

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 10
JULY 1, 2011 THROUGH JUNE 30, 2012**

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Issued on November 21, 2012

EDUCATIONAL SERVICE UNIT NO. 10

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EDUCATIONAL SERVICE UNIT NO. 10

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Service Unit No. 10
Kearney, Nebraska

We have audited the accompanying financial statements of the governmental activities and each major fund of Educational Service Unit No. 10 (ESU No. 10), as of and for the year ended June 30, 2012, which collectively comprise ESU No. 10's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Educational Service Unit No. 10's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities and each major fund of Educational Service Unit No. 10, as of June 30, 2012, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of Educational Service Unit No. 10's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Educational Service Unit No. 10's basic financial statements. The combined and fund financial statements, budgetary comparison information, schedule of American Recovery and Reinvestment Act Funding, schedule of County Treasurer's Fund, and schedule of expenditures of Federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Educational Service Unit No. 10's basic financial statements. Management's Discussion and Analysis is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

SIGNED ORIGINAL ON FILE

November 19, 2012

Pat Reding, CPA, CFE
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Educational Service Unit No. 10's (ESU No. 10) annual audit report presents our discussion and analysis of ESU No. 10's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with ESU No. 10's financial statements which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

ESU No. 10 is completing this audit report in compliance with the provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "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.

This annual report consists of four parts: (1) *Management's Discussion and Analysis* (this section); (2) *the Basic Financial Statements – Cash Basis*; (3) *Supplemental Schedules*; and (4) *Information on the Single Audit (Federal Funds)*.

The accompanying basic financial statements have been prepared on the cash basis of accounting. Accordingly, the financial statements and supplemental schedules are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. The use of the cash basis of accounting is permissible under Title 92, Nebraska Administrative Code, Chapter 2, for public school entities.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for good or services received but not yet paid) are not recorded in these financial statements. Also, capital assets and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The financial statements report information on all the activities of Educational Service Unit No. 10. For the purposes of more closely tracking certain activities that would be similar to those funded through special activity accounts at public school districts, ESU No. 10's financial reports include sub-sections for what have been identified as a *capital improvements fund* and an *employee benefit fund*.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data about the financial statements and service unit commitments and contingencies that are not reported in the cash basis financial statements. The statements are followed by a section of *Supplementary Information* that further explains and supports the information in the financial statements.

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL HIGHLIGHTS (Detailed Information Follows Later in this *Discussion & Analysis*)

- ESU No. 10's total net cash assets, as compared to the prior fiscal year, decreased by \$359,055 or 8.4%. This was the combined result of decreased receipts and increased expenditures as explained later in this analysis.
- Total receipts were approximately \$383,000 less in the fiscal year ended June 30, 2012, than in the fiscal year ended June 30, 2011; and total expenditures were approximately \$529,000 more in the fiscal year ended June 30, 2012, than in the fiscal year ended June 30, 2011.
- ESU No. 10 began a facilities expansion and remodeling project in April of 2008. Over the course of fiscal years 2007-2008 through 2009-2010, expenditures totaling \$1,789,352.62 were made toward completion of this project.

The fiscal impact of the nearly \$1.8 million spent on the facility expansion project was lessened by the fact that ESU No. 10 obtained a \$900,000 loan from Wells Fargo Bank, N.A. on October 10, 2008. These funds were kept in reserve in six time deposit accounts with staggered maturity dates at Wells Fargo Bank, N.A. in the event the normal flow of cash receipts was insufficient to meet payment obligations. \$350,000 of this loan was repaid in the 2009-2010 fiscal year, \$350,000 of this loan was repaid in the 2010-2011 fiscal year, and the balance of \$200,000 was repaid during the 2011-2012 fiscal year. A more detailed discussion of the loan is contained later in this report (see "Debt Administration" toward the end of this MD&A section of the audit report).

- ESU No. 10's year-end cash assets continue to be negatively impacted by the Nebraska Department of Education's policy whereby the majority of Federal funds awarded are not actually released to ESU No. 10 until ESU No. 10 incurs the pre-approved expenses and files requisite reports. ESU No. 10 strives to present and operate a budget that contains sufficient cash reserves to cover these temporary funding gaps.
- The primary reasons for the increase in ESU No. 10's total disbursements in 2011-2012 compared to the 2010-2011 disbursements, by category of expenditure, are noted below.
 - Expenditures in programs categorized as basic service programs increased approximately \$242,000 (8.20%).
 - This increase was partially the net result of reclassifying staff development programs and technology programs as basic services or core services due to funding source changes. Staff development program expenditures categorized as basic services decreased approximately \$223,000 and technology program expenditures categorized as basic services increased approximately \$545,000.

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

- Other significant changes in this category of expenditures included a \$170,875 reduction in debt service and an increase of approximately \$100,000 in other technology programs.
- Expenditures in programs categorized as core service/technology infrastructure programs increased approximately \$28,000 (1.20%).
 - Reclassification of staff development program expenditures, as noted above, resulted in an increase of approximately \$223,000 in this category, and reclassification of technology program expenditures, as noted above, resulted in a decrease of approximately \$545,000 in this category.
 - Expenditures of non-federal flow-through funds related to the administration of a Federal Rural Utilities Services grant program were approximately \$372,000 more in 2011-2012 than in 2010-2011.
 - Discontinuance of the administration of an on-line learning statewide consortium as of June 30, 2011, reduced expenditures in this category by approximately an additional \$198,000.
 - Other expenditures for staff development and technology programs in this category increased nearly \$176,000 to meet the greater demands for these services by the districts served by ESU No. 10. A substantial portion of these increased expenditures were flow-through in nature (offset by workshop fees and/or reimbursement for purchases of equipment on behalf of districts).
- Delivery of special education services in 2011-2012 cost only approximately \$21,000 (.76%) more than in 2010-2011. This was largely due to the bulk of salary and benefit increases in this area being offset by a reduction in the number of resource specialists and deaf educators on staff in 2011-2012 due to a decrease in requests for services from contracting districts.
- Expenditures in State grant programs increased approximately \$10,000 to a total of \$11,509. This was due to the discontinuance of the Waste Reduction & Recycling grant in 2010-2011 and minimal State funding of the Assisted Technology Program in 2011-2012.
- Expenditures in Federal grant programs increased nearly \$225,000 (8.92%) to a total of nearly \$2,748,000 due mostly to the following major program changes.
 - Limited English Proficiency and Immigrant Education program expenditures increased just under \$13,000.
 - Title I program expenditures increased just over \$68,000.

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

- Migrant Education program expenditures decreased approximately \$142,000.
 - Title II-A program expenditures increased just over \$21,000.
 - Special Education Continuous Improvement Application program expenditures decreased just over \$28,000.
 - A new Early Childhood Training grant began in 2011-2012 and had expenditures of just over \$60,000.
 - Vocational Consortium (Perkins) grant expenditures decreased by approximately \$34,000.
 - Title II-D Technology grant expenditures decreased by approximately \$35,000.
 - The Rural Utilities Services technology grant expenditures increased by nearly \$358,000.
 - Expenditures in programs funded with American Recovery and Reinvestment Act of 2009 funds decreased a total of \$22,646.
 - All other Federal grant programs remained fairly stable.
- The primary reasons for the decrease in ESU No. 10's total receipts in 2011-2012 compared to the 2010-2011 receipts are noted below.
 - Property tax receipts increased \$119,871 (6.73%). The increase was due to increased valuations as ESU No. 10's tax levy for 2010-2011 and 2011-2012 was the same (\$.015 per \$100 of valuation).
 - The amount of property tax receipts reported in this audit report and on ESU No. 10's official 2011-2012 Annual Financial Report as filed with the Nebraska Department of Education are \$1,904 less than the property tax receipts reported on ESU No. 10's official 2011-2012 budget document as filed with the Auditor of Public Accounts. This amount is the difference between the beginning (July 1, 2011) and ending (June 30, 2012) balances on file with the county treasurers (\$24,939 and \$26,843 respectively). Budget document instructions require adjusting the actual cash receipts to reflect these accrued amounts. These same beginning and ending county treasurers' balances are reported separately on the AFR and in several places in this audit report without impacting actual cash receipts.

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

- Low interest rates continued to negatively impact the earning power of ESU No. 10's idle funds in 2011-2012. The amount of interest earned on all funds (interest-bearing checking, investments and idle funds) in 2011-2012 was \$27,191 lower (50%) than was earned in 2010-2011.
- Other programs with substantial decreased general fund revenues in 2011-2012 were cooperative purchasing (down almost 28% or about \$171,700) funds associated with ESU No. 10's role as fiscal agent for the Distance Education Coordinating Council (down 100% or \$28,016 due to discontinuation of that role as of June 30, 2011), funds associated with ESU No. 10's role as fiscal agent for the on-line learning statewide consortium (down 100% or \$259,426 due to discontinuation of that role as of June 30, 2011), and Federal grant programs administration (down almost 7% or \$187,504).
- Funding from the State to be used in the delivery of mandated core service and technology infrastructure programs decreased by \$107,277 (7.02%) in 2011-2012.
- Receipts from school districts for the delivery of contracted special education remained relatively stable in 2011-2012, increasing only 1.54% or about \$30,000.
- ESU No. 10 received \$4,000 more in distance education incentive funds (LB 1208) in 2011-2012 than in 2010-2011.
- Receipts in Federal grant programs decreased approximately \$188,000 (about 7%) to \$2,469,454 due mostly to the following major program changes.
 - Discontinuance of delivery of programs funded by the American Recovery and Reinvestment Act of 2009 resulted in \$177,983 less in receipts.
 - Discontinuance of Title IV Safe and Drug Free Schools programs resulted in \$8,989 less in receipts.
 - Discontinuance of new Title II-D Technology programs resulted in \$90,304 less in receipts.
 - Receipts to fund regular Title I programs decreased \$281,062.
 - Receipts to fund the Rural Utilities Services technology grant increased \$494,011.
 - Receipts to fund a special Department of Health and Human Services audiology grant increased \$14,278.
 - Receipts to fund a new Early Childhood Training program increased \$63,087.

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

- Receipts from the Medicaid Administration Consortium increased by \$35,102.
 - Reductions and increases for receipts for other Federal programs that were due more to the timing of reimbursement requests and subsequent payments than to actual changes in program awards combined to make up the balance of the overall reduction in Federal receipts.
- Receipts for State funded programs in this audit report are \$10,346 more than those reported on ESU No. 10's official 2012-2013 budget document as filed with the Nebraska Auditor of Public Accounts, and receipts for federally funded programs in this audit report are \$10,346 less than those reported on ESU No. 10's official 2012-2013 budget document as filed with the Nebraska Auditor of Public Accounts. This amount represents \$10,346 of receipts associated with the administration of the ATP grants. When funding is applied for and awarded for the ATP program, no distinction is made between Federal and State funds so it is all assumed to be Federal funds and is coded that way on ESU No. 10's financial records. The \$10,346 of ATP receipts are included in the Federal funds section of the budget document rather than in the State funds section.
- Budget restrictions for service units are based on receipts.

