

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 2
JULY 1, 2014, THROUGH JUNE 30, 2015**

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the Auditor of Public Accounts.**

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Issued on January 7, 2016

EDUCATIONAL SERVICE UNIT NO. 2

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EDUCATIONAL SERVICE UNIT NO. 2

EXIT CONFERENCE

An exit conference was held October 27, 2015, with Educational Service Unit No. 2 (ESU No. 2) to discuss the results of our examination. Those in attendance for ESU No. 2 were:

NAME	TITLE
Ted DeTurk	Administrator
Conny Dunn	Business Manager
Jody Phillips	Special Education Director



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EDUCATIONAL SERVICE UNIT NO. 2

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Service Unit No. 2
Fremont, NE

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities and the major fund of Educational Service Unit No. 2 (ESU No. 2), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Educational Service Unit No. 2's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ESU No. 2's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Governmental Fund – General Fund	Qualified

Basis for Qualified Opinions

The audit report for the Nebraska Liquid Asset Fund (NLAF) for the period ending May 31, 2015, did not include audited footnotes disclosing the fund's credit risk, concentration of credit risk, and interest rate risk. Due to this, the accuracy of the required footnote disclosures, as presented in Note 2, was unable to be determined. The information provided in the footnote is from the NLAF audit report; however, this information was not audited.

Qualified Opinions

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of ESU No. 2, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule – Cash Basis – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Management has omitted Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise ESU No. 2’s basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Receipts by Source and Function – Cash Basis – Budget and Actual – General Fund, and the Schedule of Disbursements by Program and Object – Cash Basis – Budget and Actual – General Fund, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Receipts by Source and Function – Cash Basis – Budget and Actual – General Fund, and the Schedule of Disbursements by Program and Object – Cash Basis – Budget and Actual – General Fund, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2015, on our consideration of ESU No. 2’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESU No. 2’s internal control over financial reporting and compliance.



Zachary Wells, CPA, CISA
Audit Manager

December 21, 2015

EDUCATIONAL SERVICE UNIT NO. 2
STATEMENT OF NET POSITION – CASH BASIS
 June 30, 2015

	Governmental Activities
ASSETS	
Cash and Cash Equivalents (Note 1.E)	\$ 2,927,428
Cash on Hand with County Treasurer	19,025
TOTAL ASSETS	\$ 2,946,453
NET POSITION	
Restricted for:	
Bond Indebtedness	\$ 47,792
Unrestricted	2,898,661
TOTAL NET POSITION	\$ 2,946,453

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 2
STATEMENT OF ACTIVITIES – CASH BASIS
For the Year Ended June 30, 2015

Functions:	Cash Disbursements	Program Cash Receipts		Net (Disbursement) Receipts and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Special Education	\$ 1,825,886	\$ 1,956,054	\$ -	\$ 130,168
Behavioral Counselor	42,979	-	-	(42,979)
Service Credit Units	97,398	-	-	(97,398)
Production Services	25,670	10,485	-	(15,185)
General Administration	599,930	-	-	(599,930)
Core Services	740,763	-	259,429	(481,334)
Services Coordination	296,661	-	303,737	7,076
Federal Programs	734,688	-	724,954	(9,734)
Debt Service	37,419	-	-	(37,419)
Northeast Nebraska Network Cooperative	103,831	93,245	-	(10,586)
Distance Education	116,242	134,417	-	18,175
e-Library	45,079	48,226	-	3,147
Computer Repair and Contracted Software	206,956	140,652	-	(66,304)
Other Services	54,446	38,956	-	(15,490)
Total Governmental Activities	\$ 4,927,948	\$ 2,422,035	\$ 1,288,120	(1,217,793)
General Receipts:				
Taxes				1,603,046
Interest Income				278
Miscellaneous				8,300
Total General Receipts				1,611,624
Increase in Net Position				393,831
Net Position - Beginning of year				2,552,622
Net Position - End of year				\$ 2,946,453

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 2
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUND
 June 30, 2015

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents (Note 1.E)	\$ 2,927,428
Cash on Hand with County Treasurer	19,025
TOTAL ASSETS	\$ 2,946,453
 FUND BALANCE	
Restricted for:	
Bond Indebtedness	\$ 47,792
Unassigned	2,898,661
TOTAL CASH BASIS FUND BALANCE	\$ 2,946,453

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 2
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCE**
GOVERNMENTAL FUND
For the Year Ended June 30, 2015

	General Fund
RECEIPTS	
County Tax Levy	\$ 1,603,046
Federal Sources	724,954
State Sources	563,166
Local Sources	2,430,613
TOTAL RECEIPTS	5,321,779
DISBURSEMENTS	
Current:	
Special Education	
Occupational Therapy Services	86,307
Psychological Services	436,014
Speech Services	763,105
Independent School	284,345
Special Education Administration	256,115
Behavioral Counselor Services	42,979
Service Credit Units	97,398
Production Services	25,670
General Admin	
Retirement/Leave	39,070
Board of Education	6,672
Executive Administration	195,809
Administrative Support	255,066
Building Maintenance	103,313
Core Services	740,763
Services Coordination	296,661
Federal Programs	
Title I Grants to Local Educational Agencies	485,462
Project CHASE	32,503
Special Education Collaborative Project	59,446
Nebraska Medicaid Administration Program	40,116
Carl Perkins Vocational Education Grant	29,914
Special Education Early Development Regional Grant	22,864
Project STAR	30,990
Other Miscellaneous Federal Grants	33,393
Debt Service	37,419
Northeast Nebraska Network Consortium	103,831
Distance Education	116,242
e-Library	45,079
Computer Repair and Contracted Services	206,956
Other Services	54,446
TOTAL DISBURSEMENTS	4,927,948
Net Change in Cash Basis Fund Balance	393,831
CASH BASIS FUND BALANCE - BEGINNING	2,552,622
CASH BASIS FUND BALANCE - ENDING	\$ 2,946,453

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2015

1. **Summary of Significant Accounting Policies**

A. Basis of Presentation

Educational Service Unit No. 2 (ESU No. 2) adopted the provisions of Statement No. 34 (Statement 34) of the Governmental Accounting Standards Board (GASB), “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” 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 position into three components – (a) net investment in capital assets; (b) restricted; (c) unrestricted. ESU No. 2 reported restricted and unrestricted net position.

B. Reporting Entity

ESU No. 2 is a governmental entity that provides supplies, equipment, materials, and services to school districts within ESU No. 2’s region. ESU No. 2 was established under, and is governed by, the laws of the State of Nebraska. As such, ESU No. 2 is exempt from State and Federal income taxes. The financial statements include all funds of ESU No. 2. ESU No. 2 has also considered all potential component units for which it is financially accountable and other organizations that are fiscally dependent on ESU No. 2 or whose relationships with ESU No. 2 are so significant that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of ESU No. 2 to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 2. ESU No. 2 is also considered financially accountable if an organization is fiscally dependent on it, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 2, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present ESU No. 2. No component units were identified, and ESU No. 2 is not considered a component unit of any other governmental entity.

