities of Nebraska's 17 Educational Service Units (ESUs). The governing body for ESUCC consists of one administrator from each ESU. ESUCC came into existence per Neb. Rev. Stat. § 79-1245 (Cum. Supp. 2010) on July 1, 2008. The statutory description and duties of the ESUCC can be found in Neb. Rev. Stat. §§ 79-1245 through 79-1249 (Reissue 2008, Cum. Supp. 2010). According to Neb. Rev. Stat. § 79-1246 (Reissue 2008):

The Educational Service Unit Coordinating Council shall work toward statewide coordination to provide the most cost-effective services for the students, teachers, and school districts in each educational service unit. ESUCC's duties include, but are not limited to:

- (a) Preparation of strategic plans to assure the cost-efficient and equitable delivery of services across the State;
- (b) Administration of statewide initiatives and provision of statewide services; and
- (c) Coordination of distance education.

Based on the above statutory authority, ESUCC, in its first year of existence starting July 1, 2008, determined that all statewide projects previously offered in partnership by various ESUs would be placed under the umbrella of ESUCC. The ESU hosting the statewide project became known as the "fiscal agent" for that project, now under ESUCC. ESUCC then established agreements with each fiscal agent to continue to provide the services of the project and also established a master services agreement with each ESU enabling them to choose which statewide projects they wanted to participate in. During the fiscal year ended August 31, 2010, ESUCC began a transition away from the fiscal agent organization with ESUs to a centralized organization with all employees being employees of ESUCC (see transitional organizational chart on page 7). This transition is expected to be completed during the fiscal year ended August 31, 2011. The following is a brief description of each statewide project as they operated during the fiscal year ended August 31, 2010:

- **ESU Professional Development Organization (ESUPDO)** – Accounting: ESU 9 (Hastings)  
ESUPDO serves as a collaborative effort to provide training for ESU employees statewide. Professional development is among the core services identified by State statute for ESUs. There is no fiscal agent for ESUPDO, instead the accounting is performed by a separately contracted employee and the records are maintained at ESU 9 (Hastings). In addition, the general administrative costs of ESUCC overall are accounted for by the same employee at ESU 9 along with this project. ESUPDO consists of five affiliate groups comprised of ESU employees across the 17 ESUs. These groups are:
  - **Staff Development Affiliate (SDA):** Members are generally responsible for providing staff development for their school districts and have assisted the Nebraska Department of Education (Education) efforts on statewide and local assessment, as well as, school improvement for Nebraska's school districts.
  - **Technology Assistance Group (TAG):** Members provide assistance to school districts in the dissemination and integration of new educational technologies deployed by school districts. Recently, this has included initiatives including learning

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### BACKGROUND

(Continued)

- management systems, one-to-one laptop initiatives, as well as, classroom technologies including whiteboards, clickers, and other educational technologies. Additionally, the TAG members may assist districts in the use of new software and computer applications including statewide assessment.
- **Network Operations Committee (NOC):** NOC supports the extensive communications network within and among the ESUs and school districts. NOC provides network security and protocols for their districts and ESUs and ensures the communications network for distance education, internet, email, and internet protocol phones are functioning and secure. Statewide this group establishes common frameworks and capacities for assisting one another to ensure the education network functions well.
  - **Instructional Materials Affiliate (I-Mat):** I-Mat consists of media professionals from across the State. It serves the dual role of providing for and assisting school districts to make use of the statewide I-Mat media as well as the integration of media materials in school districts. Originally, I-Mat served to ensure that school districts had access to educational films, videos, and DVDs. Currently, I-Mat is developing plans for digital delivery of library and media materials. This service is among the core services identified by State statute.
  - **ESU Special Populations Directors (ESPD):** This affiliate group consists of the Special Education Directors and staff from across the State. This affiliate group was included in ESUPDO as the need for special education professional development is developed in the age of standards and assessment and the need to develop and share professional development efforts for special education teachers and classroom teachers alike. ESPD is also involved with Education in providing leadership for special education training and support as well as programs such as Response To Intervention (RTI).
  - **Distance Education Council (DEC)** – Fiscal Agent: ESU 10 (Kearney)  
Originating with the Distance Education Council formed by legislation in 2006 (LB 1208), distance education is now a responsibility of ESUCC. Neb. Rev. Stat. § 79-1248 (Cum. Supp. 2010) describes the following as part of the effort to build, improve, and maintain the State's distance education network:
    - a) Providing public access to lists of qualified distance education courses;
    - b) Collecting and providing school schedules for participating educational entities;
    - c) Facilitation of scheduling for qualified distance education courses;
    - d) Brokering of qualified distance education courses to be purchased by educational entities;
    - e) Assessment of distance education needs and evaluation of distance education services;
    - f) Compliance with technical standards as set forth by the Nebraska Information Technology Commission (NITC) and academic standards as set forth by Education related to distance education;

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### BACKGROUND

(Continued)

- g) Establishment of a system for prioritizing courses if the demand for Network Nebraska exceeds the capacity available for distance education and for choosing the receiving educational entities when the demand for a course exceeds the capacity as determined by either the technology available or the course provider;
  - h) Scheduling and prioritization for access to Network Nebraska by educational entities in cooperation with the State of Nebraska Chief Information Officer and using scheduling software or scheduling services which meet any applicable standards established by NITC;
  - i) Administration of learning management systems that are in compliance with any applicable standards of NITC either through the staff of ESUCC or by delegation to an appropriate educational entity with the funding for such systems provided by participating educational entities; and
  - j) Coordination with ESUs and postsecondary educational institutions to provide assistance for instructional design for both two-way interactive video distance education courses and the offering of graduate credit courses in distance education.
- **Nebraska ESU Cooperative Purchasing (Coop)** – Fiscal Agent: ESU 17 (Ainsworth)  
Nebraska ESU Cooperative Purchasing provides cooperating purchasing services to ESU member schools throughout the State of Nebraska. Beginning in 1990, Coop operations were directed and supervised via a Board of Control. The Board of Control consisted of eight representatives. Representatives include three ESU Administrators appointed by the ESU Administrators Association (ESUAA), three ESU Board Members appointed by Nebraska ESU Board Association (NESUBA), and two ESU staff members appointed by the Coop Board of Control. Effective with the July 2008 creation of ESUCC, the same representation is maintained on a Cooperative Purchasing Advisory Committee with ESU 17 serving as the fiscal agent and ESUCC replacing the role of the ESUAA.
  - **Instructional Materials (I-Mat)** – Fiscal Agent: ESU 5 (Beatrice)  
I-Mat also has a long history in providing services statewide for school districts through Nebraska’s network of ESUs. For approximately 30 years, the ESUs have worked together to purchase rights to media materials and made those available through local ESUs in a variety of formats. Annually, the I-Mat membership gathers to select titles to propose for purchase at a statewide level. ESUs contribute to the project for the “spring buy” and “special projects” each year. As technology moves forward so does the I-Mat project. Currently, videos are available in physical formats including VHS, DVD, and CD. Additionally, media materials are being digitized and made available as “media on demand” through Discovery Education’s “Power Media Plus.” This digital format is opening up media materials, once difficult to obtain, to schools across the State. Additionally, the project works to match media to specific standards and is making media searchable for the most appropriate classroom use.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### BACKGROUND

(Concluded)

- **My E-Learning (MyE)** – Fiscal Agent: ESU 10 (Kearney)  
My E-Learning is a statewide project to make an online learning management system available to school districts, teachers, and students. The mission of MyE is “to implement an asynchronous web-based learning management system to ensure statewide accessibility to: 1) expanded educational opportunities for all K-12 students; and 2) timely delivery of staff development opportunities.” MyE is staffed by a director and one additional staff and also is guided by an advisory board consisting of ESU and school district (users) representatives. Currently, MyE supports the ANGEL Learning Management System and a support system for Moodle is in development. Recent statistics indicate that there are approximately 40,000 user accounts in use by 160 entities (schools and ESUs) across the State. The service is provided with user contracts and fees.
- **Special Education (SPED) Projects** – Fiscal Agent: ESU 1 (Wakefield)  
The purpose of the SPED Project is for participating parties to pool their resources in connection with the special education services and for the training of special education teachers and other staff members employed by educational institutions within the State. Each participating ESU contributes a \$5,000 annual fee in general support of the projects and, additionally, each participating school is assessed a fee for services provided under the Student Records System (SRS) fee structure. There are three special education projects:
  - **Improving Learning for Children with Disabilities (ILCD):** ILCD is a State self-assessment Project that gathers information for Federal reporting requirements. The ILCD Project utilizes parent, teacher, and administration survey assessments. The survey results can be accessed via the ILCD website. The ESUs technology role includes purchasing, distributing, and scanning surveys. ESU staff provides technical assistance for the ILCD website and survey design.
  - **Project PARA:** Project PARA is a web-based method for school districts to provide introductory training for their paraeducators. Project PARA assists schools in meeting the paraeducator training requirements of No Child Left Behind, Rule 11 and the Individuals with Disabilities Education Act (IDEA). Project PARA is a collaborative effort between the University of Nebraska, the Nebraska Department of Education, and Nebraska ESUs.
  - **Student Records System (SRS):** SRS is an online special education record keeping system. It creates all special education documents required by Rule 51, including Individual Education Program (IEP), Multidisciplinary Evaluation Team (MDT), Individualized Family Service Plan (IFSP), and all required notices. SRS is a highly secure system that organizes and stores documents and provides easy access to files from anywhere via the internet. SRS training is provided across the State for district staff and college and university staff.

It is important to consider the above noted background information while reviewing the following Comments and Recommendations as the primary cause of the comments are due to the entity being made up of several pre-existing projects and the decentralized organizational structure of ESUCC during the fiscal year ended August 31, 2010, as described above.