FINANCIAL ANALYSIS OF ESU NO. 10 AS A WHOLE

Governmental Activities

Federal Funding

Many of the Federal programs administered by ESU No. 10 are consorted funds whereby districts served by ESU No. 10 are awarded Federal funds which they then assign to ESU No. 10 as the repository for program administration and delivery and expenditure on approved activities. In addition to the consorted funds, ESU No. 10 also receives some direct Federal funding. All Federal funds, whether consorted or direct, are reported as Federal funds for ESU No. 10's audit purposes. In 2011-2012 Federal receipts constituted \$2,469,454 or approximately 23% of ESU No. 10's receipts, down just slightly from 24% in 2010-2011.

Personal and Real Property Tax Funding

Funding from local property taxes constituted 17.72% (\$1,900,770) of ESU No. 10's total receipts in 2011-2012, up from 16.02% in 2010-2011. Actual property tax dollars received increased from \$1,780,899 in 2010-2011 to \$1,900,770 (\$119,871 or 6.73%) in 2011-2012. It should be noted that the increase in tax dollar asking in 2011-2012 over 2010-2011 was only 6.62%. The fact that 6.73% was actually received is a reflection of payment of back taxes by property tax owners and subsequent "late" remittances to ESU No. 10.

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Service units are restricted to a \$.015 per \$100 valuation levy, and this is the levy that was certified for ESU No. 10 for 2010-2011 and 2011-2012. Any increase in property tax receipts, therefore, can be attributed directly to increased valuations against which the levy is assessed. (Since the capital improvements fund and employee benefit fund are funds for financial reporting purposes and not separate funds for tax levy purposes, no separate levy can be or is assessed for these funds.)

In 2010-2011, ESU No. 10's assessed valuation was \$12,824,275,673. In 2011-2012, it increased by \$848,762,593 (6.62%) to \$13,673,038,266.

The 2010-2011 tax asking was \$1,923,641.35. The 2011-2012 tax asking was \$2,050,955.74, an increase of \$127,314.39 (6.62%).

Note: Levies are expressed in dollars and cents per \$100 of valuation. For example, ESU No. 10's total property tax on a \$100,000 property in both 2010-2011 and 2011-2012 was \$15.00.

State Funding

In the 1998-1999 fiscal year, service units began receiving State funding for the delivery of core service programs and to assist in funding service units' technology infrastructure. The formula for distributing these funds was amended (as further explained in the following paragraph) beginning with funds allocated for the 2008-2009 fiscal year. Core service programs are stipulated by the Nebraska Department of Education.

ESU No. 10 realized a significant increase in State funding in the form of core service/technology infrastructure monies in 2008-2009 compared to 2007-2008 (from \$924,345 to \$1,553,392 or \$629,047). This increase was the result of the State legislature's creation of an alternative funding formula that also set a statewide rate for base revenue need. Since ESU No. 10 was one of the top two most efficiently run ESUs in the State, a common cost per pupil benefited ESU No. 10 and gave ESU No. 10 more funds to operate and deliver the approved program of services. A portion of the increased funding could also be attributed to the new formula providing funding for satellite offices since ESU No. 10 has a satellite office located in Cozad, Nebraska.

While the significant increase in core service monies was beneficial in 2008-2009, core service program expenditures actually increased that year by \$953,191 which was \$28,846 more than the increase in funding. Without a decrease in the scope of the programs ESU No. 10 is required to deliver with these funds, core service funds from the State actually decreased by \$931 in 2009-2010, by \$25,322 in 2010-2011, and by another \$107,277 in 2011-2012. Therefore, the continued inadequacy in State funding to fully fund all mandated services continues to cause a significant portion of the financial support for the delivery of those programs to come from tax levy funding.

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Other State funding (in addition to homestead exemption, State tax credit funds, pro-rata motor vehicle taxes, and program-specific funds) was received by ESU No. 10 to help fund special education services, to help administer the Federal Assistive Technology Program, and to help offset distance education expenditures.

Total State funds received by ESU No. 10 in 2011-2012 were \$2,154,667 or \$67,513 less than the \$2,222,180 of State funds received by ESU No. 10 in 2010-2011.

State funding accounted for 20.09% of all receipts in 2011-2012.

Other Funding Sources

The balance of funds received by ESU No. 10 is reported as local and non-revenue receipts and is comprised of such receipts as carline taxes, interest on investments, contracted services payments, cooperative purchasing program receipts, training fees, and workshop registrations. In 2011-2012, these funds totaled \$4,200,800 or 39.17% of all receipts.

Miscellaneous Fiscal Note

ESU No. 10's role as fiscal administrator for a statewide on-line learning consortium (My E-Learning) was transferred to the Nebraska Educational Service Unit Coordinating Council (ESUCC) toward the end of the 2010-2011 fiscal year. As of June 30, 2011, the My E-Learning program at ESU No. 10 had a negative cash balance of \$155,067.90 after transferring \$71,803.49 to ESUCC on June 20, 2011. Project equipment, at a depreciated rate, was also transferred to ESUCC ownership as of June 30, 2011.

As noted on page 39 of the Educational Service Unit Coordinating Council's Audit issued by the Nebraska Auditor of Public Accounts on October 14, 2011, for the period of September 1, 2009, through August 31, 2010:

"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."

As of June 30, 2012, ESUCC still had not paid the deficit balance owed to ESU No. 10 for the on-line learning consortium.

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Interlocal Agreements

In order to maximize cooperative efforts when possible between other governmental entities and to minimize general operation costs and some specific program product and delivery costs, ESU No. 10 participates in Interlocal agreements as allowed by State statute. During the 2011-2012 year, these agreements included the following:

- The Nebraska Educational Service Unit Coordinating Council (ESUCC) now coordinates the following statewide programs for all Nebraska ESUs: Professional Development Organization; Distance Education; Cooperative Purchasing; Instructional Materials; Learning Management Systems; and Special Education Project. A management agreement between ESU No. 10 and ESUCC is approved by the ESU No. 10 governing board annually.
- Nebraska Association of School Boards All Lines Interlocal Cooperative Aggregate Pool (ALICAP) to obtain property, commercial, general liability, auto liability and physical damage, board errors & omissions, crime, public employee dishonesty and worker's compensation insurance coverages.
- National Joint Powers Alliance (NJPA) Cooperative Marketing Agreement to offer purchasing opportunities and defined services to qualified customers as a result of a contract and marketing relationship developed by NJPA and vendors on behalf of ESU No. 10.
- Buffalo County to allow ESU No. 10 to provide technology network services management and support to that county.
- The City of Kearney, Buffalo County, and Kearney Public Schools to jointly purchase vehicle gasoline.
- A consortium called the Greater Nebraska Education Network Consortium whose members consisted of ESUs 10, 11, 13, 15, and 16 to share technology network and infrastructure support.
- The Nebraska Schools Medicaid Consortium which allows Nebraska school districts and ESUs to jointly prepare, document, and submit claims to the Nebraska Department of Health and Human Services for reimbursement for administrative expenses under the School-Based Medicaid Administrative Outreach Program and to jointly contract for consulting services in the preparation and processing of said claims.

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

General Fund Budgetary Highlights

ESU No. 10's actual year-end cash position (all funds) decreased by \$360,959 from \$4,248,389 as of June 30, 2011, to \$3,887,430 as of June 30, 2012. Both year-end cash amounts reported in this paragraph include amounts in the bank potentially due to employees from cafeteria benefit fund collections but pending claims submission and approval.

ESU No. 10's *proposed budget* for 2011-2012 included a necessary cash reserve of \$2,500,000.

When preparing proposed budgets, ESU No. 10 must anticipate new programs and services will be requested by school districts and budget as if everything will be accomplished as projected. If services or programs are not needed or if funds cannot be solicited, then no related funds are collected or expended. For this reason, in the 2010-2011 fiscal year, ESU No. 10 did *not* spend about \$2.36 million of the budget figure published in September of 2010; and in the 2011-2012 fiscal year, ESU No. 10 did *not* spend about \$5.93 million of the budget figure published in September of 2011.

The actual amount that restricted funds can be increased each year is 2.5% unless a super majority of the board allows the unit to add 1% to the request. Restricted funds are comprised of real and personal property taxes, motor vehicle pro-rate, and core service/technology infrastructure funds. However, due to the additional restriction of a \$.015 per \$100 valuation levy, authorization of the full 3.5% increase generally does not translate into an actual tax asking increase of the same amount but instead establishes an unused budget authority amount that can be accessed in a later fiscal year if and when property valuations warrant it. ESU No. 10's governing board passed the resolution authorizing the additional 1% for the 2011-2012 budget period.

CONDENSED FINANCIAL INFORMATION

ESU No. 10's total liabilities and net assets at June 30, 2012, and 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Assets:		
Total cash and investments	<u>\$ 3,914,273</u>	<u>\$ 4,273,328</u>
Liabilities:		
Due to employees	<u>\$ 23,961</u>	<u>\$ 26,040</u>
Net Assets:		
Restricted:		
Capital projects	-	82,298
Special revenue funds	-	47,572
Lease purchase	-	200,000

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

	<u>2012</u>	<u>2011</u>
Unrestricted:		
General fund	3,772,938	3,917,418
Capital projects	69,394	-
Special revenue funds	47,980	-
Total net assets	<u>3,890,312</u>	<u>4,247,288</u>
Total liabilities and net assets	<u>\$ 3,914,273</u>	<u>\$ 4,273,328</u>

The results of this year's operations as a whole are reported in the Statement of Activities on page 17. All disbursements are reported in the first column. Specific charges, grants, receipts, and subsidies that directly relate to specific disbursement categories are represented to determine the final amount of ESU No. 10's activities that are supported by general receipts. The two largest general receipts are the local taxes assessed to community taxpayers and the State aid provided by the State of Nebraska.

Below is information from the Statement of Activities for the fiscal year ended June 30, 2012, rearranged slightly, so you can see our receipts for the year, as compared to those for the prior fiscal year ended June 30, 2011.