C. Government-Wide and Fund Financial Statements

Agency-Wide Financial Statements. The Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis display information about the activities of ESU No. 2 and are in the format of government-wide statements, as required by GASB Statement Number 34. These statements include all the financial activities of ESU No. 2. The

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

effect of interfund activity has been removed from these statements. ESU No. 2 reports governmental activities only. Governmental activities generally are financed through taxes and intergovernmental receipts.

The Statement of Net Position – Cash Basis presents the reporting entity’s assets and liabilities, with the difference reported as net position. ESU No. 2 has a portion of its net position listed as restricted for Bond Indebtedness. The remainder of ESU No. 2’s net position is reported as unrestricted, which can have constraints on resources that are imposed by management (rather than external constraints), but those constraints can be removed or modified.

The Statement of Activities – Cash Basis demonstrates the degree to which the direct disbursements of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. ESU No. 2 reported the following general receipts: Taxes, Interest Income, and Miscellaneous Receipts.

Fund Financial Statements. The fund financial statement provides information about ESU No. 2’s Governmental Fund.

General Fund – This is ESU No. 2’s operating fund. It is used to account for all financial resources. All property tax receipts and other receipts are accounted for in this fund. General operating disbursements and new and replacement capital outlay costs are paid from the General Fund. This is a Governmental Fund.

D. Basis of Accounting

ESU No. 2’s policy is to prepare its financial statements on the cash basis, which is consistent with the requirements of both the Commissioner of Education and the Nebraska Department of Education. Under the cash basis of accounting, receipts are recognized when collected rather than when earned, and disbursements are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial information in accordance with generally accepted accounting principles. Property taxes collected by the County Treasurers are recognized as receipts when received by the County Treasurers.

The basic financial statements have been prepared primarily from accounts maintained by ESU No. 2’s accounting system.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents

ESU No. 2 invests all of its cash in the Nebraska Liquid Asset Fund (NLAF). The NLAF is a pooled cash account that invests primarily in U.S. government & agency obligations and repurchase agreements. Additionally, the cash is available to the ESU as needed and, therefore, is considered cash and cash equivalents for reporting purposes. These investments are valued at amortized cost, which values a portfolio security initially at its original cost and thereafter adjusting for amortization of premium or accretion of discount to maturity.

F. Inventories and Prepaid Items

Inventories of expendable supplies held for consumption are recorded as disbursements at the time of purchase.

G. Capital Assets

Under the cash receipts and disbursements basis of accounting, capital assets are recorded as disbursements at the time of purchase and depreciation is not recorded. This differs from generally accepted accounting principles, which require capital assets to be capitalized and depreciated over the life of the asset.

H. Compensated Absences

ESU No. 2 has entered into negotiated agreements with certified and non-certified personnel. In those agreements, ESU No. 2 has agreed to provide benefits for personal and sick leave. In accordance with the cash basis of accounting, these benefits are recorded as a disbursement when paid.

I. Property Taxes and Funds Held by County Treasurers

The tax levied for all political subdivisions in each county is certified by the County Board on or before October 15. Real estate and personal property taxes are due and become an enforceable lien on property on January 1. The first half of real estate and personal property taxes becomes delinquent on May 1, and the second half becomes delinquent on September 1 following the levy date. The combined tax rate subject to limitations of ESU No. 2 for the year ended June 30, 2015, was \$0.0150 per \$100 assessed valuation of all taxable property within its geographic region. Property taxes levied are recognized when received.

Property taxes are collected on behalf of ESU No. 2 by counties, which then remit the funds collected to ESU No. 2. Taxes are recognized as receipts by ESU No. 2 when received by the counties. Cash available for ESU No. 2 at various County Treasurers' offices has been included in the beginning and ending fund balances of the Governmental

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Fund. Additionally, Local Receipts or Local District Taxes reflect actual tax receipts collected by the County Treasurers during the fiscal year ending June 30, 2015, for ESU No. 2. The following County Treasurers' ending balances are included in the fund balance for the year ended June 30, 2015:

County	As of June 30, 2015
Burt County	\$ 2,195
Cass County	331
Colfax County	1
Cuming County	2,177
Dodge County	5,209
Douglas County	33
Lancaster County	656
Saunders County	7,535
Seward County	1
Stanton County	252
Thurston County	138
Washington County	418
Wayne County	79
Total	\$ 19,025

J. Fund Balance

GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement No. 54 defines the different types of governmental fund balances that a governmental entity must use for financial reporting purposes.

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 that 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.

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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

Unassigned – Fund balance amounts are the residual classification for ESU No. 2's general fund and includes all spendable amounts not contained in the other classifications.

ESU No. 2'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. 2 first spends committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when disbursements are made. Other than the \$47,792 restricted for bond payments, the remaining General Fund balance at June 30, 2015, was classified as unassigned. ESU No. 2 does not have a formal minimum fund balance policy.

2. Deposits and Investments

Listed below is a summary of the investment portfolio that comprises the Cash and Cash Equivalents on ESU No. 2's June 30, 2015, basic financial statements.

Deposits – Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. At June 30, 2015, ESU No. 2 held bank deposits and also held funds in certificates of deposits with the Nebraska Liquid Asset Fund (NLAF).

The NLAF was formed in 1988 under the Interlocal Cooperation Act to provide a cash management program for school districts, educational service units and community colleges, public agencies, and other governmental subdivisions. The NLAF was established to assist public bodies throughout the State of Nebraska with the investment of their available cash reserves. Participation in the investment fund is voluntary for its members. The objective of the fund is to provide a means for investors to achieve a high rate of return while preserving principal and maintaining liquidity, while investing only in instruments permitted by applicable Nebraska statutes. NLAF seeks to achieve its investment objective through professionally managed investment funds governed by the investment policies and restrictions specified. The NLAF Board of Trustees is elected from representatives of various participants in the fund. The NLAF Board of Trustees has engaged PFM Asset Management LLC as administrator and investment advisor. For a copy of the most recent audit report for the NLAF, contact NLAF at 1-877-667-3523 or via the NLAF website at <https://www.nlafpool.org/>.

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Deposits and Investments (Continued)

ESU No. 2's bank balance and carrying amount of cash and deposits at June 30, 2015, are below:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Petty Cash	\$ 100	\$ 100
Bank Deposits	-	-
NLAF Deposits	<u>562,068</u>	<u>394,018</u>
	<u>\$ 562,168</u>	<u>\$ 394,118</u>

Bank Deposits: ESU No. 2 invested all of its cash in the NLAF, and utilizes a bank account as a sweep account to handle all deposits and checks on a daily basis. Daily balances are swept into or out of the NLAF account from the bank account as necessary to maintain a zero balance in the sweep bank account.