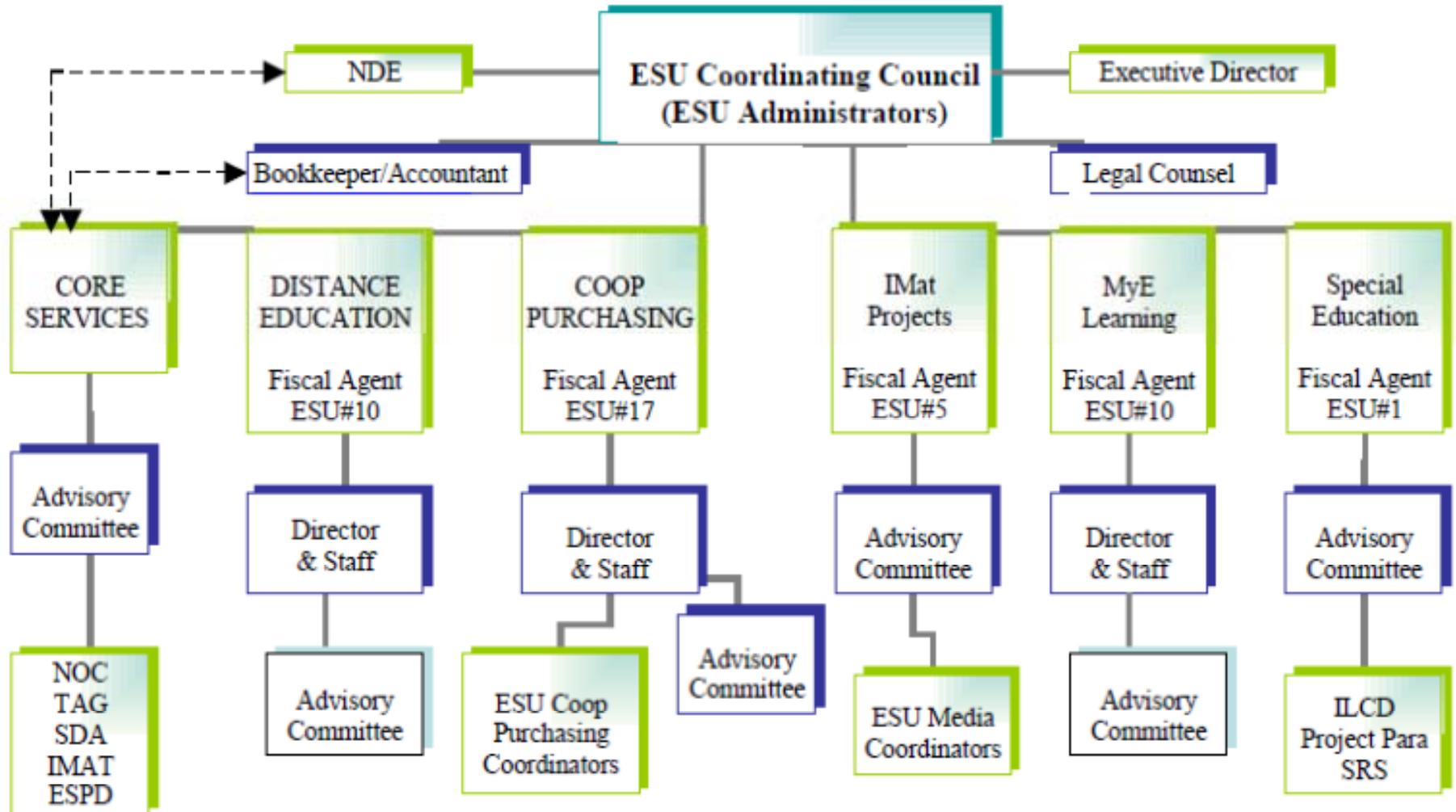
## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### **MISSION STATEMENT**

The mission of ESUCC is to provide the most cost effective educational support for the students, teachers, and school districts in each Nebraska educational service unit by facilitating statewide coordination of educational services and strategic planning.

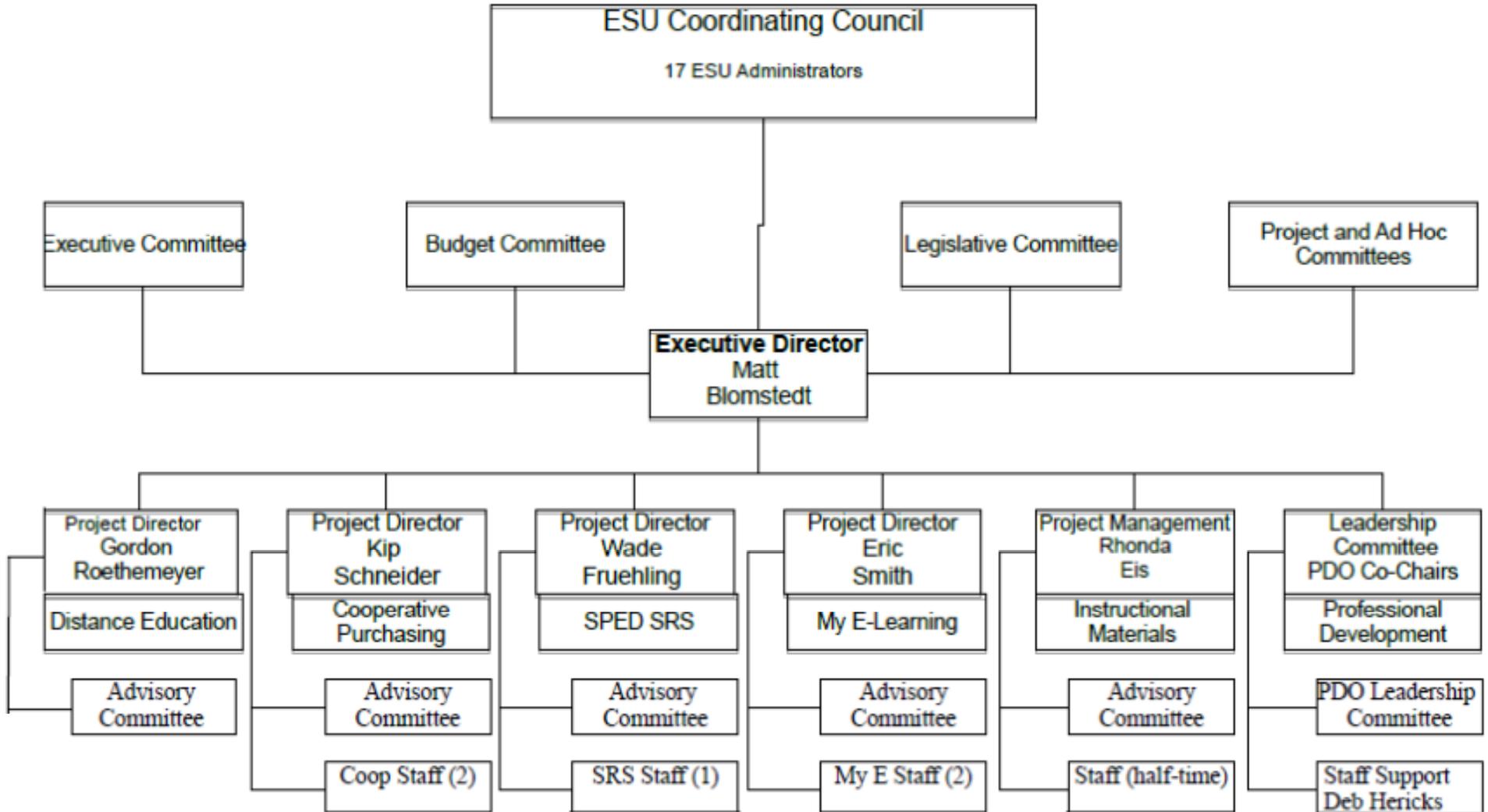
EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

ORIGINAL ORGANIZATIONAL CHART



EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

TRANSITIONAL ORGANIZATIONAL CHART



EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**EXIT CONFERENCE**

An exit conference was held September 30, 2011, with the Educational Service Unit Coordinating Council to discuss the results of our examination. Those in attendance for ESUCC were:

| <b>NAME</b>                        | <b>TITLE</b>       |
|------------------------------------|--------------------|
| Matthew Blomstedt                  | Executive Director |
| Marge Beatty (via conference call) | ESUCC President    |

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### SUMMARY OF COMMENTS

During our audit of the Educational Service Unit Coordinating Council (ESUCC), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

- 1. *Organizational Structure and Internal Control Systems:*** ESUCC is essentially an umbrella organization made up of several statewide projects. As each of these projects is hosted by a different ESU, this entity was highly decentralized. Several issues were noted related to this decentralized structure.
- 2. *ESUPDO and Administrative Issues Noted:*** Several of the same issues from the previous audit were noted related to disbursements, receipts, payroll, and capital assets. The findings in each of these areas primarily relate to a lack of segregation of duties and inadequate supporting documentation.
- 3. *Fiscal Agent Comments:*** Comments noted in separate audits of the other projects have been incorporated. These comments include a lack of segregation of duties, inability to prepare financial statements, and failure to reduce the risk of a material misstatement to a relatively low level.
- 4. *Annual Audit:*** The fiscal year ended August 31, 2010, audit of ESUCC was not filed within twelve months after the end of the fiscal year as required by State statute.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to ESUCC 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.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### COMMENTS AND RECOMMENDATIONS

#### 1. Organizational Structure and Internal Control Systems

Due to the timing of the prior audit for the 14 month period ended August 31, 2009, which was issued on June 1, 2010, leaving ESUCC only a small portion of time before the fiscal year ended August 31, 2010, to implement many of the recommendations suggested in the previous audit report. As a result, most of the organizational structure and internal control system issues noted in the prior audit were again noted for this fiscal year. Those findings are described below.

As described in the Background Section of this report, the organizational structure ESUCC operated under from its inception on July 1, 2008, through the fiscal year ended August 31, 2010, is essentially an umbrella organization made up of several statewide projects. This umbrella organization was based on all statewide projects previously offered in partnership by various ESUs on July 1, 2008. The ESU hosting the statewide project became known as the “fiscal agent” for that project, now under ESUCC. The ESUCC then established agreements with each fiscal agent to continue to provide the services of the project and also established a master services agreement with each ESU enabling them to choose which statewide projects they wanted to participate in. Through communications with the Executive Director and current ESUCC Board President, it was noted that ESUCC has begun the process of transitioning from a decentralized entity with multiple locations for accounting and administrative functions to a more centralized entity with one location for accounting and payroll functions (see transitional organizational chart on page 7). This transition is expected to be completed during the fiscal year ended August 31, 2011.

Due to the decentralized organizational structure and internal control system, during the fiscal year ended August 31, 2010, the six issues remaining uncorrected for the current audit are as follows:

- (1) It was difficult for the ESUCC Board and Executive Director to be involved in the administrative review and approval process.
- (2) Documentation of transactions was not readily available and, as noted in Comment 2 below, was not always adequately maintained.
- (3) Financial information was in various formats as different accounting systems and different accountants/auditors were used for each project, resulting in a lack of consistency in financial statement presentation.
- (4) There was lack of segregation of duties, as noted in Comments 2 and 3 below, which would likely be corrected if all accounting functions were handled at one location rather than one or two people at multiple locations.
- (5) There were eight full-time employees and two part-time employees working entirely on ESUCC projects but being paid by the ESU hosting the project rather than on the ESUCC payroll.
- (6) There were no formalized policies and procedures for ESUCC as a whole. (Per discussion with the Executive Director, ESUCC is currently still in the process of building formal policies and procedures. This process began in the fall of 2010 and the actual start of the adoption of the policies and procedures began on March 2, 2011).

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Organizational Structure and Internal Control Systems** (Concluded)

A good internal control system requires some centralization of administrative responsibilities and accounting functions including managements' involvement in reviewing and approving transactions, a single record-keeping location, consistency in reporting financial information, the ability to adequately segregate duties and pay all payroll expenses appropriately, as well as the establishment of formalized policies and procedures. Without good internal control systems that include these elements, there is an increased risk of errors, fraud, waste, or abuse occurring and not being detected. Some specific errors were noted as a result of the current internal control systems as described in Comment 2 below.

We recommend ESUCC continue improving their internal control systems by ensuring the transition to one central location for accounting functions is completed accurately and in a timely fashion. This transition process should include ensuring adequate and complete documentation is maintained, consistent accounting procedures are used for all projects, segregation of duties is in place, all ESUCC employees are paid by ESUCC funds, and policies and procedures for ESUCC as a whole are formalized and adopted.