	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for services	\$ 4,162,698	\$ 4,389,319
Operating grants and contributions	2,469,454	2,656,958
General receipts:		
Taxes	1,959,405	1,836,048
Interest	26,824	54,015
State aid	2,104,306	2,171,436
Other	5,644	3,718
Total receipts	<u>\$ 10,728,331</u>	<u>\$ 11,111,494</u>
Disbursements:		
Services to schools	\$ 2,187,158	\$ 2,181,326
State categorical programs	11,509	1,368
Federal programs	2,747,651	2,522,704
Support services	3,018,085	2,603,979
General and administrative	550,705	540,288
Debt service	206,862	377,738
Core service programs	2,063,474	1,520,237
Non-core service technology	299,863	811,361
Total disbursements	<u>\$ 11,085,307</u>	<u>\$ 10,559,001</u>

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

	<u>2012</u>	<u>2011</u>
Change in net assets - cash basis	\$ (356,976)	\$ 552,493
Net assets - cash basis, beginning	<u>4,247,288</u>	<u>3,694,795</u>
Net assets - cash basis, ending	<u>\$ 3,890,312</u>	<u>\$ 4,247,288</u>

Debt Administration

On October 9, 2008, ESU No. 10 entered into a lease purchase agreement with Wells Fargo Bank, National Association, through which ESU No. 10 obtained a loan of \$900,000 to maintain an adequate cash flow during the construction of an approximately 13,000 square foot addition to ESU No. 10's existing headquarters building located at 76 Plaza Boulevard in Kearney, Nebraska. The governing board of ESU No. 10 approved the financing plan at its regular monthly meeting on April 21, 2008.

Funds were obtained through this lease purchase agreement at an interest rate of 5.900% with the first interest payment made on April 9, 2009. Six principal payments began on October 9, 2009, and ended on April 9, 2012 according to the following schedule:

October 9, 2009	\$ 175,000
April 9, 2010	\$ 175,000
October 9, 2010	\$ 175,000
April 9, 2011	\$ 175,000
October 9, 2011	\$ 175,000
April 9, 2012	\$ 25,000

Interest payments were made in conjunction with each of the above six principal payments. Interest paid on the debt totaled \$109,916.18.

As part of the lease purchase agreement, ESU No. 10 was required to execute a collateral pledge agreement with Wells Fargo Bank, NA, whereby ESU No. 10 would maintain a segregated collateral account comprised of time certificates (certificates of deposit) in the following amounts and with the maturity dates noted below:

\$175,000	matured on October 9, 2009
\$175,000	matured on April 9, 2010
\$175,000	matured on October 9, 2010
\$175,000	matured on April 9, 2011
\$175,000	matured on October 9, 2011
\$ 25,000	matured on April 9, 2012

EDUCATIONAL SERVICE UNIT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

To facilitate a clear accounting trail of all transactions related to this lease purchase agreement, a savings account was also opened at Wells Fargo Bank, NA, on October 9, 2008. ESU No. 10 was required to maintain a minimum balance of \$500 in this savings account, and it earned a very minimal rate of interest (averaged .04% in 2011-12). The certificates of deposit noted in the previous paragraph and interest earned on them were deposited into the Wells Fargo Bank, NA, savings account. Funds were also transferred from ESU No. 10's general fund checking account at Nebraska National Bank in Kearney to the savings account at Wells Fargo Bank, NA, as needed to make principal and interest payments if the interest earned on the certificates of deposit was not sufficient to meet the loan obligations.

Over the life of the loan, interest totaling \$86,316.07 was earned on the time certificates and interest totaling \$31.67 was earned on the savings account. The savings account was closed on April 30, 2012, by transferring the entire account balance of \$531.67 back to ESU No. 10's general fund checking account at Exchange Bank.

CONTACTING ESU NO. 10'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and other publics a general overview of the unit's finances and to demonstrate the unit's accountability for the money with which it is entrusted. If you have questions about this report or need additional information, contact the Administrator, Educational Service Unit No. 10, 76 Plaza Boulevard, PO Box 850, Kearney, NE 68848-0850. ESU No. 10's telephone number is 308.237.5927, our fax number is 308.237.5920, and our website is located at www.esu10.org.

EDUCATIONAL SERVICE UNIT NO. 10

STATEMENT OF NET ASSETS - CASH BASIS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Petty Cash	\$ 150
Cash in bank and interest-bearing deposits	3,887,280
Funds held by County Treasurer	<u>26,843</u>
Total Assets	<u><u>\$ 3,914,273</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Due to employees	<u>\$ 23,961</u>
NET ASSETS	
Unrestricted:	
General Fund	3,746,095
Capital Improvements Fund	69,394
Employee Benefit Fund	47,980
County Treasurer Fund	<u>26,843</u>
Total Net Assets	<u>3,890,312</u>
Total Liabilities and Net Assets	<u><u>\$ 3,914,273</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 10

STATEMENT OF ACTIVITIES - CASH BASIS

For the Fiscal Year Ended June 30, 2012

	<u>Cash</u>	<u>Program Cash Receipts</u>		<u>Net Receipts (Disbursements) and Changes in Net Assets</u>
	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
FUNCTIONS/PROGRAMS:				
Primary Government				
Governmental Activities:				
Services to Schools	\$ 2,187,158	\$ -	\$ -	\$ (2,187,158)
Support Services:				
Pupils	594,709	-	-	(594,709)
Staff	1,511,243	-	-	(1,511,243)
Business	34,672	-	-	(34,672)
Maintenance and Operation of Business	877,461	-	-	(877,461)
General Administration	550,705	-	-	(550,705)
State Categorical Programs	11,509	-	-	(11,509)
Federal Programs	2,747,651	-	2,469,454	(278,197)
Core Services	2,063,474	4,162,698	-	2,099,224
Technology Infrastructure	299,863	-	-	(299,863)
Other	206,862	-	-	(206,862)
Total Governmental Activities	<u>\$ 11,085,307</u>	<u>\$ 4,162,698</u>	<u>\$ 2,469,454</u>	<u>(4,453,155)</u>
General Receipts:				
Taxes:				
Property				1,902,674
Motor Vehicle Prorate				6,686
Homestead Exemption				43,675
Carline & In Lieu Taxes				6,370
State Aid				2,104,306
Interest Income				26,824
Other Local & Non-Program Receipts				5,644
Total General Receipts				<u>4,096,179</u>
Change in Net Assets				(356,976)
Net Assets - Beginning				<u>4,247,288</u>
Net Assets - Ending				<u>\$ 3,890,312</u>

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

EDUCATIONAL SERVICE UNIT NO. 10

**STATEMENT OF CASH BASIS ASSETS, LIABILITIES, AND FUND BALANCES
GOVERNMENTAL FUNDS**

June 30, 2012

	<u>General</u>	<u>Capital Improvements Fund</u>	<u>Employee Benefit Fund</u>	<u>Total Governmental Funds</u>
ASSETS:				
Petty Cash	\$ 150	\$ -	\$ -	\$ 150
Cash and Investments	3,769,906	69,394	47,980	3,887,280
Funds held by County Treasurer	26,843	-	-	\$ 26,843
TOTAL ASSETS	<u>\$ 3,796,899</u>	<u>\$ 69,394</u>	<u>\$ 47,980</u>	<u>\$ 3,914,273</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Due to Employees	\$ 23,961	\$ -	\$ -	\$ 23,961
Fund Balances:				
Assigned to Capital Improvement Fund	-	69,394	-	69,394
Assigned to Employee Benefit Fund	-	-	47,980	47,980
Unassigned	3,772,938	-	-	3,772,938
Total Fund Balances	<u>3,772,938</u>	<u>69,394</u>	<u>47,980</u>	<u>3,890,312</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,796,899</u>	<u>\$ 69,394</u>	<u>\$ 47,980</u>	<u>\$ 3,914,273</u>

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

EDUCATIONAL SERVICE UNIT NO. 10

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

For the Fiscal Year Ended June 30, 2012

	General Fund	Capital Improvements Fund	Employee Benefit Fund	Total Governmental Funds
RECEIPTS:				
LOCAL SOURCES:				
Taxes:				
Property	\$ 1,902,674	\$ -	\$ -	\$ 1,902,674
Motor Vehicle Prorate	6,686	-	-	6,686
Homestead Exemption	43,675	-	-	43,675
Carline & In Lieu Taxes	6,370	-	-	6,370
State Aid	2,104,306	-	-	2,104,306
Federal Aid	2,469,454	-	-	2,469,454
Service Contracts	4,162,698	-	-	4,162,698
Interest Income	26,088	466	270	26,824
Other Local Receipts	5,644	-	-	5,644
TOTAL RECEIPTS	10,727,595	466	270	10,728,331
DISBURSEMENTS:				
Services to Schools	2,187,158	-	-	2,187,158
Support Services:				
Pupils	594,709	-	-	594,709
Staff	1,511,243	-	-	1,511,243
Business	34,672	-	-	34,672
Maintenance and Operation of Business	877,461	-	-	877,461
General Administration	550,705	-	-	550,705
State Categorical Programs	11,509	-	-	11,509
Federal Programs	2,747,651	-	-	2,747,651
Core Services	2,063,474	-	-	2,063,474
Technology Infrastructure	299,863	-	-	299,863
Other	206,862	-	-	206,862
TOTAL DISBURSEMENTS	11,085,307	-	-	11,085,307
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(357,712)	466	270	(356,976)
OTHER FINANCING SOURCES (USES):				
Transfers In	14,995	1,625	138	16,758
Transfers Out	(1,763)	(14,995)	-	(16,758)
Total Other Financing Sources (Uses)	13,232	(13,370)	138	-
Net Change in Fund Balances	(344,480)	(12,904)	408	(356,976)
CASH BASIS FUND BALANCES - BEGINNING	4,117,418	82,298	47,572	4,247,288
CASH BASIS FUND BALANCES - ENDING	\$ 3,772,938	\$ 69,394	\$ 47,980	\$ 3,890,312

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

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

1. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Entity

Educational Service Unit No. 10 (ESU No. 10) is a governmental entity that provides supplies, equipment, materials, and services to school districts in an eleven county region. The major funding of ESU No. 10 comes from local and State tax sources, Federal funds and receipts from the materials and services provided to school districts. ESU No. 10 is required to comply with the requirements of the funding source entities. However, ESU No. 10 is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. ESU No. 10 is an independent entity. No potential component units exist that could be excluded from the reporting entity.

Basis of Accounting

ESU No. 10 prepares its financial statements on the cash basis, which is in conformity with the accounting practices permitted by the State of Nebraska Department of Education; consequently, these statements represent a summary of the cash activity of the various funds of ESU No. 10 and do not include certain transactions that would be included if ESU No. 10 prepared its financial statements in accordance with generally accepted accounting principles, as applicable to governmental units. Under the cash basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial position or results of operations in conformity with generally accepted accounting principles, as applicable to governmental units.