ESU No. 2 is required by State statute to collateralize bank deposits in excess of federally insured amounts; however, as the only bank account maintains a zero balance, no such collateral was necessary.

NLAF Deposits: The NLAF's deposit policy for custodial credit risk required compliance with the provisions of State law.

State law requires collateralization of deposits with Federal depository insurance or with U.S. Treasury and U.S. Agency securities having an aggregate value at least equal to the amount of the deposits. At June 30, 2015, all of the NLAF's deposits were insured and collateralized by securities held by the pledging financial institution in other than the NLAF's name.

Investments – The NLAF is a pooled cash account that invests primarily in U.S. government & agency obligations and repurchase agreements. The NLAF seeks to maintain a stable net asset value of \$1 per share, but it is possible to lose money investing in the NLAF. The NLAF is not insured or guaranteed by the Federal Depository Insurance Corporation or any other governmental agency.

At June 30, 2015, ESU No. 2 had \$2,533,310 in NLAF investments. These investments consisted of government agency securities and repurchase agreements that were collateralized by U.S. government securities.

ESU No. 2 is exposed to risks noted below in relation to its investments in the NLAF. ESU No. 2 does not have a policy for these risks. The following NLAF risk policies below were taken from unaudited footnotes in the NLAF audit report. Since these descriptions were unaudited, the Auditor of Public Accounts has qualified the Independent Auditor's Report as identified on in the paragraph "Basis for Qualified Opinion."

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Deposits and Investments (Continued)

Interest Rate Risk – The NLAFF investment policy limits its exposure to market fluctuations due to changes in interest rates by requiring that the portfolio maintain a dollar-weighted average maturity of not greater than 135 days. The weighted average maturity of the entire portfolio at May 31, 2015, the date of the latest NLAFF audit report, was 34 days. All of the NLAFF’s investments had a maturity of less than two years.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. According to the latest audit report on the NLAFF, as of May 31, 2015, the NLAFF limits the investments to certain fixed income instruments which schools entities are permitted to invest in under Nebraska law. As of May 31, 2015, the investment portfolio was comprised of investments that were, in aggregate, rated by Standard & Poor’s (S&P) as shown in the table below. The rates include the ratings of collateral underlying repurchase agreements in effect at May 31, 2015.

<u>S&P Rating</u>	<u>Percent of Portfolio</u>
AA+	57.4%
A-1+	38.9%
Exempt*	0.6%
Not Rated**	3.1%

**Represents investments in U.S. Treasury securities, which are not considered to be exposed to overall credit risk.*

***Represents investments in certificates of deposit insured by the FDIC.*

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the NLAFF will not be able to recover the value of its investment or collateral securities that are in the possession of the outside party. The NLAFF has no specific policy as to custodial credit risk. All of the underlying securities for the NLAFF investments in repurchase agreements at May 31, 2015, the latest audit report date for the NLAFF, were collateralized at 102% of the obligation’s principal and interest value. In the event of default on the obligation to repurchase, the NLAFF has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation.

Concentration of Credit Risk – The NLAFF investment policy establishes certain restrictions on investments and limitations on portfolio composition. The investment portfolio at May 31, 2015, included the issuers shown in the table below, which individually represented greater than 5% of the total investment portfolio.

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. **Deposits and Investments** (Concluded)

<u>Issuer</u>	<u>Percent of Portfolio</u>
Federal Home Loan Bank	32.5%
Federal Farm Credit Bank	15.1%
Fannie Mae	14.4%
BNP Paribas*	15.7%
Goldman Sachs Group*	6.4%

**These issuers are counterparties to repurchase agreements entered into by the NLAf. These repurchase agreements are collateralized by federal agency obligations.*

Reconciliation of deposits and investments for ESU No. 2 to the basic financial statements, as of June 30, 2015, is as follows:

Disclosure Regarding Deposits and Investments:	
Carrying Amount of Bank and NLAf Deposits	\$ 394,118
NLAf Investments	<u>2,533,310</u>
Total Cash and Cash Equivalents	<u>\$2,927,428</u>

3. **Risk Management**

ESU No. 2 is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. During the fiscal year, ESU No. 2 carried commercial insurance for property, general liability, automobile liability, educators' legal liability, worker's compensation, employee benefit liability, campus security activities liability, equipment breakdown liability, as well as coverage for money and securities, forgery, and employee dishonesty coverage. No significant reductions in insurance coverage have occurred during the fiscal year ending June 30, 2015. Settled claims resulting from these risks have not exceeded the above coverage in the past three years.

4. **Unemployment Compensation Insurance**

ESU No. 2 has adopted the reimbursable option of the State's Unemployment Compensation Insurance Program. Under this option, a claimant would receive unemployment compensation from the State. ESU No. 2 is liable to reimburse the State for the actual amount of the claim(s).

5. **Bond Payable**

Liabilities related to bonded indebtedness are omitted from the Statement of Net Position and Statement of Cash Basis Assets and Fund Balance, consistent with the cash basis of accounting. Bond proceeds are recorded as receipts and bond payments are recorded as

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Bond Payable (Concluded)

disbursements in the Statement of Activities and Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance in the year in which the cash is received or paid.

ESU No. 2 was obligated under the bond issue at the financial statement date as follows:

General Obligation Technology Bonds were issued by ESU No. 2 on October 24, 2013. The bonds are part of a joint project between ESU No. 2, Nebraska City Public Schools, and Fairbury Public Schools. The total bond issue was for \$285,000, of which \$85,000 relates to ESU No. 2. The bonds are financed by a property tax levy and are secured by the general receipts of the ESU, and are due to mature August 15, 2015. Interest is due semi-annually in February and August at 0.45% during fiscal year ended June 30, 2015, and increasing to 0.70% the following year.

As of June 30, 2015, the amount received in relation to the bond tax levy as compared to bond payments is as follows:

Fiscal Year	Bond Tax Levy Received	Bond Principal Paid	Bond Interest Paid	Total Bond Payments	Restricted Net Position/ Fund Balance
2014	\$ 54,746	\$ -	\$ 147	\$ 147	
2015	30,612	37,000	419	37,419	
	<u>\$ 85,358</u>	<u>\$ 37,000</u>	<u>\$ 566</u>	<u>\$ 37,566</u>	\$ 47,792

Maturity of the debt is as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 48,000	\$ 168	\$ 48,168

6. Operating Leases

ESU No. 2 is the lessee of equipment with a lease term of up to five years. During the fiscal year, ESU No. 2 paid \$13,745 for equipment leases. Following is a schedule of minimum future rental payments on noncancelable operating leases for the next five years:

Fiscal Year	Future Payments
2016	\$ 11,666
2017	\$ 11,666
2018	\$ 11,666
2019	\$ 11,666
2020	\$ 7,777

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Operating Leases (Concluded)

ESU No. 2 has also entered into a facilities use agreement with a school district that commenced June 1, 2013, and was renewed as of June 1, 2014. This agreement may be renewed for subsequent one-year terms upon the written agreement of the parties. The facility will be used for special education programs and services for certain students with behavioral disorders in a consortium of schools within ESU No. 2. In consideration of the school district providing the facility, ESU No. 2 will allow two district students to obtain services at the facility at no cost to the district, and in addition, the school district is exempt from membership fees for the program. Membership fees for the 2014-2015 school year were \$7,500 per district.