*ESUCC's Response: The organizational structure of the ESUCC began a substantial transition between FY 09-10 and FY 10-11. Many of the structural issues and internal control systems were considered in the development of a new, more centralized structure. Any remaining issues will continue to be addressed through the transition plans to ensure adequate internal control systems, improved procedures, and further policy development as recommended by the APA.*

**2. ESUPDO and Administrative Issues Noted**

The Auditor of Public Accounts (APA) only performed specific audit procedures over the financial information for the ESU Professional Development Organization (ESUPDO) Project and ESUCC general administration (which does not fall under a specific ESUCC Project). The accounting for these functions was performed by a separately contracted employee and the records were maintained at ESU 9 in Hastings, Nebraska during the fiscal year. As noted above, the prior audit performed by the APA was not issued until June 1, 2010, leaving only a small portion of the fiscal year tested remaining in which any of the audit recommendations could be implemented. As such, our review noted several of the same issues from the previous audit and we must again bring the following issues related to disbursements, receipts, payroll, and capital assets to your attention. As noted in Comment 1 above, significant changes have begun to take place in the organizational structure and internal control systems of ESUCC which will likely work to correct several of these findings.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **ESUPDO and Administrative Issues Noted** (Continued)

**A. Disbursements**

There was a lack of segregation of duties over disbursements/expenditures for the ESUPDO. One person had the ability to approve claims, write checks, and record disbursements in the accounting system without sufficient administrative review. A good internal control plan involves adequate segregation of duties over disbursements to ensure no one person is in a position to perpetrate and conceal errors or irregularities. *This finding was noted in the prior audit.*

The disbursement did not appear to be reasonable and proper for the purposes of ESUCC for 3 of 18 claims tested. Two of these claims were for expenses associated with employee meetings; however, there was no documentation that these expenses were approved by the ESUCC Board prior to the meeting. The total meeting expenses paid on these two claims was \$999. This is not in compliance with Neb. Rev. Stat. § 13-2203 (Reissue 2007) which states, "In addition to other expenditures authorized by law, each governing body may approve: (1)(a) The expenditure of public funds for the payment or reimbursement of actual and necessary expenses incurred by elected and appointed officials, employees, or volunteers at educational workshops, conferences, training programs, official functions, hearings, or meetings, whether incurred within or outside the boundaries of the local government, if the governing body gave prior approval for participation or attendance at the event and for payment or reimbursement either by the formal adoption of a uniform policy or by a formal vote of the governing body." The third claim was a payment to the Nebraska Department of Revenue (NDR) for Non-Resident State Withholding on a \$3,000 fee paid for the presentation of several webinars. The amount of withholding paid to NDR was \$125; however, this \$125 was not properly withheld from the presenter's fee. As a result, the \$125 was paid by ESUCC rather than by the presenter. Good business practice requires amounts be properly withheld prior to payment of the withholdings to the tax agency.

The claim form was not signed by all of the appropriate individuals for 12 of 18 claims tested. Claim forms should be signed by the claimant, affiliate group chair (if applicable), and ESUCC administrative personnel. The total amount paid with these incomplete claims was \$365,607. In addition, the APA noted that the ESUCC Executive Director was generally not involved in the claim approval process for the ESUPDO and ESUCC administrative expenses. Good business practice requires claim forms be properly signed by those with knowledge as to whether the claim is appropriate or not. *This finding was noted in the prior audit.*

Two signatures are required on all checks; however, for 10 of 18 claims tested, one of the signatures on the check was a signature stamp which other employees have access to. The total amount paid by these stamped checks was \$361,070. Good business practice requires live signatures be placed on all checks or access be restricted for any signature stamps used. *This finding was noted in the prior audit.*

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. ESUPDO and Administrative Issues Noted (Continued)**

There was no documentation to ensure that the goods or services purchased were actually received for 1 of 14 claims tested. The total amount of goods purchased on this claim was \$190. Good business practice requires some kind of documentation be available such as a signature by the person receiving the item on the invoice or attaching a packing slip in order to ensure goods purchased were actually received. *This finding was noted in the prior audit.*

The process for selecting the vendor providing the goods/services purchased was not documented for 8 of 12 claims tested. The total amount paid to these vendors was \$21,537. Good business practice requires the process for selection of a vendor be documented in order to ensure open competition and to verify quality and cost efficiency has been considered and that the best option is selected. *This finding was noted in the prior audit.*

A contract or agreement for services provided was not obtained for 2 of 5 claims tested. The first vendor was for legal services at a rate that was not documented. The ESUCC Board did approve the vendor to provide legal services, but a contract should have been established indicating the terms of the agreement, such as establishing a rate for a specific time period. The total amount paid for the legal services on this claim was \$7,159. The second vendor was for facilitating a training conference at a rate of \$1,500 per day for two days plus any additional expenses incurred (materials, lodging, and mileage) for a total of \$3,564. In addition, it was noted that the ESUCC Board was not involved in the approval of all contracts entered into by the various ESUPDO affiliate groups. Good business practice requires contracts be obtained and approved by the ESUCC Board for all applicable service providers. *This finding was noted in the prior audit.*

Appropriate travel-related documentation was not available for 1 of 7 claims tested. This claim was for the reimbursement of food provided at a meeting; however, the number of attendees listed on the meeting minutes was significantly lower than the number of people served per the invoice for the food. The total amount paid for this food was \$824. Good business practice requires adequate documentation be available for travel-related disbursements in order to ensure costs paid (such as food, lodging, and mileage) were reasonable and proper for the purpose of the entity. *This finding was noted in the prior audit.*

Lodging costs paid were not adequately documented for 1 of 8 claims tested. Two presenters were brought in for a one-day conference and were reimbursed for lodging costs; however, there was no documentation to support those lodging costs. The total lodging reimbursement paid was \$268. Good business practice requires adequate documentation be available for travel-related disbursements in order to ensure costs paid (such as food, lodging, and mileage) were reasonable and proper for the purpose of the entity.

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 2. ESUPDO and Administrative Issues Noted (Continued)

Sales, use, and lodging tax were inappropriately paid on both claims tested. The total taxes paid inappropriately on in-State lodging bills amounted to \$65 and an additional \$10 in sales tax was paid for office supplies. ESUCC should be sales tax exempt according to Title 316 NAC 1-092.01 which states, "The following educational institutions will be exempt from payment of the Nebraska sales and use tax after the institution has applied for and received a certificate of exemption. ... Nebraska educational service units..." As such, these lodging and office supply purchases should be billed or paid for directly by ESUCC rather than reimbursed to the Executive Director in order to avoid paying additional tax charges.

#### **B. Receipts**

There was a lack of adequate segregation of duties over receipts for the ESUPDO. One person had the ability to receive checks, deposit funds, and record receipts in the accounting system without sufficient administrative review. There were few receipts and the ESUCC Board does review a summary of these receipts; however, a good internal control plan involves adequate segregation of duties over receipts to ensure no one person is in a position to both perpetrate and conceal errors or irregularities. *This finding was noted in the prior audit.*

There was no supporting documentation available for 2 of 7 types of receipts tested. The first type of receipt was a Special Education Professional Development grant. A total of \$12,736 appears to have been drawn down on this grant on April 14, 2010; however, the grant award notification, grant agreement, and request for reimbursement form with supporting documentation were not available. The second type of receipt was miscellaneous receipts amounting to \$10,858. This is actually made up of 5 deposits throughout the fiscal year; however, there was no documentation available to support any of these 5 deposits. In addition, it was noted that the grant agreement was not available for a \$307,637 Federal Rural Utilities Service (RUS) grant. Good business practice requires maintaining supporting documentation for all receipts in order to ensure funds are properly received and accounted for. Without this documentation, there is an increased risk that funds will be received and not properly deposited. Good business practice also requires maintaining grant documentation including grant agreements to ensure the restrictions and limitations on the grant funds are appropriately known and followed.

#### **C. Payroll**

There was a lack of segregation of duties over payroll for the ESUPDO. One person had the ability to add employees, record payroll in the accounting system, and distribute checks without sufficient administrative review. A good internal control plan involves adequate segregation of duties over payroll to ensure no one person is in a position to both perpetrate and conceal errors or irregularities. This risk is significantly reduced as

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. ESUPDO and Administrative Issues Noted (Continued)**

there is only one employee for ESUCC; however, as noted above, there may be a need to add several employees to the ESUCC payroll in the near future, at which time segregation of duties would play a more significant role in this area. *This finding was noted in the prior audit.*

The one employee of ESUCC did not have required personnel documentation on file as personnel files had not been established. Specifically, there was no I-9 Form or health insurance enrollment forms available for the ESUCC Director during the fiscal year. Good business practice requires appropriate personnel documentation be on file, particularly those required by Federal regulations. *This finding was noted in the prior audit.*

There were also no procedures to approve vacation and sick leave used by the ESUCC employee. A log of leave earned and used is maintained by the employee. This log is required to be submitted to the ESUCC Board quarterly per the employment contract; however, there was no documentation that the log was reviewed by the ESUCC Board at all. In addition, leave should be approved prior to or immediately following leave usage. Good business practice requires approval of leave used in order to ensure discrepancies do not arise in remaining leave balances in the future. *This finding was noted in the prior audit.*

**D. Capital Assets**

There was no system in place to track capital assets of ESUCC during the fiscal year. Per discussion with the Executive Director, ESUCC has begun the process of accumulating an inventory listing and determining which assets belong to ESUCC and which belong to the ESU hosting the ESUCC project. A good internal control plan requires a system be in place to track capital assets in order to decrease the risk that assets of ESUCC will be lost or stolen. *This finding was noted in the prior audit.*

Without the above noted elements of a good internal control plan and good business practices in place, there is an increased risk fraud, waste, or abuse will occur.

We recommend the ESUCC Board continue to implement a strong internal control plan which would include adequate segregation of duties over receipts, disbursements, and payroll, as well as a system to track capital assets.

We also continue to recommend the Board implement the following procedures in the transition of accounting functions to a centralized location:

- a. Disbursements be reasonable and proper for the purpose of ESUCC.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. ESUPDO and Administrative Issues Noted (Concluded)**

- b. Claim forms be properly signed by those with knowledge as to whether the claim is appropriate or not.
- c. Live signatures be placed on checks or access restricted for signature stamps.
- d. Documentation be on file to ensure goods/services purchased were actually received.
- e. The process for selection of a vendor be documented.
- f. Contracts be obtained and approved by the ESUCC Board for all applicable service providers.
- g. Adequate documentation be available for travel-related disbursements.
- h. Lodging costs reimbursed be adequately documented.
- i. Sales tax exemption forms be obtained and sales tax not be paid for lodging and office supply purchases.
- j. Adequate documentation be on file for all receipts.
- k. Appropriate personnel documentation be on file in accordance with Federal regulations.
- l. Vacation and sick leave used be approved by the ESUCC Board President in advance of or immediately following leave usage and that the approval be documented.

