

Educational Service Unit No. 19
Omaha, Nebraska

**Financial Statements
and Required Supplementary Information
August 31, 2016**

Together with Independent Auditor's Report

Educational Service Unit No. 19

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Summary of Comments

During our audit of Educational Service Unit No. 19 (ESU No. 19), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. **Capital Asset Records:** ESU No. 19 did not have adequate procedures in place to ensure necessary entries were made for capital assets. As a result, correcting adjustments of \$1,188,889 and \$638,115 were made to correctly present ESU No. 19's financial statements.
2. **Printing and Publication Internal Controls:** Testing of Printing and Publication services identified control weaknesses that resulted in ESU No. 19 not receiving \$16,963 from Douglas County District Schools #0001, three invoices where the customer was incorrectly billed that resulted in a total overbilling of \$4,476, and three invoices where \$144 in adjustments were made to the invoice without supporting documentation. An adjustment was made to record the \$16,963 revenue on the financial statements.
3. **Prepaid Expense Amounts:** During testing of transactions, the APA identified four instances where the amount recorded to prepaid expenses was not correct. As a result, prepaid expenses were understated by \$77,900. Adjustments were made to correct this on the financial statements.
4. **Interlocal Agreements:** ESU No. 19 did not file the required Interlocal Agreement forms with the Auditor of Public Accounts by December 31, 2015, as mandated by State statute. In addition, ESU No. 19 could not provide an updated Interlocal Agreement between ESU No. 19 and the Douglas County School District #0001.

More detailed information on the above items is provided hereinafter. It should be noted this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the ESU No. 19 Board and Director to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

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Comments and Recommendations

1. Capital Asset Records

ESU No. 19 did not have adequate procedures in place to ensure necessary entries were made for capital assets. During audit fieldwork, two significant adjustments were identified that required ESU No. 19 to adjust its financial statements. The two adjustments, for \$1,188,889 and \$638,115, were necessary to account for capital asset equipment that was obtained in prior years but had never been entered into ESU No. 19's accounting system. Once these adjustments were brought to ESU No. 19's attention, the necessary correcting entries were made. However, ESU No. 19 should have procedures in place to ensure significant entries are identified during financial statement preparation.

Sound accounting practice requires procedures to be in place to ensure all necessary entries are made to report ESU No. 19's financial position in accordance with generally accepted accounting principles. When such procedures are inadequate, there is an increased risk the financial statements may be materially misstated.

We recommend ESU No. 19 strengthen its procedures to ensure adjusting entries are adequately reviewed before being made in the accounting system.

ESU No. 19 Response: Management agrees with the finding with regards to Capital Asset Records and plans on enacting additional internal controls. These additional controls will include, but not limited to, the following:

- *Both of these transactions are the result of accruals from the prior year that were not picked up in the current year. As a result, the activity was not presented correctly on the Government Wide Statements but they were accounted for correctly on the Governmental Fund Statements. As a result of this, we have enacted additional controls for validating that all accrual entries are properly documented and processed in the asset ledger in the subsequent year.*

2. Printing and Publication Internal Controls

Receipts

ESU No. 19 offers Printing and Publication services to all schools within its service area. During testing of Printing and Publication receipts, invoices totaling \$16,963 were not entered into the accounting system and billed to the Douglas County School District #0001 (District).

On a periodic basis, the Printing and Publication manager sends a spreadsheet of billing information to a member of ESU No. 19's Accounting Department. The billing information is entered into the accounting system, and completed jobs are billed to customers. For the \$16,963 previously identified, the Accounting Department never entered the invoices into the accounting system, and Printing and Publication did not have a control in place to verify invoices were properly billed by the Accounting Department. Once this error was brought to ESU No. 19's attention, they made an adjusting entry to record the revenue of \$16,963.

Rates

It was also noted ESU No. 19 did not have documentation to support the Printing and Publication rates charged, and ESU No. 19 did not have a formal rate approval procedure. The Printing and Publication manager indicated he determined the rates based on experience. As a result, rates were not able to be supported, and documentation of the rate approval could not be provided.

During testing of Printing and Publication billings, 3 of 25 invoices did not have adequate documentation to support the invoiced amount. The three invoices had adjustments to the normal rates that reduced the invoices a total of \$144, and ESU No. 19 did not have documentation to support the adjustment was reasonable or proper.

Additionally, 3 of 25 Printing and Publication invoices charged incorrect service or supply rates. The incorrect rates led to two invoices being overcharged a total of \$4,672 and one invoice being undercharged by \$196.

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A good internal control plan requires procedures to ensure rate charges are equitable, reflect actual costs incurred, and that all activity is recorded in the accounting system. A good internal control plan also requires adequate documentation be maintained to support rates charged and any deviations from the normal rates. Without adequate controls and procedures to ensure rates are based on actual costs and customers are properly billed, there is an increased risk incorrect rates will be charged.

We recommend ESU No. 19 strengthen its procedures to ensure that activity from Printing and Publication is entered into the accounting system. We further recommend ESU No. 19 maintain adequate documentation to support that rates charged are equitable and reflect the actual costs incurred for services provided. Finally, we recommend ESU No. 19 implement procedures to review and approve adjustments made to Printing and Publication invoices.

ESU No. 19 Response: Management agrees with the finding with regards to receipts and plans on enacting additional internal controls. These additional controls will include, but not limited to, the following:

- *While the Accounting Department does have a secure place to store the spreadsheet that is submitted by Printing And Publication, they are maintained on a secure drive which is limited to only Accounting staff, there was no follow-up with Printing and Publication with regards to when the charges were posted. Effective immediately, once the charges have been posted Printing and Publication is notified by email.*

Management agrees with the finding with regards to Printing and Publication and plans on enacting additional internal controls. These additional controls will include, but not limited to, the following:

- *A process will be developed to document the chargeback rates and fees for services provided by Printing and Publication department. In addition this document will be present to Executive Council for approval.*
- *Printing and Publication management will review all billing to ensure that charges are equitable and reflect all costs incurred.*

3. Prepaid Expense Amounts

During our testing of prepaid expenses and expenditures, we identified several instances where prepaid expenses were not properly recorded. The following items were noted:

- Two of six transactions recorded as prepaid expenses were improperly classified:
 - A \$312,859 invoice for services to be provided between March 2016 and February 2017 was incorrectly identified and recorded as a prepaid expense based upon the service period January 2016 through February 2017. As a result, prepaid expenses were understated, and expenses were overstated by \$52,143.
 - For a \$274,985 invoice, ESU No. 19 recorded \$252,070 as a prepaid expense based upon a calculation where 11 of 12 months of services were prepaid. However, the service provided was for the period June 21, 2016, to August 31, 2017, and the prepaid expense should have been recorded as \$232,680 and calculated using 11 of 13 months. As a result, prepaid expenses were overstated and expenses were understated by \$19,390.
- Additionally, two expenditures tested were not properly adjusted to record a prepaid expense:

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- A \$421,940 computer license purchase was made for the period October 2015 to September 2016. One month should have been recorded as a prepaid expense but was not. This resulted in ESU No. 19 understating prepaid expenses and overstating expenses by \$35,162.
- A \$17,118 service agreement for the period April 12, 2016, to April 11, 2017, was not recorded as a prepaid expense for the seven months the agreement was in place after fiscal year end. As a result, prepaid expenses were understated and expenses overstated by \$9,985.

These errors appeared to be caused by the Accounts Payable Manager identifying prepaid expenses based on the invoice date and not the renewal or service period date. On most of the errors noted, the renewal or service period was not identified on the invoice and did not coincide with the invoice date.

ESU No. 19 made adjusting entries to correct the financial statements for these items.

A good internal control plan requires procedures be in place to ensure financial statement information is accurately reported. When the individual responsible for identifying prepaid expenses lacks the information necessary to make a correct determination, there is a greater risk of financial misstatement.

We recommend ESU No. 19 implement procedures to ensure the individual responsible for identifying prepaid expenses has the information necessary to identify such expenses accurately.