Basis of Presentation

On July 1, 2003, ESU No. 10 adopted the provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Statement 34 established standards for external financial reporting for all state and local government entities, which includes government-wide financial statements, fund financial statements and the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted.

Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

supported by taxes and intergovernmental receipts, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. ESU No. 10 does not have any business-type activities.

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

Separate financial statements are provided for governmental funds. Major individual government funds are reported in separate columns in the combined fund financial statements.

Proprietary funds are used to account for business type activities; Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. ESU No. 10 does not maintain any proprietary funds.

Fiduciary funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support ESU No. 10's own programs. ESU No. 10 does not maintain any fiduciary funds.

Fund Types

The accounts of ESU No. 10 are organized on the basis of funds which are grouped into the following governmental fund types:

General Fund - The General Fund is the general operating fund of ESU No. 10. It is used to account for all financial resources except those required to be accounted for in another fund. All property tax receipts and other receipts that are not allocated by law, budgetary requirement, or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the new and replacement capital outlay costs that are not paid through other funds are paid from the General Fund.

Capital Improvements Fund - The Capital Improvements Fund is used to account for financial resources to be used for the acquisition or construction of major facilities or equipment.

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Employee Benefit Fund - The Employee Benefit Fund consists of General Fund transfer amounts used as a contingency fund to cover payments of unemployment claims of terminated employees.

Major Funds

ESU No. 10 reports all three of its funds, the General Fund, Capital Improvements Fund, and the Employee Benefit Fund as major funds. ESU No. 10 has no other funds.

Inventory

Inventories of expendable supplies held for consumption have been recorded as an expenditure at the time the items were purchased.

Capital Assets

In accordance with the cash basis of accounting, capital assets are not recorded as assets on the governmental-wide or fund statements and depreciation is not recognized. Purchases of capital assets are recorded as disbursements by function in the financial statements.

Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that effect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates. Accordingly, no estimates are made for encumbered balances.

Equity

In the government-wide statements, equity is classified as unrestricted and restricted net assets. In the governmental fund statements, equity is classified as non-spendable, restricted, committed, assigned and unassigned fund balances according to the detail at the end of Note 1.

Compensated Absences

ESU No. 10 has entered into negotiated agreements with certified and non-certified personnel. In those agreements they have agreed to benefits for vacation and benefits for sick leave. In accordance with the cash basis of accounting, these benefits are recorded as an expense when paid.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is ESU No. 10's policy to use restricted resources first and then unrestricted resources as needed.

Long-Term Debt

In accordance with the cash basis of accounting, long-term debt is not reported as a liability in the government-wide or fund financial statements. Proceeds from long-term debt are reported as receipts and payments of principal are reported a disbursements in both the government-wide and fund financial statements.

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Fund Balance

ESU No. 10 adopted Governmental Accounting Standards Board No. 54 (GASB 54) "Fund Balance Reporting and Governmental Fund Type Definitions" as of and for the year ended June 30, 2011. In accordance with GASB 54, ESU No. 10 classifies governmental fund balances as follows:

Non-spendable - Fund balance amounts are considered non-spendable if they cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted - Fund balance amounts are considered restricted if they are constrained for specific purposes which are externally imposed by providers, such as creditors, or constrained due to constitutional provisions or enabling legislation.

Committed - Fund balances are considered committed if they are constrained for specific purposes that are internally imposed by the government through formal action of the Board and the constraints do not lapse at year-end.

Assigned - Fund balance amounts are considered assigned if they are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balances may be assigned by management.

Unassigned - Fund balance amounts are considered unassigned if they are positive fund balances within the General Fund that are not classified as one of the above or negative fund balances in other governmental funds.

ESU No. 10's policy is to spend restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal restrictions that prohibit doing so. Additionally, ESU No. 10 is to first spend committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

ESU No. 10 does not have a formal minimum fund balance policy.

2. **Budget Process and Property Taxes**

ESU No. 10 is required by State law to adopt annual budgets for the General Fund, Employee Benefit Fund, and Capital Improvements Fund. Each budget is presented on the cash basis of accounting, which is consistent with the requirements of the Nebraska Budget Act. State statutes of the Nebraska Budget Act provide the prescribed budget practices and procedures that governing bodies are required to follow. The amounts that may be budgeted for certain specific funds are subject to various expenditures and/or tax levy limitations.

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Budget Process and Property Taxes (Concluded)

ESU No. 10 follows these procedures in establishing the budgetary data reflected in the accompanying financial statements.

Prior to August 1, the Administrator submits to the Board a proposed operating budget for the next fiscal year. The operating budget includes proposed expenditures and the means of financing them.

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.

The property tax requirement resulting from the budget process is utilized by the County Assessor to establish the tax levy, which attaches as an enforceable lien on property within ESU No. 10 as of January 1.

Budgets for all funds of ESU No. 10 are adopted on the cash basis. Budgeted amounts as presented on the budgetary comparisons are as originally adopted, and are on the cash basis.

County Treasurer Funds

The cash balances, shown as held by the County Treasurers, represent taxes collected by the counties. Property tax revenues are recognized on a cash basis, and an allowance for property taxes receivable has not been established.

3. Employees' Retirement System

Plan Description

Educational Service Unit No. 10 contributes to the Nebraska School Employees Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement System (NPERS). NPERS provides retirement and disability benefits to plan members and beneficiaries. The School Employees Retirement Act establishes benefit provisions. NPERS issues a publicly available financial report that includes financial statements and required supplementary information for NPERS. That report may be obtained by writing NPERS, 1221 N Street, Suite 325, P.O. Box 94816, Lincoln, NE 68509-4816 or by calling 1-800-245-5712.

Funding Policy

Plan members were required to contribute 8.28% of their annual covered salary from July 1, 2011 to August 31, 2011. Beginning September 1, 2011 to June 30, 2012, contribution rates increased to 8.88%. ESU No. 10 is required to contribute 101% of the employee

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Employee's Retirement System (Concluded)

contribution. The contribution requirements of plan members and Educational Service Unit No. 10 are established by State statutes. ESU No. 10's contributions to NPERS for the year ended June 30, 2012, were \$422,393, equal to the required contributions for the year.

4. Cash and Investments

Deposits in excess of the \$250,000 Federal Deposit Insurance Corporation (FDIC) insurance coverage are secured by pledged securities of the financial institution holding the deposit. Pledged securities are evidenced by joint custody receipts which, at June 30, 2012, covered all deposits in excess of the \$250,000 FDIC insurance.

Educational Service Unit No. 10 deposits consist of cash and certificates of deposits only. It is ESU No. 10's policy for deposits to be secured by collateral, less the amount of the FDIC coverage. The carrying amount of deposits is a reasonable estimate of fair value.

Nebraska statutes allow ESU No. 10 to make any investment allowed by the State Investment Officer. This includes bank certificates of deposit.

The Nebraska Liquid Asset Fund (NLAF) was established in March 1998 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. 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 (SEC) for money market funds designed to offer acceptable yields while maintaining liquidity. NLAF is not registered with the SEC as an investment company. ESU No. 10 had \$73,502 invested with NLAF as of June 30, 2012.

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

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Cash and Investments** (Concluded)

ESU No. 10's deposits are categorized to give an indication of the level of risk assumed by ESU No. 10 at June 30, 2012. The categories are described as follows:

- (1) Insured or collateralized with securities held by ESU No. 10 or its agent in ESU No. 10's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in ESU No. 10's name.
- (3) Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in ESU No. 10's name).

The collateralization of ESU No. 10's deposits with banks at June 30, 2012, was as follows:

Time and savings deposits-interest bearing	<u>\$ 4,099,987</u>
FDIC Coverage (category 1)	\$ 250,000
Collateralized deposits (category 2)	<u>3,849,987</u>
Total	<u>\$ 4,099,987</u>

5. **Cafeteria Plan**

Effective on July 1, 1991, Educational Service Unit No. 10 established the Educational Service Unit. No. 10 Cafeteria Plan. It is the intention of Educational Service Unit No. 10 that the Plan qualify as a "Cafeteria Plan" within the meaning of Section 125 of the Internal Revenue Code of 1986, as amended, and that the benefits which an employee elects to receive under the Plan be includable or excludable from the employee's income under Section 125(a) and other applicable sections of the Internal Revenue Code of 1986, as amended.

6. **Due to Employees**

The \$23,961 due to employees at June 30, 2012, represents employee contributions to the Cafeteria Plan. These funds are held by Educational Service Unit No. 10 until the proper claim is filed by the employee. If these funds are not claimed by the employee, by the September 30 due date, they become the property of Educational Service Unit No. 10.

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. Fiscal Agent

My E-Learning Project. Beginning July 1, 2008, ESU No. 10 administered the My E-Learning Project for the Educational Service Unit Coordinating Council (ESUCC). As fiscal agent and/or program administrator, ESU No. 10 received and disbursed the following funds related to the program as of June 30, 2012.

	Year Ended June 30, 2012	Year Ended June 30, 2011
Beginning Balance (Deficit)	\$ (155,068)	\$ (216,788)
Received from Participating Entities	-	259,533
Program Disbursements	-	(197,813)
Ending Balance (Deficit)	<u>\$ (155,068)</u>	<u>\$ (155,068)</u>

ESU No. 10's fiscal responsibilities for this program ended entirely on June 30, 2011, and a Memorandum of Understanding was developed between ESU No. 10 and ESUCC addressing recouping the negative balance and selling or transferring all consortium equipment and furniture to ESUCC. However, as of June 30, 2012, no further actions had taken place to resolve the outstanding issues.

8. Risk Management

ESU No. 10 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year, ESU No. 10 carried commercial insurance for general liability, property coverage, worker's compensation coverage, commercial excess liability coverage, crime coverage, and blanket bond coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. Long-Term Debt

On October 10, 2008, Educational Service Unit No. 10 entered into a \$900,000 lease-purchase agreement with Wells Fargo Bank. The funds were used for construction costs of a real property addition to ESU No. 10 headquarters. The interest rate established in the lease-purchase agreement was 5.9% payable over four years with the final \$200,000 in principal payments, along with \$6,863 in interest, paid by ESU No. 10 in the fiscal year ended June 30, 2012.