*ESUCC's Response: Many of the issues noted are continuing to be addressed in the transition to a more centralized organizational structure. The ESUCC will continue to develop procedures to address the specific issues noted by the APA. Policies for addressing issues for expenditures requiring board approval will be developed. Additionally, policies addressing any necessary withholding will be developed to ensure proper procedures are developed. All of the recommendations of the APA will assist in the review of policies and procedures and the ESUCC will continue to modify policies and procedures to implement those recommendations.*

**3. Fiscal Agent Comments**

A separate audit report was prepared for each of the projects of ESUCC (other than ESUCC Administration and ESUPDO which were audited by the APA as explained above). In some instances, these separate audits identified deficiencies in the internal control of the fiscal agent in charge of the project. These deficiencies were brought to the attention of the fiscal agent's management, but may not have been brought to the attention of ESUCC's management. As such, these comments have been included below.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Fiscal Agent Comments** (Continued)

A. **My E-Learning and Distance Education Council (ESU 10)**

1) ***Segregation of Duties: (Consider a Significant Deficiency (SD))***

One of the primary characteristics of any system of internal accounting control is that no person should be allowed to control a transaction from its inception to its recording in the accounting records. Although the division of duties is not always possible within your organization because of the limited number of employees, we feel you should be aware of the situation. It is our recommendation that management implement procedures to segregate duties in several areas throughout the entity whenever possible.

*Fiscal Agent Response: Management concurs with the recommendation and will review the current system and segregate duties where it is possible to do so. Adding personnel to segregate duties is cost prohibitive due to budget restraints.*

B. **Instructional Materials (ESU 5)**

1) ***Segregation of Duties: (Consider a SD)***

The Imat Projects, Educational Service Unit No. 5 as fiscal agent for the ESUCC does not have sufficient segregation of duties as would be required to maintain proper internal controls. However, the benefits of such internal controls must be measured against the costs involved. Procedures of supervision by the Service Unit administrator are in place and help compensate to some extent for this deficiency.

2) ***Preparation of Financial Statements: (Consider a SD)***

The Imat Projects, Educational Service Unit No. 5 as fiscal agent for the ESUCC does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Fiscal Agent Response: The management of the Imat Projects, Educational Service Unit No. 5 as fiscal agent for ESUCC has informed us that they are aware of the significant deficiencies described above, and that they do not plan any changes in response to these significant deficiencies at this time.*

C. **Cooperative Purchasing (ESU 17)**

1) ***Segregation of Duties: (Consider a Material Weakness)***

Due to the size of Nebraska ESU Cooperative Purchasing Educational Service Unit Coordinating Council, Ainsworth, Nebraska, there is virtually no internal control structure design. While all the general transactions are approved by the Board of

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 3. **Fiscal Agent Comments** (Concluded)

Directors, adequate personnel are not available to assign responsibilities in such a way that different employees handle different parts of the same transaction. Authorization or approval of transactions, recording of transactions, and custody of assets should normally be segregated activities.

##### 2) ***Risk of Misstatement: (Consider a SD)***

The size of Nebraska ESU Cooperative Purchasing Educational Service Unit Coordinating Council, Ainsworth, Nebraska, prohibits them from having a proper internal control structure design. Many of the operating functions that require segregation of duties under an acceptable internal control system are performed by the same individual. Due to the absence of segregation of duties, the level of risk that errors or irregularities, material in relation to the financial statements, may occur and not be detected within a timely period by the employees, in the normal course of performing their assigned functions, has not been reduced to a relatively low level.

*Fiscal Agent Response: The Cooperative recognizes that it does not have adequate in-house personnel to assign financial transactions to multiple employees because of the cost effectiveness of such actions. The Board of Directors is aware of this deficiency, and will continue to monitor the situation. The elected board and staff have implemented some oversight measures to limit exposure where possible.*

*ESUCC's Response: Again many of the issues noted are specific to or will be addressed by the centralization of the ESUCC structure. Particular attention will be given to the segregation of duties issue as it relates to new processes and procedures in the centralized accounting of the ESUCC. A review of employee duties and current procedures will identify areas where the ESUCC can address many of the segregation of duties issues for the future with existing staff.*

#### 4. **Annual Audit**

Neb. Rev. Stat. § 79-1229 (Reissue 2008) describes the process for Educational Service Units to obtain annual audits, and it states, "Such audit shall be conducted in the same manner as audits of county officers." Neb. Rev. Stat. § 23-1608 (Reissue 2007) describes the process for counties to obtain annual audits, and it states, "An original copy of the audit report shall be filed in the office of the county clerk and in the office of the Auditor of Public Accounts within twelve months after the end of each fiscal year."

ESUCC was not in compliance with the above State statutes regarding the timely completion of an annual audit as the audit for the fiscal year ended August 31, 2010, was not properly completed and filed within twelve months after the end of the fiscal year. Again, this finding is primarily due to the decentralized structure of ESUCC as described in Comment 1 above. The audit was delayed as the APA had to wait for ESUCC to obtain separate audit reports for each project and then compile each of those separate reports into one audit for ESUCC overall. The final project audit report was not received by the APA until August 24, 2011.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Annual Audit** (Concluded)

When ESUCC's annual audit is not completed within twelve months after the end of the fiscal year, the entity is not in compliance with State statutes.

We recommend ESUCC ensure an annual audit of ESUCC, as a whole, is completed within twelve months after the end of each fiscal year as required by State statute.

*ESUCC's Response: As noted, the nature of fiscal agents and individual audit processes made it difficult to complete an audit in a timely manner. The unique nature of this transition and the resulting centralized organization structure will make timely audit completion possible in the future.*



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

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

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### INDEPENDENT AUDITORS' REPORT

Board of Directors  
Educational Service Unit Coordinating Council

We have audited the accompanying financial statements of the governmental activities and the general fund of the Educational Service Unit Coordinating Council, as of and for the year ended August 31, 2010, which collectively comprise the Educational Service Unit Coordinating Council's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Educational Service Unit Coordinating Council's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Nebraska ESU Cooperative Purchasing, Distance Education Council, My E-Learning, Instructional Materials, and Special Education, which are components of Educational Service Unit Coordinating Council's general fund. Those financial statements represent 99 percent, 88 percent, and 92 percent respectively, of the assets, receipts/revenues, and disbursements/expenditures of the general fund. Those components were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Nebraska ESU Cooperative Purchasing, Distance Education Council, My E-Learning, Instructional Materials, and Special Education, is based on the reports of the other auditors.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ESUCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles, except the Nebraska ESU Cooperative Purchasing which reports on the modified accrual basis of accounting.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the assets and liabilities arising from cash transactions of the Educational Service Unit Coordinating Council as of August 31, 2010, and its revenue collected and expenses paid during the year then ended, except the Nebraska ESU Cooperative Purchasing, which reports on the modified accrual basis of accounting as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2011, on our consideration of the Educational Service Unit Coordinating Council'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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages 22 through 27 and 40 through 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Educational Service Unit Coordinating Council's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Signed Original on File

October 13, 2011

Don Dunlap, CPA  
Assistant Deputy Auditor

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Educational Service Unit Coordinating Council (ESUCC) provides the following discussion and analysis of ESUCC's financial performance, as reflected in the financial report for the fiscal year ended August 31, 2010. Please read it in conjunction with ESUCC's basic financial statements, which follow.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to ESUCC's financial statements. The provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board (GASB), "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," established standards for external financial reporting for all state and local government entities. These standards require three components for ESUCC's basic financial statements. They are: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements. This report also contains other supplementary information (e.g., combining schedules), required supplementary information (e.g., budgetary information) in addition to the basic financial statements. These components are described below:

##### **Government-wide Financial Statements**

These statements are intended to provide a broad view of ESUCC's operations in a manner similar to the private sector, providing both a short-term and a long-term view of ESUCC's financial position. To meet this view ESUCC would need to prepare its financial statements on the accrual basis of accounting. However, ESUCC did not prepare its government-wide statements on the accrual basis. Instead ESUCC prepared its government-wide statements on the cash basis of accounting, except the Nebraska ESU Cooperative Purchasing Unit, which was prepared using the modified accrual basis of accounting. Under the cash basis, receipts are not recorded until received, inventories are not recorded as disbursements until they are consumed, and accounts payable and accrued expenses (primarily payroll withholdings) have not been recognized as liabilities. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., are both measurable and available, and expenditures are recorded when the liability is incurred. Accordingly, ESUCC's government-wide financial statements are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles (GAAP) accepted in the United States of America. The government-wide financial statements include two statements, the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* (page 28) presents all of ESUCC's assets and liabilities on the cash and modified accrual basis as described above with the difference between the two reported as "net assets."

The *Statement of Activities* (page 29) presents information showing how ESUCC's net assets changed during the reported year. Changes reported are on the cash and modified accrual basis as described above. The statement of activities demonstrates the degree to which the direct disbursements/expenditures of a given function or segment are offset by program receipts/revenues. Direct disbursements/expenditures are those that are clearly identifiable with a

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

specific function or segment. Program receipts/revenues 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. Appropriations and other items not properly included among program receipts/revenues are reported, instead, as general receipts/revenues.

#### **Fund Financial Statements**

This is the second set of financial statements presented in the report. Under GAAP these statements would be different from the government-wide statements in that these statements would use a different accounting approach and focus on the near-term inflows and out flows of ESUCC operations. However, ESUCC prepared its fund financial statements on the same basis as it prepared its government-wide statements, that is, on the cash basis of accounting, except the Nebraska ESU Cooperative Purchasing Unit, which was prepared using the modified accrual basis of accounting. These basis of accounting are described above.

ESUCC has only one fund, the general fund. GAAP classifies funds into three categories- Governmental Funds, Proprietary Funds, and Fiduciary Funds. The general fund of an entity is classified as a Governmental Fund, as it accounts for all basic services. The Fund Financial Statements, which can be found on pages 30 and 31, provide detailed information about ESUCC's general fund. A fund is a method of accounting that uses a set of accounts to maintain accountability and control over specific sources of funding and spending for a particular activity or objective. GAAP requires governmental funds to use the modified accrual basis of accounting, as described above, since the fund financial statements are primarily on the cash basis these statements are also not intended to present the financial position and results of operations in conformity with GAAP.

Basically, ESUCC's fund financial statements and government-wide statements report the same financial information in the format required by GAAP.

The six projects that make up the general fund are: ESU Professional Development Organization (ESUPDO), Nebraska ESU Cooperative Purchasing Unit (Coop), the Distance Education Council (DEC), My E-Learning (MyE), Instructional Materials (I-Mat), and Special Education Projects (SPED).

#### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all of the basic financial statements. The notes can be found beginning on page 32.

#### **Required Supplementary Information**

Following the basic financial statements and the accompanying notes thereto, is additional Required Supplementary Information that further explains and supports the information in such financial statements. The required supplementary information consists of the budgetary schedule and notes.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

**Other Supplementary Information**

Other supplementary information consists of combining schedules. This information can be found on pages 42 through 44.

**FINANCIAL AND OPERATING HIGHLIGHTS**

ESUCC's Net Assets for the fiscal year ended August 31, 2010, compared to the 14 month period ended August 31, 2009, increased by \$436,884. This increase is primarily due to the timing of receipts and expenditures of Cooperative Purchasing because of activities of the annual buy process. The table below provides a more detailed picture of the changes in net assets.