ESU No. 19 Response: Management agrees with the finding and plans on enacting additional internal controls. These additional controls will include, but not limited to, the following:

- *The departments that acquire services that cross multiple fiscal years will document the appropriate information for each acquisition and provide to the accounting department. That information will be used for determining and recording the prepaid activity in the accounting system.*
- *Information will be required to be submitted on a quarterly basis to allow for the accounts payable department sufficient time to properly document the transaction.*

4. **Interlocal Agreements**

ESU No. 19 did not file the required Interlocal Agreement forms with the Auditor of Public Accounts by December 31, 2015, as mandated by State statute. These forms had not been filed for at least the past three years.

Also, ESU No. 19 could not provide an updated Interlocal Agreement between ESU No. 19 and the Douglas County School District #0001 (District). The most current agreement ESU No. 19 could provide was dated March 6, 2000. The Interlocal Agreement dated March 6, 2000, specified amounts to be paid by the District but no payments were specified beyond September 1, 2003. During the fiscal year 2016, ESU No. 19 identified data processing expenses and requested reimbursement from the District for those services. While this appeared reasonable, this process was not outlined in the Interlocal Agreement. During the fiscal year, the District transferred \$9,739,957 to ESU No. 19 based upon services outlined in the March 2000 Interlocal Agreement.

Neb. Rev. Stat. § 13-513 (Cum. Supp. 2016) requires the Auditor of Public Accounts (APA) to "request information from each governing body in a form prescribed by the auditor regarding . . . (2) agreements to which the governing body is a party under the Interlocal Cooperation Act and the Joint Public Agency Act." That same statute concludes, "Each governing body shall provide such information to the auditor on or before December 31."

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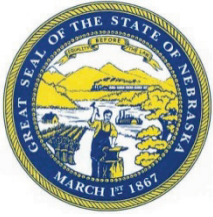
For purposes of § 13-513, Neb. Rev. Stat. § 13-503(1) (Cum. Supp. 2016) defines a “governing body” to include the governing body of, among numerous other public entities, any educational service unit.

Additionally, sound business practice requires agreements between political subdivisions to be formally documented.

ESU No. 19 is not in compliance with § 13-513, which prevents accurate information about its interlocal agreements from being readily available to the public. Moreover, not maintaining an updated Interlocal Agreement that specifies the data processing expenses that will be reimbursed increases the risk ESU No. 19 will not be able to invoice the District for services rendered.

We recommend ESU No. 19 implement procedures to ensure the complete, accurate, and timely filing of information related to ESU No. 19’s Interlocal Agreements, as required by State statute. We also recommend ESU No. 19 implement procedures to update the Interlocal Agreement so it specifies what services will be reimbursed by the District.

ESU No. 19 Response: Management agrees with the finding with regards to Interlocal Agreements. The District will file all required Interlocal Agreements with the Auditor of Public Accounts.



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EDUCATIONAL SERVICE UNIT NO. 19

INDEPENDENT AUDITOR'S REPORT

Educational Service Unit No. 19 Board
Omaha, NE

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Educational Service Unit No. 19 (ESU No. 19), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise ESU No. 19'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 accounting principles generally accepted in the United States of America; this includes 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. 19'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 opinions.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of ESU No. 19, as of August 31, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of ESU No. 19 are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the major fund that is attributable to the transactions of ESU No. 19. They do not purport to, and do not, present fairly the financial position of the Douglas County School District #0001 as of August 31, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our 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 Management's Discussion and Analysis, budgetary comparison information, Schedule of ESU No. 19's Proportionate Share of the Net Pension Liability, and the Schedule of ESU No. 19's Contributions on pages 8-15 and 31-36 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 sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016, on our consideration of ESU No. 19'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. 19's internal control over financial reporting and compliance.



Zachary Wells, CPA, CISA
Audit Manager

November 28, 2016

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Management's Discussion and Analysis August 31, 2016



OVERVIEW

A combined government-wide and fund financial statement has been presented, with eliminations and adjustments included as part of the statements. The government-wide financial statements include the financial activities of the overall government, whereas, the fund financial statements provide information about specific funds, with the emphasis on major governmental funds. ESU No. 19 has elected to present a combined government-wide and fund basis financial statement because it has only one all-purpose governmental fund.

REPORT COMPONENTS

This annual report consists of the following components:

- **Management's Discussion and Analysis** – Management's Discussion and Analysis (MD&A) is information required to be presented by the Governmental Auditing Standards Board (GASB). This section will provide readers of this report with an introduction to the basic financial statements and an analytical overview of the ESU No. 19's activities. It also provides additional information that supplements the financial statements and the notes to the financial statements.
- **Financial Statements** – The financial statements present information about the ESU No. 19 that transpired during the fiscal year.
- **Notes to the Financial Statements** – The notes to the financial statements are an integral part of these financial statements and provide a more detailed presentation of various activities of the ESU No. 19, such as capital assets and organizational structure. The reader of the financial statements should make particular note of the information included in the notes.
- **Required Supplementary Information (other than MD&A)** – The Budgetary Comparison Schedule presented in this section allows the reader to see a comparison of the ESU No. 19's adopted budget compared to the actual expenditures and revenues for the year being audited. It also presents the variance between budget and actual. This report is required supplementary information.

EDUCATIONAL MISSION AND AIMS

ESU No. 19 is structured to provide core services to the Douglas County School District #0001 (the District) and, on a cost reimbursable basis, to other school districts throughout the State of Nebraska. The required core services provided by ESU No. 19 include staff development, technology and audiovisual services. ESU No. 19 works in cooperation with the District to support the District's aims and goals. The mission and aims of the District were established by the Board of Education of the District. These serve as the basic framework for budget and policy decisions. The mission statement is: *The mission of the District is to prepare all students to excel in college, career, and life.*

Based on this mission statement, the following Guiding Principles were developed:

- Guiding Principle 1 – *Safe, Healthy, and Engaged Students*
- Guiding Principle 2 – *High Expectations, Rigorous Curriculum, and Effective Instruction*
- Guiding Principle 3 – *Committed, Diverse, and Effective Teachers, Administrators, and Staff*

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- Guiding Principle 4 – *Equitable and Efficient Systems and Resources*
- Guiding Principle 5 – *Engaged and Empowered Parents and Families*
- Guiding Principle 6 – *Involved and Supportive Community Partners*
- Guiding Principle 7 – *Accessible, Transparent, and Two-Way Communication*

GOVERNANCE, ORGANIZATION AND RESPONSIBILITIES

The nine-member Governing Board is elected by the citizens of the community to four-year terms representing nine districts. The terms of the board members overlap with elections occurring every two years. The Governing Board is a policy-making body, deriving its authority from the State of Nebraska through the laws of the State. One of the statutory duties of the Governing Board, as a governing body, is to prepare and approve an annual budget in accordance with the Nebraska Budget Act.

FINANCIAL STRUCTURE

The general operating fund of ESU No. 19 is a taxing fund. Accordingly, property taxes are legally restricted by State Statutes to 1.5 cents per \$100 of assessed valuation. Nearly 53% of the budgeted expenditures of ESU No. 19 pay for salaries and benefits of professional and support staff. The remainder of the revenue collected by ESU No. 19 is used for supplies, equipment and other approved operating expenditures. The 2015-16 budget for this fund was approximately \$23,550,000.

LOCAL SOURCES OF ESU REVENUES

- **Property Tax:** The property tax has been a traditional local source for the support of local political subdivisions. In Nebraska, property taxes are determined by a rate per \$100 of assessed property value.
- **Interest from Investments:** The cash on hand of ESU No. 19 varies greatly throughout the year. In periods when cash on hand is in a positive position, the surplus funds are invested in approved, secured, and liquid investments. The interest earned becomes revenue for ESU No. 19.

STATE SOURCES OF ESU REVENUES

- **ProRate Motor Vehicles:** Payments made on a fleet of apportionable vehicles in lieu of registration. The money is distributed to counties for redistribution to political subdivisions based on the relationship of their levy(s) to the total levy(s) in the county.
- **Core State Aid:** Payments are received from the State of Nebraska for core services. This amount is calculated by the State and is subject to change based upon State Appropriations.

INTERLOCAL AGREEMENT REVENUES

- **Interlocal Agreement Revenues from the District:** The District provides additional funding to ESU No. 19. Revenues are a result of the Interlocal Agreement with the District for providing educational data processing services. This Interlocal Agreement was created under the guidelines of the Interlocal Cooperation Act of the State of Nebraska, Neb. Rev. Stat. § 13-801 et seq. (Reissue 2012).