7. Service Credit System

ESU No. 2 has established a service credit system through which a portion of the ESU's property tax receipts are set aside as "service credit funds." These service credits are then annually allocated to each school district in the ESU's district based on an established formula, which considers valuation and population. For fiscal year ended June 30, 2015, the amount of service credit funds set aside and allocated to the member school districts was \$333,172. The service credits can be used by the member school districts to pay any instructional expenses and each district annually determines the use of the allocated service credits. Unused service credits carry over and expire in the subsequent year. As of June 30, 2015, ESU No. 2 has service credits outstanding of \$213,802. As noted in the Schedule of Findings and Question Costs, Finding #2015-1, the APA questioned whether this program is allowable per State statute.

8. Educational Service Unit Coordinating Council

The Educational Service Unit Coordinating Council (ESUCC) was created to coordinate statewide activities of Nebraska's 17 educational service units. The ESUCC's purpose is to provide cost-effective services for the students, teachers, and school districts in each educational service unit. The ESUCC offers multiple services and projects that each educational service unit can choose to participate in. The following are projects or services which ESU No. 2 decided to participate in for the 2014-2015 year: Professional Development Projects, BlendEd Initiative and Projects, Cooperative Purchasing Project, and Special Education Project.

Distance Education: LB 1208 (2006) changed the structure from a distant learning consortium throughout the state to ESU's managing their schools' distance education systems. This included new network deployment, classroom upgrades, and new statewide scheduling and course clearinghouse support. LB 1208 (2006) also formed a governing body called the Distance Education Council for the statewide planning of distance education. With the passage of LB 603 (2007), the duties and responsibilities of the Distance Education Council were transferred to the ESUCC.

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

9. Northeast Nebraska Network Consortium

ESU No. 2 has entered into a cooperative agreement with ESU No.'s 1, 7, 8, and 17 of the State of Nebraska, which allows the service units to share computer technology and other related goods, services, property and facilities. An agreement continuing these services was entered into on April 1, 2013, and will expire March 31, 2016.

10. Independent School

ESU No. 2 operates an independent school for children with behavioral disorders. Schools enter into an interlocal agreement with ESU No. 2, which includes an annual membership fee. During the fiscal year ended June 30, 2015, ESU No. 2 collected \$97,500 in membership fees. Additional agreements and fees are agreed to with each member school based on specific children that attend the independent school. During the fiscal year, ESU No. 2 collected \$290,322 from these additional fee agreements. The ESU expended \$284,345 to operate the school during the fiscal year.

11. Subsequent Events

ESU No. 2 authorized the issuance of bonds on November 30, 2015. The bonds are part of a joint project between ESU No. 2, Nebraska City Public Schools, Fairbury Public Schools, and Norfolk Public Schools. The total bond issue was for \$300,000.

12. Retirement System

The Retirement System for Nebraska Schools (the Plan) is a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement Board (NPERB) in accordance with the provisions of the School Employees Retirement Act. The Plan provisions are established under Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2014, Supp. 2015) and may be amended through legislative action. Participation in the Plan is required of all regular full-time or part-time employees who work 20 or more hours per week.

ESU No. 2 employees contribute 9.78% of their total compensation. In addition, ESU No. 2 contributes an amount equal to 101% of the employee's contribution. The contribution rates are established by Neb. Rev. Stat. § 79-958 (Reissue 2014) and may be amended through legislative action. The employee's and employer's contributions are kept in separate accounts. The employee's account is fully vested. The employee is fully vested after five years of creditable service. For the year ended June 30, 2015, ESU No. 2 employees contributed \$222,591, and ESU No. 2 contributed \$224,817.

EDUCATIONAL SERVICE UNIT NO. 2
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND

For the Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance Positive (Negative)
RECEIPTS			
County Tax Levy	\$ 1,591,700	\$ 1,603,046	\$ 11,346
Federal Sources	758,150	724,954	(33,196)
State Sources	579,618	563,166	(16,452)
Local Sources	3,409,774	2,430,613	(979,161)
TOTAL RECEIPTS	<u>6,339,242</u>	<u>5,321,779</u>	<u>(1,017,463)</u>
DISBURSEMENTS			
Special Education			
Occupational Therapy Services	89,651	86,307	3,344
Psychological Services	480,680	436,014	44,666
Speech Services	788,897	763,105	25,792
Independent School	364,805	284,345	80,460
Special Education Administration	312,825	256,115	56,710
Behavioral Counselor Services	27,684	42,979	(15,295)
Service Credit Units	399,364	97,398	301,966
Production Services	28,166	25,670	2,496
General Admin			
Retirement/Leave	35,200	39,070	(3,870)
Board of Education	17,225	6,672	10,553
Executive Administration	197,476	195,809	1,667
Administrative Support	225,661	255,066	(29,405)
Building Maintenance	270,367	103,313	167,054
Core Services	823,334	740,763	82,571
Services Coordination	320,189	296,661	23,528
Federal Programs			
Title I Grants to Local Educational Agencies	614,158	485,462	128,696
Project CHASE	37,071	32,503	4,568
Special Education Collaborative Project	53,344	59,446	(6,102)
Nebraska Medicaid Administration Program	-	40,116	(40,116)
Carl Perkins Vocational Education Grant	35,562	29,914	5,648
Special Education Early Development Regional Grant	27,775	22,864	4,911
Project STAR	37,071	30,990	6,081
Other Miscellaneous Federal Grants	406,497	33,393	373,104
Debt Service	38,336	37,419	917
Northeast Nebraska Network Consortium	275,720	103,831	171,889
Distance Education	127,895	116,242	11,653
e-Library	30,000	45,079	(15,079)
Computer Repair and Contracted Services	182,982	206,956	(23,974)
Other Services	91,307	54,446	36,861
TOTAL DISBURSEMENTS	<u>\$ 6,339,242</u>	<u>4,927,948</u>	<u>\$ 1,411,294</u>
Net Change in Cash Basis Fund Balance		<u>393,831</u>	
CASH BASIS FUND BALANCE - BEGINNING		<u>2,552,622</u>	
CASH BASIS FUND BALANCE - ENDING		<u>\$ 2,946,453</u>	

See accompanying Notes to the Budgetary Comparison Supplementary Information.