The long-term liability balance and activity for the lease-purchase agreement with Wells Fargo Bank was as follows:

	Balance June 30, 2011	Proceeds	Principal Payments	Balance June 30, 2012
Wells Fargo lease-purchase	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ -</u>

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO FINANCIAL STATEMENTS
(Continued)

10. Contingent Liabilities

ESU No. 10 has elected to be a reimbursable employer with regard to unemployment claims filed by former employees. Therefore, ESU No. 10 is required to reimburse the State of Nebraska for any claims paid on behalf of ESU No. 10. ESU No. 10 maintains a separate Employee Benefit Fund (Unemployment Compensation Fund) to pay any claims. The Fund had a balance of \$47,980 at June 30, 2012.

11. Interfund Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfers to	Transfers from		Total
	General Fund	Capital Improvements Fund	
General Fund	\$ -	\$ 14,995	\$ 14,995
Capital Improvements Fund	1,625	-	1,625
Employee Benefit Fund	138	-	138
Total	\$ 1,763	\$ 14,995	\$ 16,758

Transfers are generally used to move unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, such as transfers to the Capital Improvements Fund to save for future capital expenditures. For the year ended June 30, 2012, the \$14,995 transferred from the Capital Improvements Fund to the General Fund was to reimburse that Fund for the amount expended related to repair/maintenance of vocational consortium equipment during the fiscal year.

12. Subsequent Events

Upon evaluation, management notes that there were no material subsequent events between the date of the financial statements and the date that the financial statements were issued or available to be issued.

EDUCATIONAL SERVICE UNIT NO. 10

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

For the Fiscal Year Ended June 30, 2012

	Fund Balances at Beginning of Year	Receipts	Disbursements	Transfers In (Out)	Excess (Deficiency) of Receipts Over (Under) Disbursements	Fund Balances at End of Year	Fund Balance Composition	
							County Treasurer's Balance	Cash and Investments
GENERAL FUND	\$ 4,117,418	\$ 10,727,595	\$ 11,085,307	\$ 13,232	\$ (344,480)	\$ 3,772,938	\$ 26,843	\$ 3,746,095
CAPITAL IMPROVEMENTS FUND	82,298	466	-	(13,370)	(12,904)	69,394	-	69,394
EMPLOYEE BENEFIT FUND	47,572	270	-	138	408	47,980	-	47,980
GRAND TOTAL - ALL FUNDS	\$ 4,247,288	\$ 10,728,331	\$ 11,085,307	\$ -	\$ (356,976)	\$ 3,890,312	\$ 26,843	\$ 3,863,469

EDUCATIONAL SERVICE UNIT NO. 10

**COMBINED STATEMENT OF CASH BASIS ASSETS, LIABILITIES,
AND FUND BALANCES
GOVERNMENTAL FUNDS**

June 30, 2012

ASSETS

Petty Cash	\$	150
Cash in bank and interest-bearing deposits		3,887,280
Funds held by County Treasurer		<u>26,843</u>
Total Assets	\$	<u><u>3,914,273</u></u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Due to employees	\$	<u>23,961</u>
------------------	----	---------------

FUND BALANCES

Assigned-Capital Improvements Fund		69,394
Assigned-Employee Benefit Fund		47,980
Unassigned-General Fund		3,746,095
Unassigned-County Treasurer Fund		<u>26,843</u>
Total Fund Balances		<u>3,890,312</u>
Total Liabilities and Fund Balances	\$	<u><u>3,914,273</u></u>

EDUCATIONAL SERVICE UNIT NO. 10

**STATEMENT OF CASH BASIS ASSETS, LIABILITIES, AND FUND BALANCE
GENERAL FUND**

June 30, 2012

ASSETS

Petty Cash	\$	150
Cash in bank and interest-bearing deposits		3,769,906
Funds held by County Treasurer		<u>26,843</u>

Total Assets	\$	<u><u>3,796,899</u></u>
--------------	----	-------------------------

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to employees	\$	<u>23,961</u>
------------------	----	---------------

FUND BALANCE

Unassigned-General Fund		3,746,095
Unassigned-County Treasurer Fund		<u>26,843</u>

Total Fund Balance		<u>3,772,938</u>
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Total Liabilities and Fund Balance	\$	<u><u>3,796,899</u></u>
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EDUCATIONAL SERVICE UNIT NO. 10

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

For the Fiscal Year Ended June 30, 2012

RECEIPTS:

Educational Service Unit Tax Levy	\$ 1,900,770
Local Revenues	4,195,156
State Sources	2,154,667
Federal Sources	2,469,454
Non-Revenue Receipts	5,644
TOTAL RECEIPTS	<u>10,725,691</u>

DISBURSEMENTS:

General Education Instructional Service to Schools	15,956
Special Education Programs and Services to Schools (School Age)	2,171,202
Support Services - Pupils	594,709
Staff Development, In-Service, Production and Media	75,081
Support Services - Technology	1,436,162
Support Services - General Administration	550,705
Support Services - Business Services	34,672
Vehicle Acquisition and Maintenance	40,935
Building and Sites	183,398
Cooperative Purchasing Program	653,128
Core Services - Staff Development, Technology, and Instructional Materials	2,063,474
Technology Infrastructure	299,863
Administration/Supervision and Services for Federally Funded Programs	2,747,651
Administration/Supervision and Services for State Funded Programs	11,509
Debt Service	206,862
TOTAL DISBURSEMENTS	<u>11,085,307</u>

EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS (359,616)

OTHER FINANCING SOURCES (USES):

Transfers In	14,995
Transfers Out	(1,763)
TOTAL OTHER FINANCING SOURCES (USES)	<u>13,232</u>

NET CHANGE IN FUND BALANCE (346,384)

FUND BALANCE - BEGINNING OF YEAR (excluding county treasurer) 4,092,479

FUND BALANCE - END OF YEAR (excluding county treasurer) \$ 3,746,095

EDUCATIONAL SERVICE UNIT NO. 10

**BUDGETARY COMPARISON SCHEDULE - RECEIPTS - BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2012

	Original/Final Budget	Actual Revenues	Variance with Final Budget Positive (Negative)
Educational Service Unit Tax Levy:			
Adams	\$ 202	\$ 185	\$ (17)
Blaine	24,880	23,672	(1,208)
Boone	508	422	(86)
Brown	1,005	918	(87)
Buffalo	517,537	477,360	(40,177)
Custer	255,389	236,677	(18,712)
Dawson	266,666	262,561	(4,105)
Garfield	32,378	30,304	(2,074)
Gosper	2,936	2,676	(260)
Greeley	64,470	55,354	(9,116)
Hall	529,439	494,878	(34,561)
Holt	2,091	1,991	(100)
Howard	100,378	95,332	(5,046)
Kearney	12,442	11,583	(859)
Lincoln	12,483	12,024	(459)
Logan	5,539	5,497	(42)
Loup	22,417	22,330	(87)
Merrick	19,141	18,135	(1,006)
Nance	1,404	1,307	(97)
Phelps	6,511	6,189	(322)
Sherman	68,309	63,374	(4,935)
Thomas	3,954	3,748	(206)
Valley	80,530	74,229	(6,301)
Wheeler	41	24	(17)
Total Tax Levy Receipts	2,030,650	1,900,770	(129,880)
Local:			
Carline & In-Lieu Taxes	7,750	6,370	(1,380)
Interest on Investments	50,000	26,088	(23,912)
Service Contracts	7,368,641	4,162,698	(3,205,943)
Total Local Receipts	7,426,391	4,195,156	(3,231,235)

(Continued)

EDUCATIONAL SERVICE UNIT NO. 10

**BUDGETARY COMPARISON SCHEDULE - RECEIPTS - BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2012

	Original/Final Budget	Actual Revenues	Variance with Final Budget Positive (Negative)
State:			
Core Service Funding	1,285,001	1,285,001	-
Satellite Office Funding	134,862	134,861	(1)
Homestead Exemption	44,000	43,675	(325)
Pro-rate Motor Vehicle	7,000	6,686	(314)
State Property Tax Credit	80,000	73,082	(6,918)
Special Education Co-op	546,869	550,658	3,789
Cozad Center Co-op	46,357	46,357	-
Other State Sources	25,002	14,347	(10,655)
Total State Receipts	2,169,091	2,154,667	(14,424)
Federal:			
Title I	589,000	602,455	13,455
Title II-D	20,441	3,793	(16,648)
Title III Leap Competitive ATP	192,750	-	(192,750)
Sandhills Planning Grant	3,129	1,789	(1,340)
Immigration Consortium	14,059	11,077	(2,982)
NDE Collaborative Grant	74,452	55,648	(18,804)
Vocational Consortium/Career Tech Ed	171,661	118,653	(53,008)
Interagency Plan Grant	19,484	13,592	(5,892)
Title II-A	388,835	210,747	(178,088)
Title I Migrant	257,894	149,301	(108,593)
Title IV Building Cap	6,000	-	(6,000)
CIA	55,070	21,343	(33,727)
TBI Grants	1,500	3,431	1,931
Autism Grant	158,689	91,114	(67,575)
Medicaid Admin	70,000	106,026	36,026
Early Childhood Grant	71,250	63,087	(8,163)
RUS Grant	494,011	494,011	-
Transition Grant	16,000	7,109	(8,891)
Title III	69,881	54,715	(15,166)

(Continued)

EDUCATIONAL SERVICE UNIT NO. 10

**BUDGETARY COMPARISON SCHEDULE - RECEIPTS - BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2012

	Original/Final Budget	Actual Revenues	Variance with Final Budget Positive (Negative)
Federal, Concluded:			
Other Federal Grants	514,580	-	(514,580)
DHHS Audiology Grant	14,278	14,278	-
ARRA IDEA Part - C	7,661	7,660	(1)
ARRA Early Childhood Training	7,400	7,224	(176)
ARRA Title I	90,672	90,672	-
ARRA Title II-D	23,105	23,105	-
Total Federal Receipts	<u>3,653,398</u>	<u>2,469,454</u>	<u>(1,183,944)</u>
Non-Revenue Receipts:			
Sale of Equipment	-	2,825	2,825
Other	-	2,819	2,819
Total Non-Revenue Receipts	<u>-</u>	<u>5,644</u>	<u>5,644</u>
 GRAND TOTAL OF ALL RECEIPTS	 <u>\$ 15,279,530</u>	 <u>\$ 10,725,691</u>	 <u>\$ (4,553,839)</u> (Concluded)