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Management's Discussion and Analysis August 31, 2016

BUDGET AND FINANCIAL POLICIES

One of the most time consuming activities carried out by the Governing Board and staff involves the preparation and adoption of an annual budget. Limitations, as defined in Nebraska state statutes, exist on the amount that ESU No. 19 is allowed to levy for property taxes. In addition, political subdivisions must deal with changes in non-tax revenues which can vary greatly from one year to the next. These uncontrollable factors must be dealt with while also addressing the service needs of a continually changing school district.

- **Determining Budget Authority.** Each year the Governing Board prepares and approves a budget in accordance with the Nebraska Budget Act. Certain procedures must be carried out when adopting a budget or a tax request, and there are deadlines to meet throughout the budget adoption process.
- **Exceeding the Budget Authority.** If a political subdivision decides that the calculated budget authority is insufficient, additional measures are provided to increase the level of spending authority. The additional measures would provide the appropriate level of service within their political subdivision. Unused revenue authority carried over from the previous year is available to be applied to a future budget.
- **Cash Reserve Limitation.** When preparing a budget, political subdivisions are allowed, and even encouraged; for cash flow purposes, to budget for a cash reserve. A budgeted cash reserve is the amount of funds a political subdivision expects to have on hand at the end of the fiscal year. As revenue sources are not received evenly throughout the fiscal year, an ESU could find itself in a cash short position with bills that need to be paid. By having cash on hand, an ESU is more likely to make payroll and pay bills when they are due, even in times of minimal cash receipts. ESU No. 19 considers at least three months of expenditures to be an adequate budgeted reserve.

BUDGETARY ACTIVITIES

	Budgetary Activity (in thousands)		
RECEIPTS	2015	2016	Change
Local	\$ 2,832	2,959	127
State	2,412	2,859	447
Federal receipts	2,242	2,298	56
Interlocal agreement	12,145	10,200	(1,945)
Other non revenue	485	2,735	2,250
Total receipts	20,116	21,051	935
DISBURSEMENTS			
Support services	20,116	23,550	3,434
Net change in fund balance	--	(2,499)	(2,499)
Fund balance, beginning of year	4,910	5,447	537
Fund balance, end of year	\$ 4,910	2,948	(1,962)

BUDGETARY ANALYSIS

In reviewing the fiscal year 2016 revenue budget, ESU No. 19 budgeted increases of \$447 thousand in State receipts revenue based upon a revised State formula. Other non-revenue went up approximately \$2.25 million largely due to Print and Publications revenue caused by a change in reporting in fiscal year 2016.

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Management's Discussion and Analysis August 31, 2016

OPERATING ACTIVITIES

	Government-Wide Statement of Net Position (in thousands)		
	2015	2016	Change
ASSETS			
Cash and cash equivalents	\$ 5,344	3,346	(1,998)
Property tax receivable	152	276	124
Other current assets	1,002	1,123	121
Capital assets, net of depreciation	2,951	4,266	1,315
Total assets	9,449	9,011	(438)
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	733	3,409	2,676
LIABILITIES			
Accounts payable	225	551	326
Payroll liabilities	1,486	1,543	57
Net pension liability	7,855	10,977	3,122
Other liabilities	1,025	765	(260)
Total liabilities	10,591	13,836	3,245
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	920	744	(176)
NET POSITION			
Net investment in capital assets	2,092	3,628	1,536
Unrestricted	(3,421)	(5,788)	(2,367)
Total net position	\$ (1,329)	(2,160)	(831)

The current assets of ESU No. 19 are predominately cash and cash equivalents, considered to be held over 90 days at the Nebraska Liquid Asset Fund (NLAF). NLAF is similar to a mutual fund account and its portfolio of investments consists of those investment instruments permitted under Nebraska statutes. NLAF allows participation from any Nebraska school districts, ESU's, and technical community colleges and other political subdivisions organized under Nebraska laws. Cash and investments held at the end of fiscal year 2016 were 37.39% lower than in fiscal year 2015. The primary reason for this decrease is due to a planned drawdown of cash reserved during fiscal year 2016.

Net capital assets of ESU No. 19 include capitalized furniture, fixtures, equipment and software, net of depreciation, totaling approximately \$4.3 million at August 31, 2016. These capital assets are depreciated over various useful lives, depending on their asset category, and are depreciated using the straight-line depreciation method. The capitalized amount for financial statement purposes is a unit cost of greater than or equal to \$5,000. Capital assets increased mainly due to the acquisition of a data storage system. This VBlock System was acquired for the District and ESU No. 19. The total cost of this system was approximately \$2.9 million of which \$1.6 million was allocated to ESU No. 19.

The increase of Accounts Payable is a direct result of the timing and receipt of goods and services at year-end. This timing difference is primary result of the cash drawdown by ESU No. 19 in fiscal year 2016.

The increase in Liabilities is primarily related to the continuation of GASB Statement No. 68, and the recording of ESU No. 19's proportionate share of the District's Net Pension Liability which increased by \$3.122 million.

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At August 31, 2016, ESU No. 19 reported an overall negative net position of approximately \$2.2 million as a result of continuation of GASB Statement No. 68.

	Government-Wide Statement of Activities (in thousands)		
REVENUE	2015	2016	Change
Local	\$ 2,793	2,886	93
State	2,480	3,147	667
Federal	2,149	2,093	(56)
Interlocal agreement	9,150	9,740	590
Other non-revenue	2,271	1,956	(315)
Total revenues	18,843	19,822	979
EXPENSES			
Support services	18,721	20,596	1,875
Debt service interest	46	39	(7)
Property tax recapture	27	18	(9)
Total expenses	18,794	20,653	1,859
Change in net position	49	(831)	(880)
Net position, beginning of year	6,848	(1,329)	(8,177)
Change in accounting principle	(8,226)	--	8,226
Net position, beginning of year, as restated	(1,378)	(1,329)	49
Net position, end of year	\$ (1,329)	(2,160)	(831)

Program revenues consist largely of receipts from the Interlocal Agreement with the District for providing educational data processing services which are accounted for as Interlocal Agreement revenues. This Interlocal Agreement was created under the guidelines of the Interlocal Cooperation Act of the State of Nebraska, Neb. Rev. Stat. § 13-801 et seq. (Reissue 2012). This amount increased by \$590 thousand or 6.45% in fiscal year 2016.

State Aid for Core Services increase by \$431 thousand which represents 64.6% of the change in State revenue. An additional factor that impacted the operation of 2016 was the income that was received by Printing and Publications decreased by \$318 thousand as a result of the District implementing tighter budgetary control over the use of Printing and Publications services. The final factor for significant changes in overall income was an increase of \$214 thousand in State revenue from ESU No. 19's recognition of the State's contribution to the total proportionate share of pension expense.

Support Services went up \$1.875 million or 10.02% due to ESU No. 19 planned cash drawdown of \$2.5 million in fiscal year 2016. The majority of this excess was the purchase of previously mentioned VBlock Storage System.

Fund balances have no restrictions defined in State statutes. However, the Governing Board of ESU No. 19 historically has desired to maintain a cash reserve of the approximately 6% of the total budgeted expenditures. The current fund balance for the General Fund is approximately 14.2% of total expenditures at the governmental fund level.

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Management's Discussion and Analysis August 31, 2016

The table below represents condensed financial statements of ESU No. 19 on the modified accrual basis of accounting. Please refer to the notes to the financial statements for a more complete discussion of this method of accounting.

The below balance sheet and income statement represents the only the general fund of ESU No. 19 on the modified accrual basis. The modified accrual basis accounting treats acquisition of assets and the payment of debt as current expenditures.

Balance Sheet - General Fund		
(in thousands)		
	2015	2016
Cash and cash equivalents	\$ 5,344	3,346
Other current assets	1,154	1,399
Total assets	\$ 6,498	4,745
Accounts payable	\$ 225	551
Other liabilities	1,035	1,104
Total liabilities	1,260	1,655
Nonspendable	999	1,092
Committed	2,500	--
Unassigned	1,739	1,998
Total fund balance	5,238	3,090
Total liabilities and fund balance	\$ 6,498	4,745

The \$2.5 million reduction in committed funds was the result of ESU No. 19 acquiring capital assets during fiscal year 2016 which caused the \$2.1 million excess of expenditures over revenues.