**FINANCIAL ANALYSIS OF ESUCC AS A WHOLE**

**Net Assets**

ESUCC's assets totaled \$4,727,083 at August 31, 2010, as compared to \$4,514,499 at August 31, 2009. Total liabilities totaled \$3,343,389, net assets amounted to \$1,383,694 as of August 31, 2010. As of August 31, 2009, these amounts were \$3,572,295 and \$942,204, respectively.

Restricted net assets are subject to external restrictions or enabling legislation on how they can be used. The restricted net assets of \$835,142 as of August 31, 2010, was restricted for the member equity according to past practice of the project and may be used to help defray costs of the provision of the service or investment in cooperative purchasing project by member ESUs.

|                           | <b>Net Assets</b>      |                   |
|---------------------------|------------------------|-------------------|
|                           | <b>As of August 31</b> |                   |
|                           | <b>2010</b>            | <b>2009</b>       |
| <b>ASSETS:</b>            |                        |                   |
| Cash and Cash Equivalents | \$ 3,102,586           | \$ 3,119,105      |
| Accounts Receivable       | 1,622,743              | 1,393,437         |
| Prepaid Items             | 1,754                  | 1,957             |
| <b>Total Assets</b>       | <b>4,727,083</b>       | <b>4,514,499</b>  |
| <b>LIABILITIES</b>        | <b>3,343,389</b>       | <b>3,572,295</b>  |
| <b>NET ASSETS:</b>        |                        |                   |
| Restricted                | 835,142                | 568,812           |
| Unrestricted              | 548,552                | 373,392           |
| <b>Total Net Assets</b>   | <b>\$ 1,383,694</b>    | <b>\$ 942,204</b> |

As of August 31, 2010, 66% of ESUCC's assets consisted of cash and cash equivalents. This compares to 69% as of August 31, 2009. The majority of the remaining assets consist of accounts receivable at the Nebraska ESU Cooperative Purchasing Unit in the amount of \$1,622,743 and \$1,393,437 as of August 31, 2010, and 2009, respectively. The difference between the two years is generally a result of timing of receipts and expenditures of the annual buy project of Cooperative Purchasing.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

ESUCC's liabilities consist of liabilities at the Nebraska ESU Cooperative Purchasing Unit in the amount of \$3,343,389 and \$3,572,295 as of August 31, 2010, and 2009, respectively. The difference in liabilities year to year also varies based on the annual buy project.

ESUCC's net assets were \$1,383,694 and \$942,204 as of August 31, 2010, and 2009, respectively. ESUCC's net assets will vary based on receipts and expenditures in Cooperative Purchasing.

**Changes in Net Assets**

The condensed financial information below was derived from the government-wide Statement of Activities and reflects how ESUCC's net assets changed during the year. Following the table is management's analysis of the changes in net assets for the fiscal year ended August 31, 2010.

|  | <b>Fiscal Year<br/>Ended<br/>August 31, 2010</b> | <b>For the 14 month<br/>period July 1,<br/>2008 through<br/>August 31, 2009</b> |
|--|--|---|
| <b>Receipts/Revenues:</b>                    |  |   |
| Program Revenues                             |  |   |
| Charges for Services                         | \$ 6,858,317                                     | \$ 7,546,452  |
| Operating Grants and<br>Contributions        | 357,873  | 38,122  |
| <b>General Receipts/Revenues:</b>            |  |   |
| State Appropriations                         | 483,893  | 685,893   |
| Penalties and fees                           | 72,018   | 62,193  |
| Interest Income                              | 2,288  | 16,900  |
| Sale of Equipment                            | -  | 225   |
| Miscellaneous                                | 5,961  | 973   |
| <b>Total Receipts/Revenues</b>               | <u>7,780,350</u>                                 | <u>8,350,758</u>  |
| <b>Disbursements/Expenditures:</b>           |  |   |
| ESU Professional Development                 | 615,210  | 344,143   |
| Distance Education Council                   | 270,960  | 958,339   |
| My E-Learning                                | 353,053  | 475,488   |
| Special Education                            | 500,947  | 344,966   |
| Instructional Materials                      | 265,635  | 279,835   |
| Nebraska ESU Cooperative                     | 5,337,661  | 6,585,383   |
| <b>Total Disbursements/<br/>Expenditures</b> | <u>7,343,466</u>                                 | <u>8,988,154</u>  |
| Change in Net Assets                         | 436,884  | (637,396)   |
| <b>Net Assets - Beginning</b>                | <u>946,810</u>                                   | <u>1,579,600</u>  |
| <b>Net Assets - Ending</b>                   | <u>\$ 1,383,694</u>                              | <u>\$ 942,204</u>   |

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

As noted in the background information in this report, ESUCC was established beginning July 1, 2008. Several programs established under ESUCC that were previously part of an Education Service Unit had different fiscal year ends. In order to get all programs of ESUCC on the same fiscal year, the first audit report of ESUCC covered the 14 month period from July 1, 2008, through August 31, 2009. Thus management's analysis in this section will reflect this difference in reporting periods.

#### **Receipts/Revenues**

The largest single source of receipts/revenues for ESUCC is charges for services. Charges for services are primarily revenues generated by the Nebraska ESU Cooperative Purchasing Unit for services provided to ESUs and school districts and program receipts/revenues for the various projects. Charges for Services for the fiscal year ended August 31, 2010, were \$6,858,317 and for the 14 month period July 1, 2008, through August 31, 2009, were \$7,546,452. Some or all of the change between the two periods reflects the timing of Cooperative Purchasing receipts/revenues as well as the change in period length.

The second largest source of receipts/revenues is generated by general receipts/revenues. The general receipts/revenues were primarily made up of State appropriations for 1% of core services funding, but also included capital grants. General receipts/revenues for the fiscal year ended August 31, 2010, were \$564,160 and for the 14 month period from July 1, 2008, through August 31, 2009, were \$766,184. Again some or all of the change between periods may reflect the 12 month or 14 month period and the transition of the distance education program under ESUCC coincided with a decreased State appropriation for distance education.

#### **Disbursements/Expenditures**

The largest single purpose of disbursements/expenditures for ESUCC were expenditures for goods and services expended by the Nebraska ESU Cooperative Purchasing Unit for goods and services which are then provided to ESUs and school districts. Disbursements/expenditures for these services for the fiscal year ended August 31, 2010, were \$5,337,661 and for the 14 month period from July 1, 2008, through August 31, 2009, were \$6,585,383. Some or all of the changes between periods reflect the difference in transactions in the 12 month versus the 14 month period, as well as participation in Cooperative Purchasing's annual buy.

The remaining disbursements/expenditures for ESUCC relate primarily to the various other programs managed by ESUCC. Disbursements for various programs for the fiscal year ended August 31, 2010, were \$2,005,805 and for the 14 month period from July 1, 2008, through August 31, 2009, were \$2,402,771. Both the change in the length of the period and the changes in disbursements between the two years for distance education explain most of the difference between the periods.

#### **ANALYSIS OF ESUCC'S GENERAL FUND VARIATIONS**

The table below provides a comparison of budgeted receipts/revenues and disbursements/expenditures to actual receipts/revenues and disbursements/expenditures.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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

|                                  | <u>Budget</u>     | <u>Actual</u>       | <u>Positive<br/>(Negative)<br/>Variance</u> |
|----------------------------------|-------------------|---------------------|---|
| Beginning Balance                | \$ 969,788        | \$ 946,810          | \$ (22,978)                                 |
| Total Receipts/Revenues          | 9,949,451         | 7,780,350           | (2,169,101)                                 |
| Total Disbursements/Expenditures | <u>9,922,673</u>  | <u>7,343,466</u>    | <u>2,579,207</u>                            |
| Net Increase (Decrease)          | <u>26,778</u>     | <u>436,884</u>      | <u>410,106</u>                              |
| Ending Balance                   | <u>\$ 996,566</u> | <u>\$ 1,383,694</u> | <u>\$ 387,128</u>                           |

The largest variance between budgeted and actual receipts/revenues was Local Receipts/Revenues which were budgeted to be \$9,365,558, but were actually \$6,858,317. The majority of this variance can be explained primarily by the ESU Coop which typically experiences large fluctuations each year between budgeted and actual figures due to the high volume of purchases that can be made.

The largest variances between budgeted and actual disbursements/expenditures were due to the Coop Annual Buy and the Coop Special Buy which had budgeted \$6,172,452 and \$1,458,500 respectively, but incurred actual costs of \$4,795,753 and \$256,909 respectively. Again, this is due to the ESU Coop's large fluctuations described above.

**FACTORS THAT WILL AFFECT THE FUTURE**

Several factors influence the future of ESUCC and its projects. Projects that are based on conditions of ESUs and school districts as far as purchasing of products and services tend to vary depending on the levels of participation in Cooperative Purchasing, My eLearning, and professional development. General economics have created an environment where schools and ESUs have fewer resources available to buy goods and services. Additionally, State appropriations have been reduced for support of ESUCC and the Distance Education program. These reductions will impact overall resources available for the foreseeable future. Long-term trends may include strategic reorganization of projects and services to address the likelihood of a decrease in future resources.

**CONTACTING ESUCC'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers a general overview of ESUCC's finances and to demonstrate ESUCC's accountability for the money with which it is entrusted. If you have questions about this report or need additional financial information, contact Matthew L. Blomstedt, Executive Director, Educational Service Unit Coordinating Council, 455 South 11th Street, Suite C, Lincoln, Nebraska 68508. The telephone number is (402) 499-6756 and email address is [matt@esuucc.org](mailto:matt@esuucc.org).

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF NET ASSETS**

August 31, 2010

|                           | <u>Governmental<br/>Activities</u> |
|---------------------------|------------------------------------|
| <b>ASSETS</b>             |                                    |
| Cash and Cash Equivalents | \$ 3,102,586                       |
| Accounts Receivable       | 1,622,743                          |
| Prepaid Items             | <u>1,754</u>                       |
| Total Assets              | <u>4,727,083</u>                   |
| <b>LIABILITIES</b>        | <u>3,343,389</u>                   |
| <b>NET ASSETS</b>         |                                    |
| Restricted                | 835,142                            |
| Unrestricted              | <u>548,552</u>                     |
| Total Net Assets          | <u><u>\$ 1,383,694</u></u>         |