EDUCATIONAL SERVICE UNIT NO. 10

**BUDGETARY COMPARISON SCHEDULE - DISBURSEMENTS -
BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2012

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
General Education Instructional Service to Schools			
Salaries	\$ 4,871	\$ 4,871	\$ -
Employee Benefits	2,096	1,925	171
Purchased Services	2,420	1,027	1,393
Supplies and Materials	3,100	3,325	(225)
Other Expenditures	3,650	4,808	(1,158)
Total	<u>\$ 16,137</u>	<u>\$ 15,956</u>	<u>\$ 181</u>
Special Education Programs and Services to Schools (School Age)			
Salaries	\$ 1,382,370	\$ 1,366,460	\$ 15,910
Employee Benefits	461,181	434,798	26,383
Purchased Services	365,720	325,482	40,238
Supplies and Materials	45,800	26,206	19,594
Other Expenditures	25,700	18,256	7,444
Total	<u>\$ 2,280,771</u>	<u>\$ 2,171,202</u>	<u>\$ 109,569</u>
Support Services - Pupils			
Salaries	\$ 385,409	\$ 387,994	\$ (2,585)
Employee Benefits	136,261	122,512	13,749
Purchased Services	65,793	47,750	18,043
Supplies and Materials	81,235	33,497	47,738
Other Expenditures	8,850	2,956	5,894
Total	<u>\$ 677,548</u>	<u>\$ 594,709</u>	<u>\$ 82,839</u>
Staff Development, In-Service, Production and Media Services to Schools			
Purchased Services	\$ 3,640,300	\$ 65,977	\$ 3,574,323
Supplies and Materials	5,000	9,104	(4,104)
Other Expenditures	10,000	-	10,000
Total	<u>\$ 3,655,300</u>	<u>\$ 75,081</u>	<u>\$ 3,580,219</u>

(Continued)

EDUCATIONAL SERVICE UNIT NO. 10

**BUDGETARY COMPARISON SCHEDULE - DISBURSEMENTS -
BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2012

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
Support Services - Technology			
Salaries	\$ 796,535	\$ 796,529	\$ 6
Employee Benefits	251,915	238,557	13,358
Purchased Services	252,550	61,435	191,115
Supplies and Materials	208,350	105,535	102,815
Capital Outlay Purchases	48,000	26,627	21,373
Other Expenditures	262,600	207,479	55,121
Total	<u>\$ 1,819,950</u>	<u>\$ 1,436,162</u>	<u>\$ 383,788</u>
Support Services - General Administration			
Salaries	\$ 346,756	\$ 345,407	\$ 1,349
Employee Benefits	105,583	99,369	6,214
Purchased Services	54,883	30,666	24,217
Supplies and Materials	2,150	3,093	(943)
Other Expenditures	102,232	72,170	30,062
Total	<u>\$ 611,604</u>	<u>\$ 550,705</u>	<u>\$ 60,899</u>
Support Services - Business Services			
Purchased Services	\$ 31,050	\$ 31,621	\$ (571)
Supplies and Materials	4,850	3,051	1,799
Total	<u>\$ 35,900</u>	<u>\$ 34,672</u>	<u>\$ 1,228</u>
Vehicle Acquisition and Maintenance			
Purchased Services	\$ 17,950	\$ 16,409	\$ 1,541
Capital Outlay Purchases	21,500	19,938	1,562
Other Expenditures	4,000	4,588	(588)
Total	<u>\$ 43,450</u>	<u>\$ 40,935</u>	<u>\$ 2,515</u>
Building and Sites			
Salaries	\$ 55,939	\$ 55,938	\$ 1
Employee Benefits	23,579	20,956	2,623
Purchased Services	101,700	85,431	16,269
Supplies and Materials	20,200	21,073	(873)
Capital Outlay Purchases	24,000	-	24,000
Total	<u>\$ 225,418</u>	<u>\$ 183,398</u>	<u>\$ 42,020</u>

(Continued)

EDUCATIONAL SERVICE UNIT NO. 10

**BUDGETARY COMPARISON SCHEDULE - DISBURSEMENTS -
BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2012

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
Cooperative Purchasing Program			
Salaries	\$ 29,898	\$ 35,999	\$ (6,101)
Employee Benefits	5,244	5,168	76
Purchased Services	2,000	867	1,133
Supplies and Materials	1,000	832	168
Redistribution to Districts	685,000	610,262	74,738
Total	<u>\$ 723,142</u>	<u>\$ 653,128</u>	<u>\$ 70,014</u>
Core Services - Staff Development, Technology and Instructional Materials			
Salaries	\$ 1,189,020	\$ 1,035,312	\$ 153,708
Employee Benefits	375,326	313,398	61,928
Purchased Services	407,015	252,171	154,844
Supplies and Materials	65,650	49,506	16,144
Capital Outlay	105,000	-	105,000
Other Expenditures	442,200	413,087	29,113
Total	<u>\$ 2,584,211</u>	<u>\$ 2,063,474</u>	<u>\$ 520,737</u>
Technology Infrastructure			
Salaries	\$ 220,764	\$ 220,984	\$ (220)
Employee Benefits	68,934	71,596	(2,662)
Purchased Services	1,755	3,614	(1,859)
Other Expenditures	-	3,669	(3,669)
Total	<u>\$ 291,453</u>	<u>\$ 299,863</u>	<u>\$ (8,410)</u>
Administration/Supervision and Services for Federally Funded Programs			
Autism Grant	\$ 185,692	\$ 158,499	\$ 27,193
TBI	2,995	2,848	147
Transition Grant	16,190	12,930	3,260
ESL Consortium	94,437	63,416	31,021
Immigrant Consortium	19,471	12,840	6,631
Title I	969,440	932,814	36,626
MEP Grant	246,827	83,178	163,649

(Continued)

EDUCATIONAL SERVICE UNIT NO. 10

**BUDGETARY COMPARISON SCHEDULE - DISBURSEMENTS -
BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2012

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
Administration/Supervision and Services for Federally Funded Programs, Continued			
Title II-A	184,431	180,518	3,913
ATP	358,039	343,492	14,547
Special Education	48,375	41,843	6,532
Collaborative NDE Project	97,443	79,988	17,455
Early Childhood Training Grant	94,000	63,087	30,913
CIA	63,272	43,265	20,007
Interagency Grant	21,950	15,892	6,058
Sandhills Grant	1,110	1,110	-
Medicaid Administration Grant	70,000	70,068	(68)
Career/Tech Ed	124,656	124,656	-
Title II-D	7,003	6,991	12
RUS Grant	425,977	425,977	-
ARRA IDEA Part C	12,461	12,283	178
ARRA Title I	56,571	56,571	-
ARRA Title II Part D	12,672	12,672	-
Other Federal Grants	521,864	2,713	519,151
Total	<u>\$ 3,634,876</u>	<u>\$ 2,747,651</u>	<u>\$ 887,225</u>
Administration/Supervision and Services for State Funded Programs			
Other Expenditures	\$ 68,523	\$ 11,509	\$ 57,014
Total	<u>\$ 68,523</u>	<u>\$ 11,509</u>	<u>\$ 57,014</u>
Debt Service			
Principal Payment	\$ 200,000	\$ 200,000	\$ -
Interest Payment	5,775	6,862	(1,087)
Total	<u>\$ 205,775</u>	<u>\$ 206,862</u>	<u>\$ (1,087)</u>
TOTAL DISBURSEMENTS	<u><u>\$ 16,874,058</u></u>	<u><u>\$ 11,085,307</u></u>	<u><u>\$ 5,788,751</u></u>

(Concluded)

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO BUDGETARY COMPARISON SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2012

Budgetary Process

ESU No. 10 adopts an annual budget in accordance with the statutory requirements of the Nebraska Budget Act. The budget is prepared on the cash receipts and disbursements basis of accounting. The budget contains only those receipts actually received by ESU No. 10. ESU No. 10 does not utilize an encumbrance accounting system. All appropriated spending authority lapses at the end of the fiscal year.

On or before August 1, ESU No. 10's budget-making authority prepares a budget for each ESU No. 10 fund. The budget includes the requirements, the outstanding warrants, the operating reserves to be maintained, the cash on hand at the close of the preceding fiscal year, the receipts from sources other than taxation, and the amount to be raised by taxation.

The property tax requirement resulting from ESU No. 10's adopted budget is utilized by the County Assessors to establish ESU No. 10's tax levy.

EDUCATIONAL SERVICE UNIT NO. 10

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCE
CAPITAL IMPROVEMENTS FUND**

For the Fiscal Year Ended June 30, 2012

Fund Balance, Beginning	\$	82,298
Cash Receipts:		
Interest Income		466
Interfund Transfer - Allocation from General Fund		<u>1,625</u>
Total Funds Available		84,389
Cash Disbursements:		
Interfund Transfer - Building addition and equipment		<u>14,995</u>
Fund Balance, Ending	\$	<u><u>69,394</u></u>

EDUCATIONAL SERVICE UNIT NO. 10

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
CAPITAL IMPROVEMENTS FUND**

For the Fiscal Year Ended June 30, 2012

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
Cash Receipts:			
Interest Income	\$ 1,500	\$ 466	\$ (1,034)
Interfund Transfer - Allocation from General Fund	<u>6,600</u>	<u>1,625</u>	<u>(4,975)</u>
Total Funds Available	<u>\$ 8,100</u>	<u>\$ 2,091</u>	<u>\$ (6,009)</u>
 Cash Disbursements:			
Interfund Transfer - Building Addition and Equipment	\$ 90,398	\$ 14,995	\$ 75,403
Total	<u>\$ 90,398</u>	<u>\$ 14,995</u>	<u>\$ 75,403</u>

EDUCATIONAL SERVICE UNIT NO. 10

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCE
EMPLOYEE BENEFIT FUND**

For the Fiscal Year Ended June 30, 2012

Fund Balance, Beginning	\$	47,572
Cash Receipts:		
Interest Income		270
		<hr/>
Total Funds Available		47,842
Cash Disbursements:		
Unemployment claims		-
Other Financing Sources (Uses):		
Transfers In		138
		<hr/>
Fund Balance, Ending	\$	<u>47,980</u>

EDUCATIONAL SERVICE UNIT NO. 10

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
EMPLOYEE BENEFIT FUND**

For the Fiscal Year Ended June 30, 2012

	Original/Final Budget	Actual	Variance with Final Budget Positive (Negative)
Cash Receipts:			
Interest Income	\$ 500	\$ 270	\$ (230)
Total Funds Available	\$ 500	\$ 270	\$ (230)
Cash Disbursements:			
Unemployment Claims	\$ 48,172	\$ -	\$ 48,172
Total	\$ 48,172	\$ -	\$ 48,172
Other Financing Sources (Uses):			
Transfers In	\$ 600	\$ 138	\$ (462)
Total Other Financing Sources (Uses)	\$ 600	\$ 138	\$ (462)