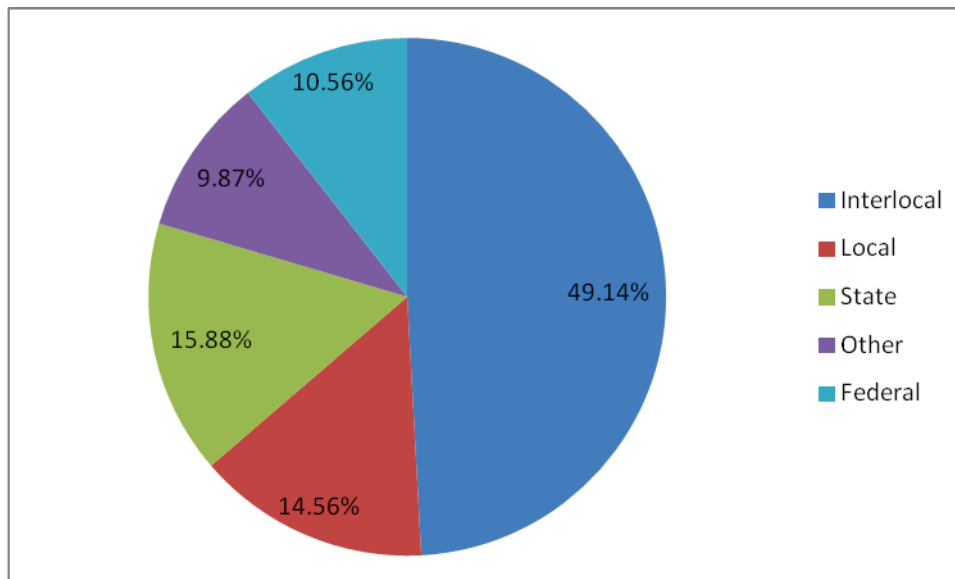
Nonspendable fund balance consists of amounts that cannot be spent because they are not in a spendable form. These assets consist of inventory and prepaid expenses.

Statement of Revenues		
Expenditures and Changes in		
Fund Balance		
General Fund (in thousands)		
	2015	2016
Revenue	\$ 18,733	19,608
Program expenditures	(18,463)	(21,756)
Excess of revenue over expenditures	270	(2,148)
Fund balance, beginning of year	4,968	5,238
Fund balance, end of year	\$ 5,238	3,090

The net loss in fiscal year 2016 is a direct result of the planned cash drawdown.

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2016



HISTORICAL OVERVIEW OF PROPERTY TAXES

The following table illustrates the changes in property tax requests and the amount of property taxes collected by ESU No. 19. The 2015-16 budget, as well as prior year's budgets, reflects strategies that allow ESU No. 19 to utilize funding based upon the educational needs of the students served by ESU No. 19.

Property Taxes Collected	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Budget
General Fund ESU No. 19	\$ 2,778,424	\$ 2,790,026	\$ 2,805,974	\$ 2,744,434	\$ 3,031,285
Assessed Valuation	\$ 19,224,790,998	\$ 19,141,556,063	\$ 19,370,086,656	\$ 19,954,698,480	\$ 20,208,566,050

STUDENT POPULATION SERVED

ESU covers approximately 134 square miles and serves approximately 52,000 students. Since 2000-01 the district has seen a 14.8% growth in student enrollment. For the fiscal year 2015-16, the student enrollment totaled 51,885. Student enrollment in pre-kindergarten was 2,526, grades K-6 totaled 28,273, grades 7-8 totaled 7,201 and grades 9-12 were 13,885. The average elementary class size is 20.36 students for every teacher.

The district serves a large and diverse group of students. Based upon the 2015 fall enrollment, the District served:

* 16.5% of the pre-kindergarten through grade 12 students attending public schools in the entire state of Nebraska.

* Over 17.9% of the District's students meet some form of special education disability classification.

* Approximately 74.3% of the District's students qualified for the Free or Reduced Lunch Program.

*7,284 students who are English language learners (ELL). This number has grown from fewer than 500 students at the end of the 1992 fiscal year. The ELL program currently serves students who represent over 120 languages.

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2016

STAFFING

The ESU consists of 82 school sites and 12 alternative programs. The Omaha Public School District employs 3,785 teachers, 266 administrators, 1,445 classroom support personnel and 2,225 support staff.

EDUCATIONAL SERVICE UNIT No. 19 CONTACT INFORMATION

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the Educational Service Unit No.19 accountability for the money it receives. Additional details, questions or comments can be requested from the following individuals.

Respectfully submitted by:

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Educational Service Unit No. 19

Governmental Fund Balance Sheet / Statement of Net Position August 31, 2016 (Thousands of Dollars)

	General Fund	Adjustments (Note 1)	Statement of Net Position
ASSETS			
Cash and cash equivalents	\$ 3,346	--	3,346
Property taxes receivable	276	--	276
Due from other funds	31	--	31
Inventories	176	--	176
Prepaid expenses	916	--	916
Total current assets	<u>4,745</u>	<u>--</u>	<u>4,745</u>
Capital assets			
Buildings and improvements	--	1,128	1,128
Equipment	--	5,949	5,949
Computers	--	2,175	2,175
Software	--	23,925	23,925
Textbooks and library books	--	30	30
	--	33,207	33,207
Less accumulated depreciation	--	(28,941)	(28,941)
Total capital assets, net	<u>--</u>	<u>4,266</u>	<u>4,266</u>
Total assets	<u>4,745</u>	<u>4,266</u>	<u>9,011</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	--	3,409	3,409
Total assets and deferred outflows of resources	<u>\$ 4,745</u>	<u>7,675</u>	<u>12,420</u>
LIABILITIES			
Accounts payable	\$ 551	--	551
Accrued payroll liabilities	1,104	439	1,543
Current portion of capital lease obligations	--	206	206
Total current liabilities	<u>1,655</u>	<u>645</u>	<u>2,300</u>
Special termination benefits	--	127	127
Capital lease obligations, net of current portion	--	432	432
Net pension liability	--	10,977	10,977
Total liabilities	<u>1,655</u>	<u>12,181</u>	<u>13,836</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	--	744	744
FUND BALANCES/NET POSITION			
Fund Balances			
Nondisposable	1,092	(1,092)	--
Unassigned	1,998	(1,998)	--
Total fund balances	<u>3,090</u>	<u>(3,090)</u>	<u>--</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,745</u>		
Net position			
Net investment in capital assets		3,628	3,628
Unrestricted		<u>(5,788)</u>	<u>(5,788)</u>
Total net position		<u>(2,160)</u>	<u>(2,160)</u>
Total liabilities, deferred inflows of resources and net position		<u>\$ 7,675</u>	<u>12,420</u>

See accompanying notes to the financial statements

Educational Service Unit No. 19

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance / Statement of Activities For the Year Ended August 31, 2016 (Thousands of Dollars)

	General Fund	Adjustments (Note 1)	Statement of Activities
REVENUES			
Property taxes	\$ 2,886	--	2,886
State funding	2,933	214	3,147
Federal receipts	2,093	--	2,093
Interlocal agreement	9,740	--	9,740
Other	1,956	--	1,956
Total revenues	<u>19,608</u>	<u>214</u>	<u>19,822</u>
EXPENDITURES/EXPENSES			
Support services	21,483	(887)	20,596
Debt service			
Debt service principal	221	(221)	--
Debt service interest	34	5	39
Property tax recapture	18	--	18
Total expenditures/expenses	<u>21,756</u>	<u>(1,103)</u>	<u>20,653</u>
CHANGE IN NET POSITION	(2,148)	1,317	(831)
FUND BALANCE/NET POSITION			
BEGINNING OF YEAR	5,238	--	(1,329)
END OF YEAR	<u>\$ 3,090</u>	<u>--</u>	<u>(2,160)</u>

See accompanying notes to the financial statements

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

(1) Summary of Significant Accounting Policies

These financial statements present Educational Service Unit No. 19 (ESU No. 19), a component unit of Douglas County School District #0001 (District). The accompanying financial statements present only ESU No. 19 and do not intend to, and do not, present fairly the financial position of the District as of August 31, 2016 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The following is a summary of the significant accounting policies of ESU No. 19. These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

On June 19, 1972, the Board of Education (Board) of the District, through official resolution and under powers from LB 928 (1972) passed by the Nebraska State Legislature, established ESU No. 19. ESU No. 19 was originally designed to provide educational data processing to the District and, on a cost reimbursable basis, to other districts throughout the State of Nebraska. Currently, its core services include, but are not limited to: staff development, technology, and audiovisual services.