EDUCATIONAL SERVICE UNIT NO. 2
SCHEDULE OF RECEIPTS BY SOURCE AND FUNCTION – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
County Tax Levy:			
Burt	\$ 224,910	\$ 225,534	\$ 624
Butler	120	123	3
Cass	29,660	29,744	84
Colfax	610	556	(54)
Cuming	263,290	261,701	(1,589)
Dodge	488,550	497,215	8,665
Douglas	5,340	5,015	(325)
Lancaster	48,180	49,198	1,018
Sarpy	105	103	(2)
Saunders	435,400	439,332	3,932
Seward	1,280	1,142	(138)
Stanton	32,030	31,750	(280)
Thurston	22,950	22,001	(949)
Washington	36,155	36,740	585
Wayne	3,120	2,892	(228)
Total	1,591,700	1,603,046	11,346
Federal Sources:			
Title I Grants to Local Educational Agencies	553,030	466,476	(86,554)
Special Education Collaborative Project	40,502	62,735	22,233
Nebraska Medicaid Administration Program	54,000	40,116	(13,884)
Project CHASE - Creating Healthy & Active School Environments	-	39,093	39,093
Project STAR - Students & Teachers Achieving Readiness	-	26,532	26,532
Carl Perkins Vocational Education Grant	71,124	23,435	(47,689)
Special Education Early Development Regional Grant	-	21,398	21,398
Other Miscellaneous Federal Grants	39,494	45,169	5,675
Total	758,150	724,954	(33,196)
State Sources:			
Core Services	259,429	259,429	-
Services Coordination	320,189	303,737	(16,452)
Total	579,618	563,166	(16,452)
Local Sources:			
Special Education	2,133,640	1,956,054	(177,586)
Computer Repair and Contracted Software	154,004	140,652	(13,352)
Distance Education	127,895	134,417	6,522
Northeast Nebraska Network Constortium	275,720	93,245	(182,475)
e-Library	30,000	48,226	18,226
Other Services	131,500	38,956	(92,544)
Production Center	3,500	10,485	6,985
Miscellaneous Receipts	553,515	8,300	(545,215)
Interest	-	278	278
Total	3,409,774	2,430,613	(979,161)
Total Receipts	\$ 6,339,242	\$ 5,321,779	\$ (1,017,463)

See accompanying Notes to the Budgetary Comparison Supplementary Information.

EDUCATIONAL SERVICE UNIT NO. 2
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
Occupational Therapy Services - 1212:			
Salaries	\$ 61,143	\$ 60,816	\$ 327
Employee Benefits	25,308	23,520	1,788
Supplies and Materials	1,200	1,284	(84)
Travel and Other Expenses	2,000	687	1,313
Total	89,651	86,307	3,344
Psychology Services - 1214:			
Salaries	330,875	301,904	28,971
Employee Benefits	129,485	122,749	6,736
Supplies and Materials	7,600	6,598	1,002
Travel and Other Expenses	12,720	4,763	7,957
Total	480,680	436,014	44,666
Speech Services - 1216:			
Salaries	544,189	542,774	1,415
Employee Benefits	185,658	166,197	19,461
Purchased Services	40,600	34,874	5,726
Supplies and Materials	4,950	11,284	(6,334)
Travel and Other Expenses	13,500	7,976	5,524
Total	788,897	763,105	25,792
Independent School - 1230:			
Salaries	158,529	153,820	4,709
Employee Benefits	85,121	62,849	22,272
Purchased Services	79,500	32,919	46,581
Supplies and Materials	22,555	33,374	(10,819)
Capital Outlay	12,000	-	12,000
Travel and Other Expenses	7,100	1,383	5,717
Total	364,805	284,345	80,460
Special Education Administration - 1240:			
Salaries	208,406	151,555	56,851
Employee Benefits	86,553	86,616	(63)
Purchased Services	1,756	408	1,348
Supplies and Materials	4,410	4,579	(169)
Travel and Other Expenses	11,700	12,957	(1,257)
Total	312,825	256,115	56,710

(Continued)

EDUCATIONAL SERVICE UNIT NO. 2
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
Behavioral Counselor Services - 2110:			
Salaries	22,838	35,962	(13,124)
Employee Benefits	4,446	7,017	(2,571)
Travel and Other Expenses	400	-	400
Total	27,684	42,979	(15,295)
Service Credit Units - 2222:			
Travel and Other Expenses	399,364	97,398	301,966
Total	399,364	97,398	301,966
Production Services - 2224, 9030:			
Salaries	5,623	7,622	(1,999)
Employee Benefits	3,874	4,118	(244)
Purchased Services	14,969	8,597	6,372
Supplies and Materials	3,700	5,333	(1,633)
Total	28,166	25,670	2,496
Retirement/Leave - 2300:			
Salaries	28,000	29,654	(1,654)
Employee Benefits	7,200	9,416	(2,216)
Total	35,200	39,070	(3,870)
Board of Education - 2310:			
Purchased Services	400	-	400
Travel and Other Expenses	16,825	6,672	10,153
Total	17,225	6,672	10,553
Executive Administration - 2320:			
Salaries	151,710	154,296	(2,586)
Employee Benefits	27,616	27,504	112
Supplies and Materials	3,000	50	2,950
Travel and Other Expenses	15,150	13,959	1,191
Total	197,476	195,809	1,667
Administrative Support - 2330, 2530:			
Salaries	70,718	88,104	(17,386)
Employee Benefits	41,283	43,640	(2,357)
Purchased Services	55,550	39,962	15,588
Supplies and Materials	29,560	28,045	1,515
Capital Outlay	10,000	32,266	(22,266)
Travel and Other Expenses	18,550	23,049	(4,499)
Total	225,661	255,066	(29,405)

(Continued)

EDUCATIONAL SERVICE UNIT NO. 2
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
Building Maintenance - 2610:			
Salaries	21,100	20,139	961
Employee Benefits	3,727	4,186	(459)
Purchased Services	52,040	63,551	(11,511)
Supplies and Materials	29,500	3,254	26,246
Capital Outlay	110,000	3,073	106,927
Travel and Other Expenses	54,000	9,110	44,890
Total	270,367	103,313	167,054
Core Services - 3551, 3553, 3555, 3556:			
Salaries	478,696	462,167	16,529
Employee Benefits	181,670	171,096	10,574
Purchased Services	46,350	22,933	23,417
Supplies and Materials	61,218	50,916	10,302
Capital Outlay	5,000	-	5,000
Travel and Other Expenses	50,400	33,651	16,749
Total	823,334	740,763	82,571
Services Coordination - 4998:			
Salaries	184,949	185,549	(600)
Employee Benefits	105,860	96,912	8,948
Purchased Services	7,300	3,173	4,127
Supplies and Materials	4,580	1,510	3,070
Travel and Other Expenses	17,500	9,517	7,983
Total	320,189	296,661	23,528
Title I Grants to Local Educational Agencies - 4000, 4010, 4200, 4210, 4520:			
Salaries	438,497	348,709	89,788
Employee Benefits	95,728	85,001	10,727
Purchased Services	45	17	28
Supplies and Materials	69,795	51,237	18,558
Travel and Other Expenses	10,093	498	9,595
Total	614,158	485,462	128,696
Project CHASE - Creating Healthy & Active School Environments - 4250:			
Salaries	28,737	23,947	4,790
Employee Benefits	8,334	5,394	2,940
Travel and Other Expenses	-	3,162	(3,162)
Total	37,071	32,503	4,568