EDUCATIONAL SERVICE UNIT NO. 10

**SCHEDULE OF RECEIPTS AND DISBURSEMENTS -
AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 FUNDING**

For the Fiscal Year Ended June 30, 2012

ARRA RECEIPTS - FEDERAL FUNDS	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
IDEA Receipts				
IDEA Part C Special Projects	\$ 15,061	\$ 15,061	\$ 14,884	\$ (177)
Total IDEA Receipts	<u>15,061</u>	<u>15,061</u>	<u>14,884</u>	<u>(177)</u>
Title ESEA Receipts				
ESEA Title I, Part A Improving Academic Achievement of the Disadvantaged	90,672	90,672	90,672	-
ESEA Title II, Part D Technology	23,105	23,105	23,105	-
Total Title ESEA Receipts	<u>113,777</u>	<u>113,777</u>	<u>113,777</u>	<u>-</u>
Total ARRA Receipts	<u>\$ 128,838</u>	<u>\$ 128,838</u>	<u>\$ 128,661</u>	<u>\$ (177)</u>
 ARRA DISBURSEMENTS - FEDERAL FUNDS				
IDEA Part C Special Projects				
Purchased Services	\$ 12,461	\$ 12,461	\$ 9,024	\$ 3,437
Supplies and Materials	-	-	2,364	(2,364)
Other Expenditures	-	-	895	(895)
Total IDEA	<u>12,461</u>	<u>12,461</u>	<u>12,283</u>	<u>178</u>
ESEA Title I, Part A				
Supplies and Materials	56,571	56,571	56,571	-
Total ESEA Title I, Part A	<u>56,571</u>	<u>56,571</u>	<u>56,571</u>	<u>-</u>
ESEA Title II, Part D Technology				
Purchased Services	11,174	11,174	11,463	(289)
Supplies and Materials	289	289	-	289
Other Expenditures	1,209	1,209	1,209	-
Total ESEA Title II, Part D Technology	<u>12,672</u>	<u>12,672</u>	<u>12,672</u>	<u>-</u>
Total ARRA Disbursements	<u>\$ 81,704</u>	<u>\$ 81,704</u>	<u>\$ 81,526</u>	<u>\$ 178</u>

EDUCATIONAL SERVICE UNIT NO. 10

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCE - COUNTY TREASURER'S FUND**

For the Fiscal Year Ended June 30, 2012

Receipts

Net Tax Collections	\$ 2,029,293
(includes net property tax, motor vehicle prorated, in-lieu of tax, homestead exemptions and property tax credit collections.)	
Total Receipts	<u>2,029,293</u>

Disbursements

Remittances to ESU No. 10	2,027,389
Total Disbursements	<u>2,027,389</u>

Excess of Receipts Over Disbursements 1,904

Fund Balance, Beginning of Year 24,939

Fund Balance, End of Year \$ 26,843

EDUCATIONAL SERVICE UNIT NO. 10

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2012

	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF EDUCATION		
PASSED THROUGH NEBRASKA DEPARTMENT OF EDUCATION:		
	84.010	\$ 932,814
ARRA	84.389	56,571
		<u>\$ 989,385</u> *
	84.027	\$ 529,102
	84.173	41,843
		<u>\$ 570,945</u>
	84.181	\$ 128,922
ARRA	84.393	12,283
		<u>\$ 141,205</u>
	84.318	\$ 6,991
ARRA	84.386	12,672
		<u>\$ 19,663</u>
	84.011	\$ 83,178
	84.048	124,656
	84.365	76,256
	84.367	180,518
	93.575	63,087
	84.184	2,713
		<u>\$ 530,408</u>
		<u>\$ 2,251,606</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
PASSED THROUGH OMAHA PUBLIC SCHOOLS:		
	93.778	\$ 70,068
U.S. DEPARTMENT OF AGRICULTURE		
	10.855	\$ 425,977 *
		<u>\$ 2,747,651</u>

* Denotes Major Programs

See Notes to Schedule of Expenditures of Federal Awards.

EDUCATIONAL SERVICE UNIT NO. 10

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2012

(1) **General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of Educational Service Unit No. 10. Federal awards received directly from Federal agencies, as well as those passed through other government agencies, are included in the Schedule.

(2) **Basis of Presentation**

The accompanying Schedule presents total expenditures for each Federal awards program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* with major programs determined using a risk-based approach. The Schedule has been prepared on the cash basis of accounting. Federal program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA) whenever possible.

(3) **Change in Method of Measurement**

The accompanying Schedule represents a change in the method of measurement used in the content of the Schedule. Prior Schedules, while purporting to present total expenditures of Federal awards, were determined to have actually presented total receipts of Federal awards.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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EDUCATIONAL SERVICE UNIT NO. 10

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Educational Service Unit No. 10
Kearney, Nebraska

We have audited the financial statements of the governmental activities and each major fund of Educational Service Unit No. 10 as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012. The report notes the financial statements were prepared on the basis of cash receipts and disbursements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Educational Service Unit No. 10's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Educational Service Unit No. 10's internal control. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 10's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 discussed below, we identified certain deficiencies in internal control 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, detect, or 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 ESU No. 10's financial statements will not be prevented, detected, or corrected on a timely basis. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs that we consider to be a significant deficiency in internal control over financial reporting: Finding #12-01.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educational Service Unit No. 10's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Educational Service Unit No. 10 in a separate letter dated November 19, 2012.

Educational Service Unit No. 10's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Educational Service Unit No. 10's response and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Educational Service Unit No. 10 Board, others within the entity, the State Legislature, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

November 19, 2012

Pat Reding, CPA, CFE
Assistant Deputy Auditor



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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EDUCATIONAL SERVICE UNIT NO. 10

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Educational Service Unit No. 10
Kearney, Nebraska

Compliance

We have audited Educational Service Unit No. 10's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Educational Service Unit No. 10's major Federal programs for the year ended June 30, 2012. Educational Service Unit No. 10's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Educational Service Unit No. 10's management. Our responsibility is to express an opinion on Educational Service Unit No. 10's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Educational Service Unit No. 10's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Educational Service Unit No. 10's compliance with those requirements.

In our opinion, Educational Service Unit No. 10 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings #12-02 and #12-03.

Internal Control Over Compliance

Management of Educational Service Unit No. 10 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Educational Service Unit No. 10's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 10's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompany schedule of findings and questioned costs as Findings #12-01, #12-02, and #12-03. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Educational Service Unit No. 10's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Educational Service Unit No. 10's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Educational Service Unit Board, others within the entity, citizens of the State of Nebraska, the State Legislature, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

November 19, 2012

Pat Reding, CPA, CFE
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT NO. 10

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2012

SECTION I. SUMMARY OF AUDITORS' RESULTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	___ Yes <u>X</u> No
Significant deficiencies identified?	<u>X</u> Yes ___
Noncompliance material to financial statements noted?	___ Yes <u>X</u> No
Internal control over major programs:	
Material weaknesses identified?	___ Yes <u>X</u> No
Significant deficiencies identified?	<u>X</u> Yes ___
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133:	<u>X</u> Yes ___ No
Major programs:	Title I, Part A Cluster, CFDA # 84.010 & 84.389 Distance Learning and Telemedicine Loans and Grants, CFDA #10.855
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee:	<u>X</u> Yes ___ No

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding #12-01

Criteria: Authorization or approval of transactions, recording of transactions, and custody of assets should normally be segregated from each other.

Condition: There is a lack of segregation of duties throughout Educational Service Unit No. 10's accounting functions. This is a continuing item from the prior year. Furthermore, this finding relates to both the Educational Service Unit No. 10's basic financial statements and

EDUCATIONAL SERVICE UNIT NO. 10

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

Federal awards and the complete finding, including Educational Service Unit No. 10's management response and corrective action plan, may be found in Part III of this Schedule.

Cause: Educational Service Unit No. 10 does not employ sufficient office personnel to properly segregate accounting functions due to the cost-benefit of such additional personnel.

Effect: This lack of segregation of duties results in an inadequate overall internal control structure design.

Recommendation: Educational Service Unit No. 10 should be aware of the inherent risks associated with improper segregation of accounting functions. Educational Service Unit No. 10 should also develop mitigating controls to reduce the risk of errors or fraud associated with improper segregation of accounting functions.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding #12-01

Due to the cross-cutting nature of this finding all Federal programs for which ESU No. 10 is either a direct or indirect recipient for the fiscal year ended June 30, 2012, are affected.

Criteria: Authorization or approval of transactions, recording of transactions, and custody of assets should normally be segregated from each other.

Condition: There is a lack of segregation of duties throughout Educational Service Unit No. 10's accounting functions. This is a continuing item from the prior year.

Questioned Costs: \$0

Context: A lack of segregation of duties in accounting functions encompasses all of Educational Service Unit No. 10's transactions, including its local, State, and Federal funds.

Effect: This lack of segregation of duties results in an inadequate overall internal control structure design.

Cause: Educational Service Unit No. 10 does not employ sufficient office personnel to properly segregate accounting functions due to the cost-benefit of such additional personnel.

Recommendation: Educational Service Unit No. 10 should be aware of the inherent risks associated with improper segregation of accounting functions. Educational Service Unit No. 10 should also develop mitigating controls to reduce the risk of errors or fraud associated with improper segregation of accounting functions.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

Management Response: It is ESU 10 management's understanding that this finding is routine for entities of similar size where the risk exposure must be weighed against the cost of employing additional personnel.

Corrective Action Plan: ESU 10 will review current practices to determine if there are areas in which segregation of accounting functions is both warranted and feasible.

Contact: Wayne A. Bell, Administrator

Anticipated Completion Date: November 15, 2012

Finding #12-02

Program: CFDA #84.010 – Title I Grants to Local Educational Agencies; 84.027 – Special Education Grants to States (IDEA Part B); 84.181 – Special Education Grants for Infants and Families with Disabilities – Allowable Cost Principles/Allowable Activities

Grant Number & Year: Grant #12-10-000-0010-00, July 1, 2011 – September 30, 2012; Grant #H027A100079 and #H181A100033, September 1 – August 31, 2012

Federal Grantor Agency: U.S. Department of Education

Pass-through Entity: Nebraska Department of Education

Criteria: OMB Circular A-87, Attachment B, section 8.h. entitled, "Support of salaries and wages" states,

"These standards regarding time distribution are in addition to the standards for payroll documentation..."

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5)...Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after the fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.” (Emphasis added.)

In addition, a good internal control plan requires procedures be in place to ensure that only actual time and salary amounts are charged to Federal grants.