The governing board of ESU No. 19 maintains a posture of cooperation with other school districts. However, ESU No. 19's first responsibility is to the students and patrons of the District.

For financial reporting purposes, ESU No. 19 has included all funds, organizations, agencies, boards, commissions and authorities. ESU No. 19 has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with ESU No. 19 are such that exclusion would cause the financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of ESU No. 19 to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the ESU No. 19. ESU No. 19 has no component units which meet the GASB criteria.

B. *Basis of Presentation*

A combined Government-wide and fund basis financial statement has been presented, with eliminations and adjustments included as part of the statements. The Government-wide financial statements include the financial activities of the overall government, whereas, the fund financial statements provide information about specific funds, with the emphasis on major governmental funds. ESU No. 19 has elected to present a combined Government-wide and fund basis financial statement because it has only one all-purpose governmental fund.

The financial transactions of ESU No. 19 are blended into the governmental funds of the District. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures.

C. *Measurement Focus and Basis of Accounting*

Government-Wide Financial Statements - The Government-wide financial statements for ESU No. 19 are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property tax revenue is recognized in the year for which they are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

Governmental Fund Financial Statements - Governmental funds for ESU No. 19 are reported using the current financial resources focus and the modified accrual basis of accounting. Under this method revenue is recognized when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes and grants associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by ESU No. 19.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences and pension obligations, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

Adjustments and Eliminations - As noted above, the fund-basis financial statements and the Government-wide financial statements each use a different basis of accounting. The adjustments and eliminations presented on the financial statements represent the amounts needed to reconcile the fund-basis financial statements with the Government-wide financial statements. Following is a brief description of the reconciling adjustments:

- The fund-basis financial statements report capital outlays as expenditures, whereas in the Government-wide financial statements, the cost of those assets are capitalized and allocated over their estimated useful lives, with the allocation reported as depreciation expense.
- The fund-basis financial statements report capital lease obligations as a source of financing, whereas in the Government-wide financial statements, the lease obligations are reported as a liability.
- Termination benefits and pension obligations are not due and payable in the current period, and therefore are not reported in the fund-basis financial statements. On the Government-wide basis, these obligations are included as liabilities and deferred inflows and outflows of resources on the Statement of Net Position, and the change in liability and deferred inflows and outflows of resources from the prior fiscal year is reflected as an addition to or reduction of the current period's expense.

D. Cash and Cash Equivalents and Pooled Investments

ESU No. 19's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. A significant portion of ESU No. 19's cash balances are pooled and invested in the Nebraska Liquid Asset Fund (NLAF). Investments are stated at fair value, except for the investment in NLAF which is valued at amortized cost.

E. Property Taxes Receivable

Property taxes are assessed, levied, due and payable on a calendar year basis as of December 31, based on an assessed valuation as of each January 1, and are payable in two equal installments on or before March 31 and July 31. Property taxes become delinquent April 1 and August 1. Property taxes receivable represent the amount of tax levied for the current year, which is uncollected as of August 31.

Property taxes receivable are shown net of an allowance for uncollectible amounts, if applicable.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

F. *Inventories and Prepaid Expenses*

Inventories consist of expendable supplies held for consumption stated at cost on a first-in, first-out basis. Prepaid expenses are payments to vendors that benefit future reporting periods also reported on the consumption basis. Both inventories and prepaid expenses are similarly reported in Government-wide and governmental fund financial statements.

G. *Capital Assets and Depreciation*

Capital assets purchased or acquired by ESU No. 19, with a value over \$5,000, are recorded at cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Equipment under capital leases is amortized over the estimated useful life of the equipment. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation and amortization on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings and improvements	10 – 30 years
Equipment and furniture	5 years
Computers	3 years
Software	5 years

H. *Deferred Outflows of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date, but before the end of the employer's reporting period.

I. *Compensated Absences*

Full time 12-month employees accrue vacation on a semi-monthly or monthly basis, depending on the applicable pay period. All unused days from prior years are carried over, however, the maximum accumulated vacation days can never exceed the current year authorization plus 5 days. Days can be used, or paid to the employee if the employee terminates employment or transfers to a position which no longer qualifies for vacation. Payment is the number of days remaining times the employee's daily rate of pay.

All full time employees are eligible for sick leave benefit days. Days are awarded annually on August 1 and days from prior years carry over. Ten-month employees earn 10 days annually and 12-month employees earn 12 days annually. Employees can carry up to a maximum balance dependent on their number of annual duty days worked and as specified per negotiated contracts.

If an employee retires through normal or early retirement, and has more than 10 sick days accrued, they are eligible to participate in the accumulated sick leave conversion program. Accumulated days are forwarded to a health reimbursement account or tax sheltered annuity 403(b) on the employee's behalf at 50% of their pay rate (Note 6). Employees that have a balance of 10 days or less are paid the value of their days as per the calculation above. Certificated employees that have at least 18 years of creditable service and classified employees that have at least 20 years of creditable service are eligible for the accumulated sick leave conversion program. The calculation is same as above.

Total obligations as of August 31, 2016, for compensated absences amounted to \$727,360 and are included in accrued payroll liabilities in the statement of net position.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

J. *Deferred Inflows of Resources*

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the statement of net position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

K. *Net Position/Fund Balances*

Net position of ESU No. 19 is classified in three components for Government-wide presentation:

- *Net investment in capital assets* consist of capital assets, net of accumulated depreciation/amortization, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- *Restricted net position* results when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At August 31, 2016, ESU No. 19 has no restricted net position items.
- *Unrestricted net position* is remaining net position that do not meet the definition of net investment in capital assets or restricted.

ESU No. 19 first applies restricted resources when an expense incurred for purposes for which both restricted and unrestricted resources are available.

Fund balance of ESU No. 19 is classified in the governmental fund financial statements as follows:

- *Nonspendable fund balance* consists of amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be kept intact. At August 31, 2016, ESU No. 19 had nonspendable fund balance for prepaid expenses and inventories in the amount of \$1,091,809.
- *Restricted fund balance* consists of amounts that are restricted for specific purposes. These restrictions are either imposed by 1) externally imposed by creditors, grantors contributors, or laws or regulations of other governments or 2) imposed through constitutional provisions or enabling legislation. At August 31, 2016, ESU No. 19 had no restricted fund balance.
- *Committed fund balance* consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal actions of the government's highest level of decision making authority. These amounts cannot be used for any other purpose unless the District removes or changes the specific use by taking the same type of action it used to commit those amounts. The Governing Board is the District's highest level of authority. All actions concerning approving, eliminating, or modifying of minimal fund balances will be accomplished through resolution. At August 31, 2016, ESU No. 19 had no committed fund balance.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

- Assigned fund balance consists of amounts that are constrained by ESU No. 19 intended to be used for specific purposes, but are neither restricted nor committed. The authority for making an assignment is not required to be ESU No. 19's highest decision making authority. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regards to committed fund balances. ESU No. 19's management staff will have the overall responsibility for monitoring these balances. At August 31, 2016, ESU No. 19 had no assigned fund balance.
- Unassigned fund balance is the residual classification for the general fund. The general fund is the only fund to report a positive unassigned fund balance.

L. *Interlocal Agreement*

The District and ESU No. 19 have entered into an agreement whereby ESU No. 19 provides educational data processing services for the benefit of the District. During the fiscal year ended August 31, 2016, the District reimbursed ESU No. 19, \$9,739,957, which is reported as Interlocal Agreement revenue on the Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance and the Statement of Activities.

M. *Budget Process*

ESU No. 19 prepares its operating budget using the cash basis of accounting, which is different from that used for financial reporting purposes. The operating budget includes disbursements and the means of financing them. Public hearings are conducted to obtain taxpayer comments. The budget is legally adopted by the governing board through passage of a resolution in accordance with state statutes. Total disbursements cannot legally exceed the adopted budget. Any revisions to the adopted budget must be approved by the governing board.

N. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

O. *Pension*

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Omaha School Employees' Retirement System (OSERS) and additions to/deductions from OSERS' fiduciary net position have been determined on the same basis as they are reported by OSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. *Subsequent Events*

ESU No. 19 has considered events occurring through November 28, 2016, for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) **Deposits and Pooled Investments**

ESU No. 19 may, by and with the consent of the Governing Board of ESU No. 19, invest the funds of ESU No. 19.

Collateral is required for any demand deposits, savings accounts, and certificates of deposit at 102% of all amounts not covered by federal deposit insurance. Obligations that may be pledged are as follows:

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Notes to Financial Statements August 31, 2016

- U.S. Treasury Bills, Treasury Notes, and Treasury Bonds or other United States securities guaranteed by or for which the credit of the United States is pledged for the payment of principal and interest or dividends.
- Bonds, debentures or other obligations issued by the Federal National Mortgage Association, the Federal Home Loan Corporation, or Government National Mortgage Association or any other obligations of any agency controlled or supervised by and acting as an instrumentality of the United States government pursuant to authority granted by Congress of the United States whose timely payment is unconditionally guaranteed by the United States of America.

ESU No. 19's bank accounts and investments are held by the District's agents in the District's name in accordance with State statutes. As of August 31, 2016, the carrying amount of ESU No. 19's cash was \$2,090,309. ESU No. 19's deposits are included with other District deposits at a bank. The deposits were entirely insured by the FDIC or collateralized with securities in the name of the District.

Cash equivalents consist of investments in the Nebraska Liquid Asset Fund (NLAF), which is similar in nature to a mutual fund. Its portfolio consists solely of instruments in which school entities are permitted to invest under Nebraska law. The value of the investment as of August 31, 2016, was \$1,255,512. The NLAF is a public entity investment pool operated under the direction of an eleven-member Board of Trustees. All net income of the trust is determined as of the close of business on each banking day and is credited thereafter pro rata to each participant's account. Net income that has accrued to each participant is converted as of the close of business of each calendar month into additional units, which thereafter are held in each participant's trust account. Since net income of the fund is allocated among participants each time net income is determined, the net asset value remains at \$1.00 per unit. Securities held by NLAF are not held in the County's name.

ESU No. 19 had no investments meeting the disclosure requirements of GASB Statement No. 72.

(3) Capital Assets

The changes in capital assets of ESU No. 19 are as follows:

	Balance August 31, 2015	Additions	Retirements	Balance August 31, 2016
Depreciable assets:				
Buildings and improvements	\$ 1,127,954	--	--	1,127,954
Equipment and furniture	3,749,307	2,199,534	--	5,948,841
Computers	2,074,176	124,344	(23,220)	2,175,300
Software	23,843,117	81,401	--	23,924,518
Textbooks	29,027	1,178	--	30,205
Total	30,823,581	2,406,457	(23,220)	33,206,818
Less accumulated depreciation and amortization	27,872,417	1,091,558	(22,948)	28,941,027
Net capital assets	\$ 2,951,164	1,314,899	(272)	4,265,791

(4) Capital Lease Obligations

ESU No. 19 has various capital leases for printing equipment. The total cost of the equipment was \$1,188,889, net of accumulated amortization of \$487,247. The activity of the lease obligations included in governmental activities for the year ending August 31, 2016, is as follows:

	August 31, 2015	Additions	Payments	August 31, 2016	Due Within One Year
Capital lease obligations	\$ 859,133	--	220,875	638,258	206,464

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

Under the lease obligations included in governmental activities, the District is required to make the following remaining payments:

<u>Years Ending August 31</u>	<u>Leasing Obligations</u>	<u>Interest Obligations</u>	<u>Total</u>
2017	\$ 206,464	24,498	230,962
2018	215,949	15,013	230,962
2019	<u>215,845</u>	<u>5,129</u>	<u>220,974</u>
	<u>\$ 638,258</u>	<u>44,640</u>	<u>682,898</u>

(5) Retirement System

Plan Description

The employees of ESU No. 19 are covered by the Omaha School Employees' Retirement System (OSERS). OSERS is a single-employer defined benefit retirement plan.

In accordance with Nebraska statutes, OSERS is governed by the Board of Education. Through June 30, 2016, OSERS was advised by a Board of Trustees composed of three employees, one annuitant, three Board of Education members, two business people, and the Superintendent of the District. Effective July 1, 2016, with the enactment LB 447 (2016), the Board of Trustees was reduced to seven members, removing the three Board of Education members. OSERS is administered by the Executive Director of OSERS. The State of Nebraska has the authority under which plan provisions and obligations may be amended or established.

OSERS issues a publicly available financial report that includes financial statements and required supplementary information for OSERS. That report may be obtained by contacting the Omaha School Employees' Retirement System by e-mail at osers@ops.org, by phone at 531-299-3423, or by mail at 3215 Cuming Street, Omaha, NE 68131-2024.

Contributions

ESU No. 19 employees are required to contribute 9.78% of their annual salary to OSERS. ESU No. 19 contributes 9.878% of member salaries or such amount above 9.878% necessary to maintain the solvency of OSERS. For the fiscal years beginning after July 1, 2009, until July 1, 2014, the State of Nebraska contributed 1% of the employees' compensation. In accordance with Neb. Rev. Stat. § 79-966(2) (Reissue 2014), for the fiscal years following July 1, 2014, the State of Nebraska will contribute 2% of employees' compensation. Total contributions for ESU No. 19 for the year ending August 31, 2016, amounted to \$772,594.

Benefits Provided

Each employee who has completed five or more years of creditable service is eligible to elect a deferred vested service annuity in lieu of a refund of accumulated contributions. OSERS provides for various benefits including normal retirement benefits, early retirement benefits, disability benefits, and pre-retirement and post-retirement survivor benefits. These benefits are paid monthly from OSERS. For members hired prior to July 1, 2013, the benefits under OSERS are based on an average of the highest three years of salary earned by employees during their employment with the District, up to their normal retirement dates. For members hired on or after July 1, 2013, the benefits under OSERS are based on an average of the highest five years of salary earned by employees during their employment with the District, up to their normal retirement dates. Employees who terminate employment with fewer than five years of creditable service can elect to receive a refund or a rollover of the employee's contributions, plus accrued interest. For members hired prior to July 1, 2013, retirement benefits are increased by an annual, automatic cost of living adjustment of 1.5% or the increase in the consumer price index (CPI), whichever is lower. For members hired on or after July 1, 2013, retirement benefits are increased by an annual, automatic cost of

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

living adjustment of 1.0% or the increase in the CPI, whichever is lower. Following 10 full years of retirement, a medical cost of living supplement is paid. This supplement equals \$10 per month for each year retired and increases by \$10 each year to a maximum of \$250 per month. For retirees with less than twenty years of service, the benefit is reduced proportionately.

The 2016 session of the Nebraska Legislature enacted LB 447, which changed the retirement provisions for members hired on or after July 1, 2016, to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2016, is set at 35 years of service, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at age 55 with 85 points. Early retirement eligibility is age 60 with five years of service. No state service annuity or medical COLA is provided for members hired on or after July 1, 2016.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2016, ESU No. 19 reported a liability of \$10,977,424 for its proportionate share of the net pension liability that reflected a reduction for the State of Nebraska support provided to the District. ESU No. 19's net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. ESU No. 19's proportion of the net pension liability was based on ESU No. 19's share of contributions to OSERS relative to the contributions of all District contributions to OSERS. At August 31, 2015, ESU No. 19's proportion was 2.2719%, an increase of 0.0811% from its proportion measured at August 31, 2014.

By statute, the State of Nebraska contributes 2.0% of members' compensation to fund the benefits provided by OSERS. Therefore, the State's proportionate share of collective net pension liability of ESU No. 19 at August 31, 2015, is 16.8381%. ESU No. 19 recognized revenue in the amount of \$214,052 from the State of Nebraska for its proportionate share of collective pension expense for the year ended August 31, 2016.