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended August 31, 2010

|                                      | Program Receipts/Revenues      |                         |  | Net (Disbursements/<br>Expenditures),<br>Receipts/Revenues,<br>and Changes in<br>Net Assets |
|--------------------------------------|--------------------------------|-------------------------|--|---|
|                                      | Disbursements/<br>Expenditures | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Total<br>Governmental<br>Activities   |
| <b>FUNCTIONS/PROGRAMS:</b>           |                                |                         |  |   |
| Primary Government                   |                                |                         |  |   |
| ESU Professional Development         | \$ 615,210                     | \$ 90,000               | \$ 320,373                               | \$ (204,837)  |
| Distance Education Council           | 270,960                        | 20,066                  | -  | (250,894)   |
| My E-Learning                        | 353,053                        | 135,582                 | -  | (217,471)   |
| Special Education                    | 500,947                        | 429,419                 | 37,500                                   | (34,028)  |
| Instructional Materials:             |                                |                         |  |   |
| General Administration               | 23,444                         | 40,683                  | -  | 17,239  |
| I-Mat Spring Buy                     | 95,568                         | 96,326                  | -  | 758   |
| I-Mat Special Project                | 34,205                         | 37,509                  | -  | 3,304   |
| Power Media Plus Services            | 111,668                        | 111,668                 | -  | -   |
| Ancillary Projects                   | 750                            | 750                     | -  | -   |
| Nebraska ESU Cooperative Purchasing: |                                |                         |  |   |
| General Administration               | 284,967                        | -                       | -  | (284,967)   |
| Coop Annual Buy                      | 4,795,753                      | 4,974,348               | -  | 178,595   |
| Special Buy                          | 256,909                        | 775,526                 | -  | 518,617   |
| Food Program                         | -                              | 114,633                 | -  | 114,633   |
| Custodial Buy                        | 32                             | 31,807                  | -  | 31,775  |
| Total Governmental Activities        | <u>\$ 7,343,466</u>            | <u>\$ 6,858,317</u>     | <u>\$ 357,873</u>                        | <u>(127,276)</u>  |
| General Receipts/Revenues:           |                                |                         |  |   |
| State Appropriations                 |                                |                         |  | 483,893   |
| Penalties and Fees                   |                                |                         |  | 72,018  |
| Interest Income                      |                                |                         |  | 2,288   |
| Miscellaneous                        |                                |                         |  | 5,961   |
| Total General Receipts/Revenues      |                                |                         |  | <u>564,160</u>  |
| Change in Net Assets                 |                                |                         |  | 436,884   |
| Net Assets - Beginning               |                                |                         |  | <u>946,810</u>  |
| Net Assets - Ending                  |                                |                         |  | <u>\$ 1,383,694</u>   |

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL  
**STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE**  
**GOVERNMENTAL FUND**  
August 31, 2010

|                                      | <i>Cash Basis</i> | <i>Modified</i>     |                     |
|--------------------------------------|-------------------|---------------------|---------------------|
|                                      | <i>General</i>    | <i>Accrual</i>      | <i>Total</i>        |
|                                      | <i>Fund</i>       | <i>General</i>      | <i>General</i>      |
|                                      | <i>Fund</i>       | <i>Fund</i>         | <i>Fund</i>         |
|                                      | <u>          </u> | <u>          </u>   | <u>          </u>   |
| <b>ASSETS:</b>                       |                   |                     |                     |
| Cash and Cash Equivalents            | \$ 190,515        | \$ 2,912,071        | \$ 3,102,586        |
| Accounts Receivable                  | -                 | 1,622,743           | 1,622,743           |
| Prepaid Items                        | -                 | 1,754               | 1,754               |
|                                      | <u>          </u> | <u>          </u>   | <u>          </u>   |
| Total Assets                         | <u>\$ 190,515</u> | <u>\$ 4,536,568</u> | <u>\$ 4,727,083</u> |
| <b>LIABILITIES AND FUND BALANCE:</b> |                   |                     |                     |
| Liabilities                          | <u>\$ -</u>       | <u>\$ 3,343,389</u> | <u>\$ 3,343,389</u> |
| Fund Balance                         |                   |                     |                     |
| Reserved                             | -                 | 835,142             | 835,142             |
| Unreserved                           | 190,515           | 358,037             | 548,552             |
| Total Fund Balance                   | <u>190,515</u>    | <u>1,193,179</u>    | <u>1,383,694</u>    |
| Total Liabilities and Fund Balance   | <u>\$ 190,515</u> | <u>\$ 4,536,568</u> | <u>\$ 4,727,083</u> |

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF RECEIPTS/REVENUES, DISBURSEMENTS/EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND**

For the Fiscal Year Ended August 31, 2010

|  | <i>Cash Basis</i><br><u>General Fund</u> | <i>Modified Accrual</i><br><u>General Fund</u> | <u>Total</u><br><u>General Fund</u> |
|--|--|--|-------------------------------------|
| <b>RECEIPTS/REVENUES:</b>  |  |  |                                     |
| Local  | \$ 962,003                               | \$ 5,896,314                                   | \$ 6,858,317                        |
| State  | 496,629                                  | -  | 496,629                             |
| Federal  | 345,137                                  | -  | 345,137                             |
| Penalties and Fees   | -  | 72,018   | 72,018                              |
| Miscellaneous  | 6,117                                    | 2,132  | 8,249                               |
| Total Receipts/Revenues  | <u>1,809,886</u>                         | <u>5,970,464</u>                               | <u>7,780,350</u>                    |
| <b>DISBURSEMENTS/EXPENDITURES:</b>                                     |  |  |                                     |
| Salaries and Benefits  | 538,862                                  | 219,990  | 758,852                             |
| General Administration   | 237,797                                  | 51,351   | 289,148                             |
| Purchased Services   | 559,431                                  | 4,861  | 564,292                             |
| Supplies and Equipment   | 31,387                                   | 8,346  | 39,733                              |
| Capital Outlay   | 8,375                                    | -  | 8,375                               |
| Miscellaneous  | 331,631                                  | 419  | 332,050                             |
| I-Mat  | 324                                      | -  | 324                                 |
| NOC  | 18,134                                   | -  | 18,134                              |
| SDA  | 15,856                                   | -  | 15,856                              |
| SPED   | 14,562                                   | -  | 14,562                              |
| TAG  | 7,255                                    | -  | 7,255                               |
| I-Mat Spring Buy   | 95,568                                   | -  | 95,568                              |
| I-Mat Special Project  | 34,205                                   | -  | 34,205                              |
| Power Media Plus Services  | 111,668                                  | -  | 111,668                             |
| Coop Annual Buy  | 750                                      | 4,795,753                                      | 4,796,503                           |
| Coop Special Buy   | -  | 256,909  | 256,909                             |
| Custodial Buy  | -  | 32   | 32                                  |
| Total Disbursements/Expenditures                                       | <u>2,005,805</u>                         | <u>5,337,661</u>                               | <u>7,343,466</u>                    |
| Excess of Receipts/Revenues Over<br>(Under) Disbursements/Expenditures | (195,919)                                | 632,803  | 436,884                             |
| Fund Balance - Beginning   | <u>386,434</u>                           | <u>560,376</u>                                 | <u>946,810</u>                      |
| Fund Balance - Ending  | <u>\$ 190,515</u>                        | <u>\$ 1,193,179</u>                            | <u>\$ 1,383,694</u>                 |

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

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### NOTES TO FINANCIAL STATEMENTS

#### 1. Summary of Significant Accounting Policies

##### *A. Organization*

The Educational Service Unit Coordinating Council (ESUCC) was created in statute to coordinate statewide activities of Nebraska's 17 Educational Service Units (ESUs). The governing body for ESUCC consists of an administrator representative from each of the 17 ESUs and an executive director. ESUCC was created by 2007 Neb. Laws LB 603 and officially came into existence according to statute on July 1, 2008. Neb. Rev. Stat. § 79-1246 (Reissue 2008) outlines ESUCC's general responsibilities and duties as follows:

The Educational Service Unit Coordinating Council shall work toward statewide coordination to provide the most cost-effective services for the students, teachers, and school districts in each educational service unit. ESUCC's duties include, but are not limited to:

- (a) Preparation of strategic plans to assure the cost-efficient and equitable delivery of services across the State;
- (b) Administration of statewide initiatives and provision of statewide services; and
- (c) Coordination of distance education.

Previous to the creation of ESUCC by the Nebraska Legislature, the 17 ESUs worked in partnership to provide statewide activities. Based on the above statutory authority, ESUCC decided that all statewide activities offered in partnership by the ESUs would be placed under the umbrella of ESUCC. In order to transition to the new structure, ESUCC established a master services agreement with each ESU. Additionally, fiscal agents for each of the projects were continued in the transition to ESUCC. Although identified separately in the "ESUCC Admin and Professional Development Organization" column of the Combining Schedule, ESUCC reports the general administrative costs of ESUCC overall along with the ESUPDO project costs.

The following is a brief description of each statewide project budgeted for and administered by ESUCC:

- **ESU Professional Development Organization (ESUPDO):** The ESUPDO serves as a collaborative effort to provide statewide training for ESU employees statewide. Professional development is among the core services identified by State statute for ESUs.
- **Distance Education Council (DEC):** Originating with the Distance Education Council formed by legislation in 2006 and evolving to a program under ESUCC. DEC originated as a State project with ESU 10 (Kearney) serving as the fiscal agent

## EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

### NOTES TO FINANCIAL STATEMENTS

(Continued)

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

for the State project. The State's distance education director is housed at ESU 10. Neb. Rev. Stat. § 79-1248 (Cum. Supp. 2010) describes the objectives of the project as an effort to build, improve and maintain the State's distance education network.

- **Nebraska ESU Cooperative Purchasing (Coop):** Nebraska ESU Cooperative Purchasing provides cooperating purchasing services to Educational Service Unit Member schools throughout the State of Nebraska. The Nebraska ESU Cooperative Purchasing's director and operations are housed at ESU 17 (Ainsworth).
- **Instructional Materials (I-Mat):** I-Mat is a statewide project that purchases rights to media materials and makes those available through local ESUs in a variety of formats. ESU 5 (Beatrice) serves as the fiscal agent for this project.
- **My E-Learning (MyE):** My E-Learning is a statewide project to make available an online learning management system to school districts, teachers, and students. ESU 10 (Kearney) serves as the fiscal agent for the project.
- **Special Education (SPED) Projects:** There are three special education projects managed by ESU 1 in Wakefield which serves as fiscal agent. The purpose of the SPED Project is for participating parties to pool their resources in connection with the special education services and for the training of special education teachers and other staff members employed by educational institutions within the State of Nebraska.

#### *B. Reporting Entity*

ESUCC is a governmental entity established under and governed by the laws of the State of Nebraska. In evaluating how to define ESUCC 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 financial statements include all funds for which ESUCC has oversight responsibility. ESUCC does not have any component units and has only one fund – the General Fund.

#### *C. Basis of Accounting*

ESUCC prepares its financial statements on the cash basis except Nebraska ESU Cooperative Purchasing Unit which uses the modified accrual basis of accounting. Under the cash basis, receipts are recognized when collected rather than when earned, and disbursements are recognized when paid rather than when incurred. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., are

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the liability is incurred. Consequently, these financial statements are not intended to present financial information in accordance with generally accepted governmental accounting standards.

***D. Basis of Presentation***

ESUCC 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 – (a) invested in capital assets, net of related debt; (b) restricted; and (c) unrestricted.

***E. Government-wide and Fund Financial Statements***

The basic financial statements include both government-wide and fund financial statements. The reporting model based on GASB Statement 34 focuses on ESUCC as a whole in the government-wide financial statements and major individual funds in the fund financial statements. The government-wide financial statements report information on all of the activities of the primary government and any component units. ESUCC has just one fund – the General Fund – and has no component units. Governmental activities, which normally are supported by taxes and intergovernmental receipts/revenues, are reported separately.

The statement of activities demonstrates the degree to which the direct disbursements/expenditures of a given function or segment are offset by program receipts/revenues. Direct disbursements/expenditures are those that are clearly identifiable with a specific function or segment. Program receipts/revenues 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. Appropriations and other items not properly included among program receipts/revenues are reported instead as general receipts/revenues.