(Continued)

EDUCATIONAL SERVICE UNIT NO. 2
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
Special Education Collaborative Project - 4260, 4261:			
Salaries	41,135	46,278	(5,143)
Employee Benefits	7,209	8,168	(959)
Purchased Services	5,000	5,000	-
Total	<u>53,344</u>	<u>59,446</u>	<u>(6,102)</u>
Nebraska Medicaid Administration Program - 4455:			
Salaries	-	40,116	(40,116)
Total	<u>-</u>	<u>40,116</u>	<u>(40,116)</u>
Carl Perkins Vocational Education Grant - 4701:			
Salaries	1,516	1,516	-
Employee Benefits	265	265	-
Purchased Services	10,345	10,345	-
Supplies and Materials	23,436	17,788	5,648
Total	<u>35,562</u>	<u>29,914</u>	<u>5,648</u>
Special Education Early Development Regional Grant - 4902, 4903:			
Salaries	9,347	8,744	603
Employee Benefits	4,960	3,973	987
Purchased Services	3,700	2,498	1,202
Supplies and Materials	4,568	4,469	99
Travel and Other Expenses	5,200	3,180	2,020
Total	<u>27,775</u>	<u>22,864</u>	<u>4,911</u>
Project STAR - Students & Teachers Achieving Readiness - 4990:			
Salaries	28,737	23,947	4,790
Employee Benefits	8,334	5,394	2,940
Travel and Other Expenses	-	1,649	(1,649)
Total	<u>37,071</u>	<u>30,990</u>	<u>6,081</u>
Misc Federal Programs - 4500, 4800, 4900, 4995, 4999:			
Purchased Services	388,960	5,403	383,557
Supplies and Materials	9,365	19,850	(10,485)
Travel and Other Expenses	8,172	8,140	32
Total	<u>406,497</u>	<u>33,393</u>	<u>373,104</u>
Debt Service - 5100:			
Capital Outlay	38,336	37,419	917
Total	<u>38,336</u>	<u>37,419</u>	<u>917</u>

EDUCATIONAL SERVICE UNIT NO. 2
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
Northeast Nebraska Network Consortium - 7200:			
Purchased Services	198,520	60,763	137,757
Supplies and Materials	28,000	39,248	(11,248)
Capital Outlay	37,200	-	37,200
Travel and Other Expenses	12,000	3,820	8,180
Total	<u>275,720</u>	<u>103,831</u>	<u>171,889</u>
Distance Education - 7510:			
Salaries	19,634	21,397	(1,763)
Employee Benefits	7,960	19,761	(11,801)
Purchased Services	79,701	65,727	13,974
Supplies and Materials	5,600	2,583	3,017
Travel and Other Expenses	15,000	6,774	8,226
Total	<u>127,895</u>	<u>116,242</u>	<u>11,653</u>
e-Library - 9111:			
Supplies and Materials	30,000	44,795	(14,795)
Travel and Other Expenses	-	284	(284)
Total	<u>30,000</u>	<u>45,079</u>	<u>(15,079)</u>
Computer Repair and Contracted Software - 9002, 9004, 9005, 9008, 9010, 9150, 9160:			
Salaries	30,000	24,074	5,926
Employee Benefits	-	8,920	(8,920)
Purchased Services	-	2,229	(2,229)
Supplies and Materials	1,000	3,531	(2,531)
Travel and Other Expenses	151,982	168,202	(16,220)
Total	<u>182,982</u>	<u>206,956</u>	<u>(23,974)</u>
Other Services 9001, 9006, 9190:			
Purchased Services	33,500	1,221	32,279
Travel and Other Expenses	57,807	53,225	4,582
Total	<u>91,307</u>	<u>54,446</u>	<u>36,861</u>
Total Disbursements	<u>\$ 6,339,242</u>	<u>\$ 4,927,948</u>	<u>\$ 1,411,294</u>

(Concluded)

See accompanying Notes to the Budgetary Comparison Supplementary Information.

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE BUDGETARY COMPARISON SUPPLEMENTARY INFORMATION

Budgetary Process

ESU No. 2 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. 2. ESU No. 2 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. 2's budget making authority prepares a budget for each ESU No. 2 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. 2's adopted budget is utilized by the County Assessors to establish ESU No. 2's tax levy.

EDUCATIONAL SERVICE UNIT NO. 2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor Pass-Through Grantor Program Title	Pass Through Entity's Identifying Number	Federal CFDA Number	Expenditures
U.S. Department of Education:			
Fund for the Improvement of Education	U215X100300	84.215	\$ 6,565
Passed through Educational Service Unit No. 1:			
Fund for the Improvement of Education	S215F140155-15	84.215	<u>32,503</u>
Total for Federal Program			39,068
Indian Education - Special Programs for Indian Children	S299A140047	84.299	30,990
Passed through Nebraska Department of Education:			
Career and Technical Education Basic Grants to States	15-02-000-0002-00	84.048	29,914
Special Education Cluster:			
Special Education Grants to States	14-02-000-0002-00	84.027	5,491
Special Education Grants to States	15-02-000-0002-00	84.027	53,344
Special Education Grants to States	00-0002-248-2B1B-14	84.027	<u>16,336</u>
Total for Federal Program and Special Education Cluster			75,171
Special Education Grants for Infants and Families	14-02-000-0002-00	84.181	610
Special Education Grants for Infants and Families	14-02-000-0002-00	84.181	5,124
Special Education Grants for Infants and Families	15-02-000-0002-00	84.181	<u>17,740</u>
Total for Federal Program			23,474
Title I Grants to Local Educational Agencies	14-02-000-0002-00	84.010	105,039
Title I Grants to Local Educational Agencies	15-02-000-0002-00	84.010	<u>347,650</u>
Subtotal for Federal Program			452,689
Passed through Fremont Public Schools:			
Title I Grants to Local Educational Agencies	n/a	84.010	<u>32,773</u>
* Total for Federal Program			485,462
U. S. Department of Agriculture			
Distance Learning and Telemedicine Loans and Grants	NE 727-C16	10.855	8
Passed through Nebraska Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	00-0002	10.553	3,337
National School Lunch Program	00-0002	10.555	<u>7,148</u>
Total for Child Nutrition Cluster			10,485
U. S. Department of Health and Human Services			
Passed through the Nebraska Association of School Boards Medicaid Consortium:			
Medicaid Cluster:			
Medical Assistance Program	n/a	93.778	40,116
TOTAL			<u><u>\$ 734,688</u></u>

* Represents Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

EDUCATIONAL SERVICE UNIT NO. 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal grant activity of Educational Service Unit No. 2 (ESU No. 2) under programs of the Federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of ESU No. 2, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of ESU No. 2.