For the year ended August 31, 2016, ESU No. 19 recognized pension expense of \$1,271,235. At August 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings		
on pension plan investments	\$ 2,320,412	697,339
Differences between expected and actual experience	--	46,883
Changes in proportion and differences between contributions and proportionate share of contributions	316,662	--
District contributions subsequent to the measurement date	772,594	--
	<u>\$ 3,409,668</u>	<u>744,222</u>

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

Deferred outflows of resources related to pensions included \$772,594 resulting from District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended August 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31		
2017	\$	399,637
2018		399,637
2019		399,639
2020		632,084
2021		51,981
2022		<u>9,874</u>
Total	\$	<u>1,892,852</u>

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation performed as of September 1, 2014, rolled forward to August 31, 2015, using standard actuarial formulae and using the following key actuarial assumptions:

Actuarial Assumptions:

Inflation Rate.....	3.00%
General Wage Growth	4.00%
Long-term Rate of Return	8.00%
Municipal Bond Index Rate	3.74%
Single Equivalent Interest Rate.....	8.00%
Salary Increases	4.00% to 5.60%
Post-retirement Increases.....	1.5% members hired before July 1, 2013 1.0% members hired after July 1, 2013
Mortality	Pre-retirement mortality rates were based on the RP 2000 Combined Mortality Table, female rates set back 1 year and male rates with no set back, projected on a generational basis using Scale AA. Post-retirement mortality rates were based on the same rates as the pre-retirement tables. Post-disability mortality rates were based on the same tables as the post-retirement tables, with ages set forward 10 years.

The actuarial assumptions used in the September 1, 2014, valuation were based on the results of the most recent actuarial experience study, which covered the five-year period ending August 31, 2012.

Information relating to the discount rate used in the actuarial valuations is as follows:

Discount rate: The discount rate used to measure the total pension liability at August 31, 2015, was 8.00%. There was no change in the discount rate since the prior measurement date.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

Projected cash flows: The projection of cash flows used to determine the discount rate assumed that plan contributions from members, the District and the State of Nebraska will be made at the current contribution rates as set out in State statute:

- a. Employee contribution rate: 9.78% of compensation.
- b. District contribution rate: 101% of the employee contribution rate.
- c. State contribution rate: 2% of the members' compensation.

Based on those assumptions, OSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current OSERS' members. Therefore, the long-term expected rate of return on OSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term rate of return: The long-term expected rate of return on plan assets is reviewed as part of regular experience studies prepared periodically. The most recent analysis was performed and results were included in a report dated December 23, 2013. Generally, several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by OSERS' investment consultant. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the long-term inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: A municipal bond rate was not used in determining the discount rate. If it were required, the rate would be 3.74%

Periods of projected benefit payments: Projected future benefit payments for all current OSERS members were projected through 2113.

Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Small Cap Equity	12%	7.1%
Global Equity	15%	7.6%
Specialty Funds	15%	11.0%
Alternatives	25%	7.6%
Fixed Income	5%	3.4%
High Yield Investments	16%	5.9%
Real Estate	12%	7.0%
Total	<u>100%</u>	

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

Sensitivity analysis: The following presents the net pension liability of ESU No. 19, calculated using the discount rate of 8%, as well as ESU No. 19's net pension liability calculated using a discount rate that is 1 percentage-point lower (7%) or 1 percentage-point higher (9%) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Net pension liability	<u>15,063,370</u>	<u>10,977,424</u>	<u>7,561,749</u>

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Omaha School Employees' Retirement System financial report.

Payable to the Pension Plan

At August 31, 2016, ESU No. 19 reported a payable to OSERS of \$59,427 for legally required employer contributions and \$58,837 for legally required employee contributions withheld from employee wages which had not yet been remitted to OSERS.

(6) **Termination Benefits**

Accumulated Sick Leave

ESU No. 19 is under the umbrella of the Douglas County School District #0001 and is included as "the District" in the paragraph below:

The District has a mandatory plan for conversion of accumulated sick leave benefits into a supplemental retirement income benefit and/or post-retirement medical expense reimbursement program upon an employee's retirement from the District. These benefits will be funded by the District on a pay-as-you-go basis at the time of each employee's retirement. The amount of this benefit is equal to one-half of the employee's unused accumulated sick leave at the time of his/her retirement and is solely funded by the District. The District will make a determination based upon an interview with each employee prior to their retirement date as to which benefit will be most beneficial for the employee – (1) a tax sheltered annuity 403(b) or (2) health reimbursement account.

The District is the Plan Administrator for this program and may choose to contract with a third party administrator to manage the day-to-day activities associated with these benefits. The total obligation for the accumulated sick leave benefit is recognized in the District's financial statements.

Special Termination Benefits

In March 2006, the District approved a voluntary early retirement plan for employees. Eligible employees must have completed at least 18 credible years service as a full-time employee to the District, must have reached age of 55 as of the separation date, and must be a certificated employee. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits will be equal to the lesser of the monthly Social Security retirement benefit that will be payable to the certificated employee as of age 62 (as determined by the School District as of the employee's August 31 separation date) or 25% of the certificated employee's scheduled monthly salary in the certificated employee's last full year of employment.

The policy requires early retirement benefits be paid on a monthly basis. Benefits payments will begin in the month following the employee's separation date and will continue until the employee reaches age 62 at which time they will be qualified to receive social security benefits.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

At August 31, 2016, ESU No. 19 has obligations to two participants with a total liability of \$126,997. This amount represents the discounted present value of the gross benefits due to participants each year until they reach age 62. The discount rate used by the District is 5%. Actual early retirement expenditures paid for the year ended August 31, 2016, totaled \$42,573.

(7) Commitments and Contingencies

ESU No. 19 is under the umbrella of the Douglas County School District #0001 and is included as "The District" in the paragraph below:

The District 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. The District carries commercial insurance for risks of loss including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District contracts with reputable carriers and utilizes deductibles ranging from \$10,000 to \$1,000,000 per claim, and \$1,000,000 to \$5,120,849 in the aggregate, depending on the type of insurance. The District has established four separate funds to address the payment of claims that are less than the deductible amounts. Actual claims paid from these funds did not exceed the District's expectations during the fiscal year ended August 31, 2016. Also, the District has a line of credit up to \$500,000 with a financial institution for purposes of payment of premiums for general liability and automobile liability.

(8) Net Position

ESU No. 19 had a deficit net position of \$2,160,000 at August 31, 2016, primarily due to the recognition of the proportionate share of the net pension liability.

(9) Government-Wide Financial Statement Reconciliation (in thousands of dollars)

ESU No. 19 recognizes certain transactions on the Government-wide financial statements that are treated differently on the governmental fund financial statements. The following is a reconciliation of the fund balances/net position and changes in fund balances/net position from the governmental fund financial statements to the Government-wide financial statements.

Governmental Fund Balance Sheet/Statement of Net Position

Fund balance – General fund	\$	3,090
Capital assets, net		4,266
Accumulated sick leave		(439)
Pension related deferred outflows of resources		3,409
Special termination benefits		(127)
Capital lease obligations		(638)
Net pension liability		(10,977)
Pension related deferred inflows of resources		<u>(744)</u>
Net position – Government-wide	\$	<u><u>(2,160)</u></u>

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2016

Statement of Governmental Fund Revenue, Expenditures
and Changes in Fund Balances/Statement of Activities

Change in fund balance – General fund	\$ (2,148)
Depreciation expense	(1,091)
Assets acquired	2,406
Payments on capital lease obligations	221
Special termination benefits	39
Accumulated sick leave	12
Pension related	<u>(270)</u>
Change in net position – Government-wide	<u>\$ (831)</u>

(10) New Accounting Pronouncement

ESU No. 19 adopted fair value guidance as set forth in GASB Statement No. 72, *Fair Value Measurement and Application*. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Educational Service Unit No. 19

**Required Supplementary Information and Notes to Required Supplementary Information
Budgetary Comparison Schedule (Unaudited)
For the Year Ended August 31, 2016 (Thousands of Dollars)**