Condition: Educational Service Unit (ESU) No. 10 Title I staff did not reconcile budgeted time spent working on Title I to the actual time at all during the fiscal year ended June 30, 2012. Teacher contracts (or other equivalent payroll documents) were also not obtained, even on a sample basis, to verify that the Title I salaries and/or benefits reported to ESU No. 10 by each school were accurate. For the grant period July 1, 2011 through September 30, 2012, ESU No. 10 budgeted \$921,472 (97%) of the \$951,902 grant to be used on salaries and benefits. Additional findings were also noted related to the accuracy of Title I payroll records during a detailed testing of Title I expenditures (see Context Section below for details).

Coding of pay for one of seven ESU No. 10 employees tested could not be verified as being correct. In addition, for this employee, who was paid in part with Federal funds, the Federal program charges were not in accordance with A-87 guidelines. In this one instance, the employee's pay was split between the Autism Grant (78%) and School Psychology (22%) programs. The employee did not track her hours to aid in determining her pay split. Per the Department Director for Special Education, the split was determined by estimating the amount of time required to achieve the goals of the grant. Once the proportion is determined, it is applied to the employee's pay at the beginning of the grant period by ESU No. 10's Administrative Assistant, and the employee's pay is split this way until the end of the grant period or until the money for payroll in the grant runs out. The Department Director of

EDUCATIONAL SERVICE UNIT NO. 10

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

Special Education stated they try to keep track of the employee’s time via her Outlook calendars to ensure she has spent enough time working on the grant. However, an actual time study was not performed prior to determining the split, and the employee does not complete time certification forms to officially track the amount of time she worked on the grant and how much time she worked on other school psychology activities. Because of this, we could not verify the method of coding was correct and the charges were not in accordance with A-87 guidelines, and we question \$4,375 related to Special Education.

Questioned Costs: \$150,389

Context: During detailed testing of Title I expenditures, it was noted that, for three of seven schools tested, salary-related payments were made in excess of the budgeted salary amounts reported by the schools. These excess unsupported payments resulted in questioned costs of \$38,167. See details provided in the table below.

School	Teacher	Total Salary Reported	Budgeted Title I Time	Budgeted Title I Salary	Title I Salaries Paid	Unsupported Payments
Sumner-Eddyville-Miller	Teacher 1	\$ 53,131	25%	\$ 13,283		
Sumner-Eddyville-Miller	Teacher 2	\$ 46,822	60%	\$ 28,093		
Sumner-Eddyville-Miller	Para 1	n/a	n/a	\$ 7,729		
Sumner-Eddyville-Miller Total				\$ 49,105	\$ 64,042	\$ 14,937
North Loup Scotia	Teacher 1	\$ 53,700	75%	\$ 40,275		
North Loup Scotia	Teacher 2	\$ 35,307	25%	\$ 8,827		
North Loup Scotia Total				\$ 49,102	\$ 60,847	\$ 11,745
Sandhills	Teacher 1	\$ 46,452	50%	\$ 23,226		
Sandhills	Teacher 2	\$ 32,074	50%	\$ 16,037		
Sandhills Total				\$ 39,263	\$ 50,748	\$ 11,485
TOTALS				\$ 137,470	\$ 175,637	\$ 38,167

In addition, during the detailed Title I expenditures test, adequate payroll documentation was not available for 13 of 14 Title I teachers reviewed. There were instances noted in which no semi-annual certifications or monthly time logs were available for all or a portion of the school year (highlighted in green in the table below), in which semi-annual certifications were provided instead of the monthly time logs required by A-87 (highlighted in orange in the table below), and in which the actual time reported on the time logs did not agree to the budgeted time with no adjustments made (highlighted in blue in the table below).

School	Teacher	Budgeted Title I Time	APA Notes
Arnold	Teacher 1	63%	Semi-annual certification for only the second half of the school year (January - May 2011) noting 100% to Title I was provided instead of monthly time logs
Callaway	Teacher 1	100%	Semi-annual certification was provided only for the first half of the school year (August - December 2011)
North Loup Scotia	Teacher 1	75%	No monthly time logs were provided

EDUCATIONAL SERVICE UNIT NO. 10

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

School	Teacher	Budgeted Title I Time	APA Notes
North Loup Scotia	Teacher 2	25%	Monthly time logs provided indicated an average of 14% of time was spent on Title I for August - October 2011, then 22% was consistently spent on Title I from November 2011 - April 2012 (no time log provided for May 2012) resulting in budgeted salary for the first three months being \$1,165 higher than actual which was overpaid to the school
Northwest	Teacher 1	50%	Monthly time logs provided indicated 23.3% of time was consistently spent on Title I throughout the school year resulting in budgeted salary being \$11,223 more than actual; however, Northwest was paid approximately \$33,000 less than budgeted therefore amount was not actually overpaid. In addition, time logs showing 30% instead of 23% were subsequently provided
Northwest	Teacher 2	100%	No semi-annual certifications were provided
Northwest	Teacher 3	50%	Monthly time logs provided for August 2011 – February 2012 agreed to budgeted time (50% consistently spent on Title I throughout the school year); however, no time logs were provided for March - May 2012
Northwest	Teacher 4	100%	No semi-annual certifications were provided
Pleasanton	Teacher 1	50%	Monthly time logs agreed to budgeted time (48% consistently spent on Title I throughout the school year)
Sandhills	Teacher 1	50%	Semi-annual certifications noting 50% to Title I were provided instead of monthly time logs
Sandhills	Teacher 2	50%	Semi-annual certifications noting 50% to Title I were provided instead of monthly time logs
Sumner- Eddyville-Miller	Para 1	n/a	No monthly time logs were provided
Sumner- Eddyville-Miller	Teacher 1	25%	Semi-annual certification for only the first half of the school year (August - December 2011) noting 25% to Title I were provided instead of monthly time logs
Sumner- Eddyville-Miller	Teacher 2	60%	No monthly time logs were provided

The total payments tested that were not adequately supported by time logs or certifications was \$107,847. We tested \$129,712 of \$928,807 Title I payroll expenditures.

Cause: ESU No. 10 does not have adequate monitoring procedures in place to ensure compliance with A-87 requirements. This may also be partially because ESU No. 10 does not have staff with a financial background involved in monitoring Title I grant expenditures.

Effect: Without adequate procedures in place to charge actual time and salary amounts to Federal programs, ESU No. 10 is not in compliance with A-87, increasing the risk of unallowable costs charged to grants.

Recommendation: We recommend ESU No. 10 develop monitoring procedures which would ensure compliance with A-87, including;

EDUCATIONAL SERVICE UNIT NO. 10

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

- Comparing actual hours to budgeted hours on a quarterly basis and making any adjustments needed and to charge actual hours in accordance with A-87 (for differences in excess of ten percent);
- Obtaining teacher contracts or other payroll documentation, at least on a sample basis, to verify the Title I salary and benefit amounts reported to ESU No. 10 by the schools are accurate and not paying the schools Title I funds in excess of the documented amounts;
- Obtaining time and effort logs on a monthly basis (which are signed by the employee and supervisor) for all Title I teachers working less than 100% on Title I;
- Obtaining semi-annual certifications (which are signed by the employee and supervisor) for all Title I teachers working 100% on Title I.

It may be beneficial for ESU No. 10 to employ Title I staff with a financial background to assist in implementing these recommendations, where feasible.

Management Response: ESU 10 has been relying on the districts in the Title I consortium to monitor the time and effort of their employees whose payment they claim reimbursement for through ESU 10.

Corrective Action Plan: ESU 10 will implement more detailed monitoring procedures to ensure compliance with A-87 funding rather than rely on compliance solely at the district level.

Contact: Wayne A. Bell, Administrator

Anticipated Completion Date: December 31, 2012

Finding #12-03

Due to the cross-cutting nature of this finding all Federal programs for which ESU No. 10 is either a direct or indirect recipient for the fiscal year ended June 30, 2012, are affected.

Criteria: A-133 §__.205, entitled, “Basis for determining Federal awards expended” states,

“...The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants....”

Condition: Educational Service Unit No. 10 does not have adequate procedures in place to ensure compliance with A-133 requirements. For at least the last two preceding fiscal years (fiscal years ended June 30, 2010 and June 30, 2011), the Schedule of Expenditures of

EDUCATIONAL SERVICE UNIT NO. 10

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

Federal Awards (SEFA) has been presented based on Federal **receipts** of Educational Service Unit No. 10 rather than Federal **expenditures**.

Questioned Costs: \$0

Context: As a result of Federal receipts having been presented rather than expenditures, the Schedule of Expenditures of Federal Awards was:

Overreported by \$714 for the Fiscal Year Ended June 30, 2010, due to the SEFA, as presented, having totaled \$3,239,534 compared to actual Federal expenditures for the fiscal year which totaled \$3,238,820.

Overreported by \$134,254 for the Fiscal Year Ended June 30, 2011, due to the SEFA, as presented, having totaled \$2,656,958 compared to actual Federal expenditures for the fiscal year which totaled \$2,522,704.

Effect: When the SEFA is not prepared in accordance with A-133 there is an increased risk of inappropriate identification of type A and type B programs, as well as major programs, which could cause certain Federal programs to inappropriately be, or not be, audited, which could thereby jeopardize Federal funding of Educational Service Unit No. 10.

Cause: Educational Service Unit No. 10 does not have adequate procedures in place to ensure compliance with A-133 requirements. This may be due to their reliance on their external auditors to interpret and implement A-133 reporting requirements. Prior auditors of Educational Service Unit No. 10 had interpreted A-133 in such a way that they viewed Federal expenditures as being “local” expenditures of Educational Service Unit No. 10 until reimbursement of funds had been received, at which point they then viewed those expenditures as “Federal” and subject to A-133 reporting.

Recommendation: We recommend Educational Service Unit No. 10 review A-133 reporting requirements and implement procedures to ensure all reporting is in accordance with OMB Circular A-133.

Management Response: ESU 10 has relied on the expertise of the certified public accountants for preparation of prior SEFA reports contained in financial audit reports.

Corrective Action Plan: ESU 10 will address the APA’s concerns prior to completion of the next financial audit by a certified public accounting firm.

Contact: Wayne A. Bell, Administrator

Anticipated Completion Date: June 30, 2013

EDUCATIONAL SERVICE UNIT NO. 10

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Fiscal Year Ended June 30, 2012

SECTION IV. SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Catalog Number</u>	<u>Grant/Finding</u>	<u>ESU Response/ Status of Finding</u>	<u>Auditor Comments/ Current Finding</u>
11-1	All Awards	Segregation of Duties	ESU No. 10 Board continually evaluates the distribution of duties to employees and closely monitors all accounting functions.	#12-01