ESU No. 2 receives a grant funded by multiple CFDA's. Grant 14-02-000-0002-00 is funded by CFDA's 84.027 and 84.181. In this instance, the disbursements for the grant are split based on the funding percentage identified by the Nebraska Department of Education, which is the entity responsible for passing through the grant funds.

2. Summary of Significant Accounting Policies

Disbursements reported on the Schedule are reported on the cash basis of accounting. Such disbursements are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of disbursements are not allowable or are limited as to reimbursement.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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EDUCATIONAL SERVICE UNIT NO. 2

**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***

Independent Auditor's Report

Board of Directors
Educational Service Unit No. 2
Fremont, NE

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Educational Service Unit No. 2 (ESU No. 2), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise ESU No. 2's basic financial statements, and have issued our report thereon dated December 21, 2015. The report notes the financial statements were prepared on the cash basis of accounting. Our opinion was modified as the accuracy of footnotes disclosing credit risk, concentration of credit risk, and interest rate risk, as presented in Note 2, was unable to be determined.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ESU No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ESU No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of ESU No. 2's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of ESU No. 2's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ESU No. 2'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*.

Additional items

We noted a certain additional item that we reported to management of Educational Service Unit No. 2 as identified as # 2015-1 (Service Credits) in the accompanying Schedule of Findings and Questioned Costs.

Educational Service Unit No. 2's Response to Findings

ESU No. 2's responses to the findings identified in our audit are described in the Schedule of Findings and Questioned Costs. ESU No. 2's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. Where no response is indicated, ESU No. 2 declined to respond.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ESU No. 2's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESU No. 2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

December 21, 2015



Zachary Wells, CPA, CISA
Audit Manager



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EDUCATIONAL SERVICE UNIT NO. 2

**REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Board of Directors
Educational Service Unit No. 2
Fremont, NE

Report on Compliance for Each Major Federal Program

We have audited Educational Service Unit No. 2's (ESU No. 2) 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 ESU No. 2's major Federal program for the year ended June 30, 2015. ESU No. 2's major Federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for ESU No. 2's major Federal program based on our audit of the types of compliance requirements referred to above. 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 ESU No. 2'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 on compliance for the major Federal program. However, our audit does not provide a legal determination of ESU No. 2's compliance.

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies

As described in the accompanying Schedule of Findings and Questioned Costs, ESU No. 2 did not comply with requirements regarding Title I Grants to Local Educational Agencies, CFDA 84.010, as described in Finding #2015-2 (Federal Payroll) for Allowable Cost Principles. Compliance with such requirements is necessary, in our opinion, for ESU No. 2 to comply with the requirements applicable to that program.

Qualified Opinion on Title I Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, ESU No. 2 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Title I Grants to Local Educational Agencies, CFDA 84.010, for the year ended June 30, 2015.

ESU No. 2's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. ESU No. 2's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of ESU No. 2 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ESU No. 2's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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 ESU No. 2'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. 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.

Our consideration of 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding #2015-2 (Federal Payroll) that we consider to be a material weakness.

ESU No. 2's response to the internal control over compliance finding identified in our audit is described in the Schedule of Findings and Questioned Costs. ESU No. 2's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of the internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Zachary Wells, CPA, CISA
Audit Manager

December 21, 2015

EDUCATIONAL SERVICE UNIT NO. 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Type of auditor's report issued:	Modified		
Internal control over financial reporting:			
Material weaknesses identified?	<u> </u>	Yes	<u> X </u> No
Significant deficiencies identified?	<u> </u>	Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u> No
Internal control over major programs:			
Material weaknesses identified?	<u> X </u>	Yes	<u> </u> No
Significant deficiencies identified?	<u> </u>	Yes	<u> X </u> No
Type of auditor's report issued on compliance for major programs:	Qualified		
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	<u> </u> No
Major programs: Title I Grants to Local Educational Agencies, CFDA 84.010			
Dollar threshold used to distinguish between type A and type B programs:	\$300,000		
Auditee qualified as low-risk auditee:	<u> </u>	Yes	<u> X </u> No

EDUCATIONAL SERVICE UNIT NO. 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding # 2015-1: Service Credits

ESU No. 2 has established a service credit system through which a portion of the ESU's property tax receipts are set aside as "service credit funds." These service credits are then annually allocated to each school district in the ESU's district based on an established formula, which considers valuation and population. For fiscal year ended June 30, 2015, the amount of service credit funds set aside and allocated to the member school districts was \$333,172. The service credits can be used by the member school districts to pay any instructional expenses and each district annually determines the use of the allocated service credits. Unused service credits carry over and expire in the subsequent year.

Neb. Rev. Stat. § 79-1204 (2) (Reissue 2014) authorizes ESUs to do the following:

- (a) *Act primarily as service agencies in providing core services and services identified and requested by member school districts;*
- (b) *Provide for economy, efficiency, and cost-effectiveness in the cooperative delivery of educational services;*
- (c) *Provide educational services through leadership, research, and development in elementary and secondary education;*
- (d) *Act in a cooperative and supportive role with the State Department of Education and school districts in development and implementation of long-range plans, strategies, and goals for the enhancement of educational opportunities in elementary and secondary education; and*
- (e) *Serve, when appropriate and as funds become available, as a repository, clearinghouse, and administrator of federal, state, and private funds on behalf of school districts which choose to participate in special programs, projects, or grants in order to enhance the quality of education in Nebraska schools.*

According to the Nebraska Supreme Court, "[A] court must determine and give effect to the purpose and intent of the Legislature as ascertained from the entire language of the statute considered in its plain, ordinary, and popular sense." *Southeast Rural Volunteer Fire Dept. v. Nebraska Dept. of Revenue, Charitable Gaming Div.*, 251 Neb. 852, 864, 560 N.W.2d 436, 444 (1997). Similarly, the Court has emphasized, "Statutory language is to be given its plain and ordinary meaning;" *Id.* at 864, 560 N.W.2d at 444.