***F. Fund Types***

The accounts of ESUCC are organized on the basis of funds. ESUCC has only one fund – the General Fund. The General Fund is grouped into the following fund type:

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

*Governmental Fund Type:*

- **General Fund** – This fund is the operating fund of ESUCC. It is used to account for all financing resources of ESUCC. Since ESUCC has only one fund – the General Fund, all financial activity of ESUCC is reported in this fund.

**G. Net Asset Classification**

*Government-Wide Statements:*

Net Assets are displayed in two components:

- 1) Restricted net assets – Consists of net assets with constraints placed on the use either by a) external groups such as creditors, grantors, contributors or laws, and regulations of other governments, or b) law through constitutional provisions or enabling legislation. ESUCC had restricted net assets in the Nebraska ESU Cooperative Purchasing, which consisted of members' equity in the amount of \$835,142. This amount is restricted by an agreement with each member ESU of the Coop project.
- 2) 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 ESUCC's policy to first use 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. ESUCC had reservations of fund balance in the Nebraska ESU Cooperative Purchasing, in the amount of \$835,142 which is reserved as members' equity.

**H. Fixed Assets**

A complete list of fixed assets is not maintained by ESUCC. Assets purchased by ESUCC are recorded as capital outlay disbursements. These financial statements do not include a statement of general fixed assets, which is required by generally accepted accounting principles.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

*I. Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. **Cash and Cash Equivalents**

Deposits (cash in bank) are carried at cost, which approximates market value. At August 31, 2010, ESUCC's carrying amount of deposits was \$362,432 for the General Fund. The following table shows the breakdown of deposits for each ESUCC project at August 31, 2010.\*

| <b>Project</b>                | <b>Cash</b>       |
|-------------------------------|-------------------|
| ESUPDO & ESUCC Administration | \$ (4,265)        |
| Cooperative Purchasing        | 3,253             |
| Instructional Materials       | 25,907            |
| Special Education Projects    | 337,537           |
| <b>TOTAL</b>                  | <b>\$ 362,432</b> |

The deposits of ESUCC were covered by Federal Depository Insurance Corporation (FDIC) or secured by collateral held by ESUCC's agent in ESUCC's name. However, certain times during the year deposits for ESUCC's General Fund bank account were not fully covered by FDIC or secured by collateral.

State statute authorizes ESUCC's Board to invest funds in securities, the nature of which individuals of prudence, discretion, and intelligence acquire or retain in dealing with 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 Board of Trustees approved the Investment Advisor making available to participants a fixed income investment program. This program allows participants to individually invest in securities issued by the United States Government or agencies or instrumentalities thereof, certificates of deposit, or other fixed income permitted by Nebraska law.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**2. Cash and Cash Equivalents (Concluded)**

Participation in the investment trust is voluntary for its members. 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. ESUCC had \$2,972,682 invested with NLAf as of August 31, 2010. The following table shows the breakdown of the amount invested with NLAf for each ESUCC project.\*

| <u>Project</u>                | <u>NLAf</u>                |
|-------------------------------|----------------------------|
| ESUPDO & ESUCC Administration | \$ 63,864                  |
| Cooperative Purchasing        | 2,908,818                  |
| Instructional Materials       | -                          |
| Special Education Projects    | -                          |
| <b>TOTAL</b>                  | <b><u>\$ 2,972,682</u></b> |

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.

\*The Distance Education Council and My E-Learning projects have not been included in the Cash and NLAf breakdowns by project noted above as these two projects have deficit balances. The fiscal agent for these projects (ESU 10) has supplemented this deficit balance and as such, the Cash and NLAf breakdown is not applicable. See table below showing reconciliation of Cash and NLAf above to Cash and Cash Equivalents on the Statement of Net Assets.

|                                    |                            |
|------------------------------------|----------------------------|
| Cash                               | \$ 362,432                 |
| NLAf                               | 2,972,682                  |
| DEC Deficit Balance                | (2,418)                    |
| MyE Deficit Balance                | (230,110)                  |
| <b>Cash &amp; Cash Equivalents</b> | <b><u>\$ 3,102,586</u></b> |

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments**

**Risk Management** – ESUCC 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. During the fiscal year, the ESUCC has chosen to purchase the following commercial insurance policies to cover these risks:

|  | <u>Limit</u> | <u>Deductible</u> |
|--|--------------|-------------------|
| Personal Property Coverage                               | \$ 1,000     | \$ 500            |
| General Liability  | \$ 2,000,000 | \$ -              |
| Employee Benefits Liability (deductible is per employee) | \$ 3,000,000 | \$ 1,000          |
| School Leaders E&O Liability                             | \$ 1,000,000 | \$ 5,000          |
| Automobile (Non-Owned & Hired) Liability                 | \$ 1,000,000 | \$ -              |
| Workers Compensation Insurance                           | \$ 500,000   | \$ -              |

In addition, the Nebraska ESU Cooperative Purchasing paid premiums to ESU 17 to maintain commercial insurance coverage covering each of the above risk of loss.

No insurance claims resulting from these risks were filed during the fiscal year by ESUCC, except for the Nebraska ESU Cooperative Purchasing. Settled claims for the Nebraska ESU Cooperative Purchasing have not exceeded the above coverage in the past three years.

4. **Statewide Project Disclosures**

A. ***ESUCC Administration and ESUPDO***

ESUCC Administration and the ESUPDO project began being incorporated into the new ESUCC's management after the fiscal year end of August 31, 2010. On October 15, 2010, the project's cash balance of \$663 was transferred to ESUCC's new bank account; however, \$369,515 still remained in the NLAF as of that date.

B. ***Distance Education Council***

ESU 10 ended its fiscal responsibilities for the Distance Education Council project on January 17, 2011, at which time the project balance of \$5,627 was transferred from ESU 10's bank account to ESUCC's bank account. Activity by ESU 10 from August 31, 2010, through the date of this report is shown below:

|                                    |             |
|------------------------------------|-------------|
| Deficit Balance, August 31, 2010   | \$ (2,418)  |
| Net transactions                   | 8,045       |
| Transfers to ESUCC's bank account  | (5,627)     |
| ESU 10's Balance, January 17, 2011 | <u>\$ -</u> |

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Statewide Project Disclosures** (Concluded)

**C. Nebraska ESU Cooperative Purchasing**

- 1) The Nebraska ESU Cooperative Purchasing contracts with ESU 17 for personnel, equipment, and facilities on a reimbursement basis for usage. ESU 17 is responsible for payroll taxes, fringe benefits, and upkeep of equipment.

|                                    |            |
|------------------------------------|------------|
|                                    | 2010       |
| Sales and commissions from ESU 17  | \$ 652,816 |
| Disbursements Reimbursed to ESU 17 | \$ 237,946 |

- 2) ESU 17 ended its fiscal responsibilities for the Cooperative Purchasing project as of August 31, 2010. That responsibility was transferred to ESUCC on September 1, 2010.

**2) *Instructional Materials***

ESU 5 ended its fiscal responsibilities for the Instructional Material project by September 30, 2010. The project balance of \$24,020 was transferred from ESU 5's bank account to ESUCC's bank account on September 13, 2010.

**3) *My E-Learning***

ESU 10 was scheduled to end its fiscal responsibilities for the My E-Learning Project entirely in the early part of the fiscal year ended August 31, 2011. ESU 10 stopped expending funds on September 16, 2010, but continued to collect revenues to offset the deficit project balance. As of May 4, 2011, ESUCC has not paid the deficit balance of \$83,264 owed to ESU 10 for the My E-Learning Project. Details of repayment are still being considered. Activity by ESU 10 from August 31, 2010, through the date of this report is shown below:

|                                       |                    |
|---------------------------------------|--------------------|
| Deficit Balance, August 31, 2010      | \$ (230,110)       |
| Net transactions                      | 235,301            |
| Transfers to ESUCC's bank account     | (88,455)           |
| ESU 10's Deficit Balance, May 4, 2011 | <u>\$ (83,264)</u> |

**4) *Special Education***

ESU 1 ended its fiscal responsibilities for Special Education as of August 31, 2010, at which time the project balance of \$337,537 was transferred from ESU 1's bank account to ESUCC's bank account.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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

For the Fiscal Year Ended August 31, 2010

|   | Budget<br>(Original/Final) | Actual              | Positive<br>(Negative)<br>Variance with<br>Final Budget |
|---|----------------------------|---------------------|---|
| <b>RECEIPTS/REVENUES:</b>   |                            |                     |   |
| Local   | \$ 9,365,558               | \$ 6,858,317        | \$ (2,507,241)  |
| State   | 583,893                    | 496,629             | (87,264)  |
| Federal   | -                          | 345,137             | 345,137   |
| Penalties and Fees  | -                          | 72,018              | 72,018  |
| Miscellaneous   | -                          | 8,249               | 8,249   |
| Total Receipts/Revenues   | <u>9,949,451</u>           | <u>7,780,350</u>    | <u>(2,169,101)</u>                                      |
| <b>DISBURSEMENTS/EXPENDITURES:</b>                                  |                            |                     |   |
| Salaries and Benefits   | 729,373                    | 758,852             | (29,479)  |
| General Administration  | 590,774                    | 289,148             | 301,626   |
| Purchased Services  | 422,818                    | 564,292             | (141,474)   |
| Supplies and Equipment  | 77,600                     | 39,733              | 37,867  |
| Capital Outlay  | 30,000                     | 8,375               | 21,625  |
| Miscellaneous   | -                          | 332,050             | (332,050)   |
| I-Mat   | 9,760                      | 324                 | 9,436   |
| NOC   | 44,500                     | 18,134              | 26,366  |
| SDA   | 24,730                     | 15,856              | 8,874   |
| SPED  | 45,000                     | 14,562              | 30,438  |
| TAG   | 19,400                     | 7,255               | 12,145  |
| I-Mat Spring Buy  | 102,000                    | 95,568              | 6,432   |
| I-Mat Special Project   | 42,500                     | 34,205              | 8,295   |
| Power Media Plus Services   | 110,766                    | 111,668             | (902)   |
| I-Mat Ancillary Projects  | 42,500                     | 750                 | 41,750  |
| Coop Annual Buy   | 6,172,452                  | 4,795,753           | 1,376,699   |
| Coop Special Buy  | 1,458,500                  | 256,909             | 1,201,591   |
| Custodial Buy   | -                          | 32                  | (32)  |
| Total Disbursements/Expenditures                                    | <u>9,922,673</u>           | <u>7,343,466</u>    | <u>2,579,207</u>  |
| Excess Receipts/Revenues Over (Under)<br>Disbursements/Expenditures | 26,778                     | 436,884             | 410,106   |
| Fund Balance - Beginning  | 969,788                    | 946,810             | (22,978)  |
| Fund Balance - Ending   | <u>\$ 996,566</u>          | <u>\$ 1,383,694</u> | <u>\$ 387,128</u>                                       |

See Notes to Required Supplementary Information.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Budget**

Budget Process and Property Taxes – ESUCC 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 disbursements/expenditures may not legally exceed total appropriations. Appropriations lapse at year end and any revisions require Board approval.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMBINING SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCE  
GENERAL FUND**