No less important, the Court has observed that political subdivisions enjoy only limited powers:

Political subdivisions 'are purely entities of legislative creation. They do not exist independent of some action of the legislative department of government bringing them into being. All the powers which they can possess are derived from the creator. Unlike natural persons they can exercise no power except such as has been expressly delegated to them, or such as may be inferred from some express delegated power essential to give effect to that power.'

Nebraska League of Sav. and Loan Associations v. Johnson, 215 Neb. 19, 24, 337 N.W.2d 114, 117 (1983) (internal citations omitted). The Court has said also, "Traditionally, Nebraska has required strict construction regarding the authority granted to a political subdivision." *Id.* at 24, 337 N.W.2d at 117.

EDUCATIONAL SERVICE UNIT NO. 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Concluded)

Finding # 2015-1: Service Credits (Concluded)

Giving the words in § 79-1204(2) their “plain and ordinary meaning” and reading them in their “plain, ordinary, and popular sense,” it does not appear that providing additional funds to school districts was intended by the Legislature – especially, when this statutory language is construed strictly. Rather, the Legislature could have made specific allowance for such direct funding by an ESU, if so intended.

Additionally, Neb. Rev. Stat. § 79-1224 (Reissue 2014) specifies what may be done with tax receipts from Educational Service Unit levies:

The board of each educational service unit may receive, for the purpose for which made available, any school district, county, state, or federal funds made available to it, or funds or property received from any other source, and may use tax revenue from the levy of the educational service unit for operational expenses and for the purpose of matching any funds that may be made available to it on a matching basis by any state or federal agency. The board of each educational service unit may utilize such personnel or services that may lawfully be offered by any state or federal agency or governmental unit.

(Emphasis added.) Nothing in the above language indicates that tax receipts may be distributed directly to the various school districts. To the contrary, § 79-1224 directs such money to be used for “operational expenses” and for matching funds.

In light of these statutory parameters, ESU No. 2’s practice of providing direct funding to school districts through the use of service credits appears to be unsupported by legislative fiat and, therefore, legally suspect.

We recommend ESU No. 2 seek appropriate legal guidance regarding the permissibility of providing direct funding to school districts through the use of service credits. Should it be determined that the requisite statutory authority for providing such funding is lacking, we recommend ESU No. 2 discontinue the practice.

ESU No. 2’s Response: Communication has begun with school districts served regarding the termination of service credits effective during school year 2016-2017.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding # 2015-2: Federal Payroll

Program: CFDA 84.010 – Title I Grants to Local Educational Agencies – Allowable Cost Principles

Grant Number & Year: Grant 15-02-000-0002-00 (CFDA 84.010) for the period July 1, 2014, through September 30, 2015; and Grant 14-02-000-0002-00 (CFDA 84.010) for the period July 1, 2013, through September 30, 2014

EDUCATIONAL SERVICE UNIT NO. 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding # 2015-2: Federal Payroll (Continued)

Federal Grantor Agency: U.S. Department of Education

Condition: Title I payroll charges were not in accordance with Federal regulations.

Questioned Costs: \$71,187

Criteria: OMB Circular A-87, Attachment B, § 8(h), states, in relevant part:

(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 first hand 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) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. 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.*

(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.*

A good internal control plan requires procedures be in place to ensure employee payroll disbursements billed to a Federal program agree to the actual time the employee spent on the program and that documentation is maintained to support payroll disbursements are in compliance with federal requirements.

EDUCATIONAL SERVICE UNIT NO. 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding # 2015-2: Federal Payroll (Continued)

Cause: For the member school employees, the missing payroll certifications appeared to be due to turnover in the Title I grant coordinator position. For the ESU No. 2 employees, the noncompliance appears to be due to a lack of knowledge of the specific requirements regarding documenting all time worked and adjusting budgeted time to actual either quarterly or annually depending on the differences.

Context: ESU No. 2 administers a Title I consortium for 10 member schools. The full Title I allocation for all 10 schools is granted to ESU No. 2, and then ESU No. 2 is responsible for reimbursing each of its member schools for allowable costs, based on documentation submitted by the school. OMB Circular A-87 has specific requirements for how employee hours are to be documented for the reimbursement to be allowable. The APA tested three Title I reimbursements paid to schools which included payroll charges. However, the payroll certification or time logs required by OMB A-87 could not be located for two of three payments tested. These two payments amounted to \$61,355, out of a total of \$130,826 tested, for an error rate of 46.9%. Total Title I payroll costs paid to the schools amounted to \$384,846, which would be subject to the same potential error rate of 46.9%, resulting in \$180,493 Title I dollars at risk.

ESU No. 2 retains a small percentage of the Title I allocations granted to its member schools to cover its administrative costs. This primarily covers a portion of the salary and benefits for the Title I Grant Coordinator. During payroll testing of ESU No. 2 employees, the Title I Grant Coordinator was selected. OMB Circular A-87 allows budget estimates to be used for interim accounting purposes, but only actual hours worked on a Federal program are allowable. ESU No. 2 budgeted \$402 of this employee's monthly salary to the Federal program; however, an adjustment of the employee's actual time was not made until April 2015, for time worked from September 2014 to March 2015, or seven months. The adjustment made was for \$8,646, or \$1,235 per month. As this adjustment appears to be well over the 10% threshold identified in OMB Circular A-87, it appears quarterly adjustment would have been necessary. Additionally, the time logs for this employee did not identify the time spent on other programs, only Title I time was recorded.

Lastly, ESU No. 2 provides a part-time employee to a school for Title grant coordination services. ESU No. 2 pays the employee's salary each month and then requests reimbursement from the school's Title I funds semi-annually. However, ESU No. 2 paid the employee and requested reimbursement based on an estimated 0.30 FTE. This estimate was never adjusted to actual time, despite the employee working only 0.21 FTE actual time on the Title I services. We estimated that for fiscal year ended June 30, 2015, this resulted in approximately \$9,832 excess costs charged to Title I. We also noted that the prior year's estimated payroll charges expensed to this Title I program were similarly not adjusted to actual. However, in the prior year, less time was charged to the program than actually worked.

EDUCATIONAL SERVICE UNIT NO. 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Concluded)

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)

Finding # 2015-2: Federal Payroll (Concluded)

Effect: ESU No. 2 was not in compliance with Federal regulations, and payroll costs charged to the grant may not have been allowable.

Recommendation: We recommend ESU No. 2 implement procedures, including obtaining and maintaining documentation to ensure staff time charged to a Federal grant is based on the employee's actual hours worked rather than a budgeted amount, as required by Federal regulations.

Management Response: Procedures have been implemented to document and review staff time sheets regarding Federally funded payrolls. Any budgeted/estimated time will be adjusted to the actual hours worked on a timely basis.

Contact: Conny Dunn, Business Manager

Anticipated Completion Date: January 2016

SECTION IV. SCHEDULE OF PRIOR AUDIT FINDINGS

No prior findings existed.