August 31, 2010

|                           | <i>Cash Basis</i>   |                                  |                            |                     |                      | <i>Modified<br/>Accrual</i>            |  |                          |
|---------------------------|---|----------------------------------|----------------------------|---------------------|----------------------|--|--|--------------------------|
|                           | ESUCC<br>Admin and<br>Professional<br>Development<br>Organization | Distance<br>Education<br>Council | Instructional<br>Materials | My E-<br>Learning   | Special<br>Education | Total<br>Cash Basis<br>General<br>Fund | Nebraska<br>ESU<br>Cooperative<br>Purchasing | Total<br>General<br>Fund |
| <b>ASSETS:</b>            |   |                                  |                            |                     |                      |  |  |                          |
| Cash & Cash Equivalents   | \$ 59,599   | \$ (2,418)                       | \$ 25,907                  | \$ (230,110)        | \$ 337,537           | \$ 190,515                             | \$ 2,912,071                                 | \$ 3,102,586             |
| Accounts Receivable       | -   | -                                | -                          | -                   | -                    | -                                      | 1,622,743                                    | 1,622,743                |
| Prepaid Items             | -   | -                                | -                          | -                   | -                    | -                                      | 1,754  | 1,754                    |
| <b>Total Assets</b>       | <b>59,599</b>   | <b>(2,418)</b>                   | <b>25,907</b>              | <b>(230,110)</b>    | <b>337,537</b>       | <b>190,515</b>                         | <b>4,536,568</b>                             | <b>4,727,083</b>         |
| <b>LIABILITIES</b>        | <b>-</b>  | <b>-</b>                         | <b>-</b>                   | <b>-</b>            | <b>-</b>             | <b>-</b>                               | <b>3,343,389</b>                             | <b>3,343,389</b>         |
| <b>FUND BALANCE:</b>      |   |                                  |                            |                     |                      |  |  |                          |
| Reserved                  | -   | -                                | -                          | -                   | -                    | -                                      | 835,142                                      | 835,142                  |
| Unreserved                | 59,599  | (2,418)                          | 25,907                     | (230,110)           | 337,537              | 190,515                                | 358,037                                      | 548,552                  |
| <b>Total Fund Balance</b> | <b>\$ 59,599</b>  | <b>\$ (2,418)</b>                | <b>\$ 25,907</b>           | <b>\$ (230,110)</b> | <b>\$ 337,537</b>    | <b>\$ 190,515</b>                      | <b>\$ 1,193,179</b>                          | <b>\$ 1,383,694</b>      |

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMBINING SCHEDULE OF RECEIPTS/REVENUES, DISBURSEMENTS/EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GENERAL FUND

For the Fiscal Year Ended August 31, 2010

|                             | <i>Cash Basis</i>  |                                  |                            |                   |                      | <i>Modified<br/>Accrual</i>            |  |                          |
|-----------------------------|--|----------------------------------|----------------------------|-------------------|----------------------|--|--|--------------------------|
| ESUCC                       | Admin and<br>Professional<br>Development<br>Organization | Distance<br>Education<br>Council | Instructional<br>Materials | My E-<br>Learning | Special<br>Education | Total<br>Cash Basis<br>General<br>Fund | Nebraska<br>ESU<br>Cooperative<br>Purchasing | Total<br>General<br>Fund |
| RECEIPTS/REVENUES:          |  |                                  |                            |                   |                      |  |  |                          |
| Local                       | \$ 90,000  | \$ 20,066                        | \$ 286,936                 | \$ 135,582        | \$ 429,419           | \$ 962,003                             | \$ 5,896,314                                 | \$ 6,858,317             |
| State                       | 496,629  | -                                | -                          | -                 | -                    | 496,629                                | -  | 496,629                  |
| Federal                     | 307,637  | -                                | -                          | -                 | 37,500               | 345,137                                | -  | 345,137                  |
| Penalties and Fees          | -  | -                                | -                          | -                 | -                    | -                                      | 72,018                                       | 72,018                   |
| Miscellaneous               | 6,117  | -                                | -                          | -                 | -                    | 6,117                                  | 2,132  | 8,249                    |
| Total Receipts/Revenues     | 900,383  | 20,066                           | 286,936                    | 135,582           | 466,919              | 1,809,886                              | 5,970,464                                    | 7,780,350                |
| DISBURSEMENTS/EXPENDITURES: |  |                                  |                            |                   |                      |  |  |                          |
| Salaries and Benefits       | 100,693  | 99,784                           | 14,696                     | 224,782           | 98,907               | 538,862                                | 219,990                                      | 758,852                  |
| General Administration      | 136,962  | -                                | -                          | -                 | 100,835              | 237,797                                | 51,351                                       | 289,148                  |
| Purchased Services          | -  | 159,241                          | 6,739                      | 117,175           | 276,276              | 559,431                                | 4,861  | 564,292                  |
| Supplies and Equipment      | -  | 4,706                            | 1,491                      | 261               | 24,929               | 31,387                                 | 8,346  | 39,733                   |
| Capital Outlay              | -  | 2,176                            | -                          | 6,199             | -                    | 8,375                                  | -  | 8,375                    |
| Miscellaneous               | 321,424  | 5,053                            | 518                        | 4,636             | -                    | 331,631                                | 419  | 332,050                  |
| I-Mat                       | 324  | -                                | -                          | -                 | -                    | 324                                    | -  | 324                      |
| NOC                         | 18,134   | -                                | -                          | -                 | -                    | 18,134                                 | -  | 18,134                   |
| SDA                         | 15,856   | -                                | -                          | -                 | -                    | 15,856                                 | -  | 15,856                   |
| SPED                        | 14,562   | -                                | -                          | -                 | -                    | 14,562                                 | -  | 14,562                   |
| TAG                         | 7,255  | -                                | -                          | -                 | -                    | 7,255                                  | -  | 7,255                    |

(Continued)

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMBINING SCHEDULE OF RECEIPTS/REVENUES, DISBURSEMENTS/EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GENERAL FUND

For the Fiscal Year Ended August 31, 2010

|  | <i>Cash Basis</i>   |                                  |                            |                     |                      | <i>Modified<br/>Accrual</i>            |  |                          |
|--|---|----------------------------------|----------------------------|---------------------|----------------------|--|--|--------------------------|
|  | ESUCC<br>Admin and<br>Professional<br>Development<br>Organization | Distance<br>Education<br>Council | Instructional<br>Materials | My E-<br>Learning   | Special<br>Education | Total<br>Cash Basis<br>General<br>Fund | Nebraska<br>ESU<br>Cooperative<br>Purchasing | Total<br>General<br>Fund |
| DISBURSEMENTS/EXPENDITURES, Continued:                                 |   |                                  |                            |                     |                      |  |  |                          |
| I-Mat Spring Buy   | -   | -                                | 95,568                     | -                   | -                    | 95,568                                 | -  | 95,568                   |
| I-Mat Special Project  | -   | -                                | 34,205                     | -                   | -                    | 34,205                                 | -  | 34,205                   |
| Power Media Plus Services  | -   | -                                | 111,668                    | -                   | -                    | 111,668                                | -  | 111,668                  |
| Ancillary Projects   | -   | -                                | 750                        | -                   | -                    | 750                                    | -  | 750                      |
| Coop Annual Buy  | -   | -                                | -                          | -                   | -                    | -                                      | 4,795,753                                    | 4,795,753                |
| Coop Special Buy   | -   | -                                | -                          | -                   | -                    | -                                      | 256,909                                      | 256,909                  |
| Custodial Buy  | -   | -                                | -                          | -                   | -                    | -                                      | 32   | 32                       |
| Total Disbursements/Expenditures                                       | <u>615,210</u>  | <u>270,960</u>                   | <u>265,635</u>             | <u>353,053</u>      | <u>500,947</u>       | <u>2,005,805</u>                       | <u>5,337,661</u>                             | <u>7,343,466</u>         |
| OTHER FINANCING SOURCES (USES):  |   |                                  |                            |                     |                      |  |  |                          |
| Interfund Transfers  | <u>(266,713)</u>  | <u>266,713</u>                   | <u>-</u>                   | <u>-</u>            | <u>-</u>             | <u>-</u>                               | <u>-</u>                                     | <u>-</u>                 |
| Total Other Financing Sources (Uses)                                   | <u>(266,713)</u>  | <u>266,713</u>                   | <u>-</u>                   | <u>-</u>            | <u>-</u>             | <u>-</u>                               | <u>-</u>                                     | <u>-</u>                 |
| Excess of Receipts/Revenues Over<br>(Under) Disbursements/Expenditures | 18,460  | 15,819                           | 21,301                     | (217,471)           | (34,028)             | (195,919)                              | 632,803                                      | 436,884                  |
| Fund Balance - Beginning   | <u>41,139</u>   | <u>(18,237)</u>                  | <u>4,606</u>               | <u>(12,639)</u>     | <u>371,565</u>       | <u>386,434</u>                         | <u>560,376</u>                               | <u>946,810</u>           |
| Fund Balance - Ending  | <u>\$ 59,599</u>  | <u>\$ (2,418)</u>                | <u>\$ 25,907</u>           | <u>\$ (230,110)</u> | <u>\$ 337,537</u>    | <u>\$ 190,515</u>                      | <u>\$ 1,193,179</u>                          | <u>\$ 1,383,694</u>      |

(Concluded)



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL  
**INDEPENDENT AUDITORS' 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 Coordinating Council  
Lincoln, Nebraska:

We have audited the financial statements of the governmental activities and the general fund of the Educational Service Unit Coordinating Council as of and for the year ended August 31, 2010, which collectively comprise Educational Service Unit Coordinating Council's basic financial statements and have issued our report thereon dated October 13, 2011. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Nebraska ESU Cooperative Purchasing, Distance Education Council, My E-Learning, Instructional Materials, and Special Education, which are components of the Educational Service Unit Coordinating Council's general fund, as described in our report on the Educational Service Unit Coordinating Council's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

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

Management of the Educational Service Unit Coordinating Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Educational Service Unit Coordinating Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Unit Coordinating Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Unit Coordinating Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material

weaknesses have been identified. However, as described in the Comments Section of this report we and other auditors identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We and other auditors consider the deficiencies described in the Comments Section of this report as Comment Number 1 (Organizational Structure and Internal Control Systems), Comment Number 2 (ESUPDO and Administrative Issues Noted), and Comment Number 3 Part C.1 (Fiscal Agent Comments – Cooperative Purchasing – Segregation of Duties) to be material weaknesses.

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. Other auditors consider the deficiencies described in the Comments Section of this report as Comment Number 3 Parts A, B, and C.2 (Fiscal Agent Comments – MyE-Learning and Distance Education Council, Instructional Materials, and Cooperative Purchasing – Risk of Misstatement) to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Educational Service Unit Coordinating Council'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 also noted a certain matter which is described in the Comments Section of this report as Comment Number 4 (Annual Audit).

The Educational Service Unit Coordinating Council's responses to the findings identified in our audit are described in the accompanying Comments Section of this report. We did not audit the Educational Service Unit Coordinating Council's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the ESUCC Board of Directors, management, and Federal awarding agencies, pass-through entities and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

October 13, 2011

Don Dunlap, CPA  
Assistant Deputy Auditor