	Budgeted Amounts		Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Local	\$ 2,959	2,959	2,756	(203)
State Receipts	2,859	2,859	2,933	74
Federal Receipts	2,298	2,298	1,990	(308)
Interlocal Agreement	10,200	10,200	9,740	(460)
Other Non-Revenue	637	637	265	(372)
Reimb for Employee Services	2,098	2,098	1,674	(424)
Total receipts	<u>21,051</u>	<u>21,051</u>	<u>19,358</u>	<u>(1,693)</u>
DISBURSEMENTS AND ENCUMBRANCES				
Salaries	9,224	9,091	7,960	1,131
Employee Benefits	3,368	3,343	2,522	821
Purchased Services	5,995	6,085	5,332	753
Supplies and Materials	3,519	3,537	5,002	(1,465)
Capital Outlay	1,253	1,253	124	1,129
Dues and Fees	19	19	17	2
Conference and Travel	157	207	150	57
Debt Service Principal	--	--	197	(197)
Debt Service Interest	--	--	34	(34)
Property Tax Recapture	15	15	18	(3)
Total disbursements and encumbrances	<u>23,550</u>	<u>23,550</u>	<u>21,356</u>	<u>2,194</u>
DEFICIENCY OF RECEIPTS OVER DISBURSEMENTS AND ENCUMBRANCES				
	(2,499)	(2,499)	(1,998)	501
FUND BALANCE, BEGINNING OF YEAR				
	<u>5,447</u>	<u>5,447</u>	<u>5,447</u>	<u>--</u>
FUND BALANCE, END OF YEAR				
	<u>\$ 2,948</u>	<u>2,948</u>	<u>3,449</u>	<u>501</u>

See accompanying independent auditor's report

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information Budgetary Comparison Schedule (Unaudited) For the Year Ended August 31, 2016 (Thousands of Dollars)

Notes to Required Supplementary Information – Budgetary Comparison Schedule

Budgetary Reporting Reconciliation – Governmental Funds

The preceding Budgetary Comparison Schedule presents comparisons of the legally adopted budget (more fully described in Note 1L.) with actual data on the cash basis. Because accounting principles applied for purposes of developing data on a budgetary basis differs significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America, a reconciliation of resultant basis, timing, perspective, and entity deficiencies in the revenue under expenditures for the year ended August 31, 2016, is presented below:

	<u>General Fund</u>
Receipts under disbursements and encumbrances (budgetary basis)	\$ (1,998)
Adjustments:	
Change in property taxes receivable	124
Change in accounts receivable	28
Change in prepaid expenses	94
Change in inventories	(1)
Change in payables and accrued liabilities	<u>(395)</u>
Revenue under expenditures (GAAP basis)	<u>\$ (2,148)</u>

Educational Service Unit No. 19

**Required Supplementary Information and Notes to Required Supplementary Information
Schedule of ESU No. 19's Proportionate Share of the Net Pension Liability
For the Year Ended August 31, 2016 (Thousands of Dollars)**

	Omaha School Employees' Retirement System Last Fiscal Year*	
	<u>2016</u>	<u>2015</u>
ESU No. 19's proportion of net pension liability	1.8893%	1.8184%
ESU No. 19's proportionate share of the net pension liability	\$ 10,977,424	7,855,270
State of Nebraska's proportionate share of the net pension liability associated with ESU No. 19	<u>2,222,646</u>	<u>1,590,490</u>
Total	<u>\$ 13,200,070</u>	<u>9,445,760</u>
ESU No. 19's covered-employee payroll	\$ 7,418,484	7,093,594
ESU No. 19's proportionate share of the net pension liability as a percentage of its covered-employee payroll	147.97%	110.74%
Plan fiduciary net position as a percentage of the total pension liability	67.58%	74.98%

* The amounts presented for each fiscal year were determined as of August 31.

See accompanying independent auditor's report

Note: GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, ESU No. 19 will present information for those years for which information is available.

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information Schedule of ESU No. 19's Contributions For the Year Ended August 31, 2016 (Thousands of Dollars)

Omaha School Employees' Retirement System
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutorily required contributions	\$ 772,594	732,783	700,691	630,821	623,701	535,368	538,764	466,765	474,687	384,460
Contributions in relation to the statutorily required contribution	<u>772,594</u>	<u>732,783</u>	<u>700,691</u>	<u>630,821</u>	<u>623,701</u>	<u>535,368</u>	<u>538,764</u>	<u>466,765</u>	<u>474,687</u>	<u>384,460</u>
Contribution deficiency (excess)	\$ <u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
ESU No. 19's covered employee payroll	\$ 7,821,519	7,418,484	7,093,594	6,715,863	6,640,062	6,386,353	6,426,864	6,330,734	6,438,180	6,042,118
Contributions as a percentage of covered employee payroll	9.878%	9.878%	9.878%	9.393%	9.393%	8.383%	8.383%	7.373%	7.373%	6.363%

* The amounts presented for each fiscal year were determined as of August 31.

See accompanying independent auditor's report

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information Notes to Required Supplementary Information For the Year Ended August 31, 2016 (Thousands of Dollars)

Notes to the Schedule:

Changes of benefit terms: The following changes to the Plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1, 2013, listed below:

- 2013: The 2013 session of the Nebraska legislature enacted Legislative Bill 553 (LB 553), which increased the Member's contribution rate from 9.3% of pay to 9.78% of pay. The School District's contribution rate is equal to 101% of the employee contribution rate so the District's contribution rate increased from 9.393% of pay to 9.878% of pay. The State contribution rate also increased permanently from 1% (plus \$973,301) to 2% of payroll, effective July 1, 2014. LB 553 also created a new benefit structure for members hired on or after July 1, 2013, with the same benefit structure as pre-July 1, 2013, hires except annual cost of living adjustments are the lesser of 1% or CPI and final average compensation is defined as 1/60 of the total compensation received during the five fiscal years of highest compensation.
- 2011: The member contribution rate was increased by the 2011 Legislature from 8.30% to 9.30%, effective September 1, 2011. Since the employer contributes 101% of the member contribution rate, the 1.00% increase in the member contribution rate resulted in an increase of 1.01% in the District's contribution rate.
- 2009: Legislation passed in 2009 increased the employee contribution rate from 7.30% to 8.30% of pay. The School District contributes 101% of the employee rate so the District's contribution increased from 7.373% to 8.383% of pay. The legislation that enacted these changes also provided for a temporary increase in the State's contribution rate from 0.70% to 1.00% of pay for July, 2009 to July, 2014.
- 2007: Legislation passed in 2007 increased the employee contribution rate from 6.30% to 7.30% of pay and provided for the employer contribution rate of 101% of the employee rate.

Changes in actuarial assumptions:

9/1/2013 valuation:

- The one-year age set forward in mortality rates for active male employees was eliminated.
- Classified members' retirement rates were adjusted.
- Vested Certificated members' assumption to elect a refund of was adjusted at certain ages.
- The assumed interest rate credited on member contribution accounts was lowered from 7% to 3%.

9/1/2010 valuation:

- The inflation assumption was changed from 3.50% to 3.00%
- The real rate of return increased from 4.50% to 5.00%.
- The productivity portion of the general wage increase assumption increased from 0.50% to 1.00%.

9/1/2008 valuation:

- Mortality table was changed to the RP-2000 table with age adjustments (+1 male, -1 female) and generational projections of mortality improvements.
- Retirement rates were adjusted to better fit the observed experience.
- The use of a disability assumption was eliminated.
- Termination rates were modified to better fit the observed experience.
- Small adjustments based on actual experience were made to the election of a refund assumption.

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information Notes to Required Supplementary Information For the Year Ended August 31, 2016 (Thousands of Dollars)

9/1/2007 valuation:

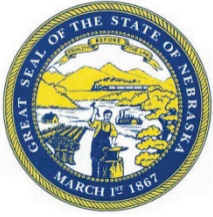
- The actuarial value of assets was reset to the actual market value.
- The funding policy was set equal to the normal cost plus amortization of the unfunded actuarial liability over a closed 30 year period, commencing September 1, 2007.

Method and assumptions used in calculations of Actuarially Determined Contributions:

The System is funded by statutory contribution rates for members, the School District and the State of Nebraska. The Actuarially Determined Contributions in the *Schedule of Employer Contributions* are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported for the most recent Measurement Date, August 31, 2015 (based on the September 1, 2014, actuarial valuation).

Actuarial Cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Market related smoothed value
Price inflation	3.00%
Salary increases, including wage inflation	4.00% to 5.60%
Long-term rate of return, net of investment expense, and including inflation	8.00%
Cost-of-living adjustments	1.50% if hired before July 1, 2013 1.00% if hired on or after July 1, 2013 Medical COLA of \$10/month for each year retired (max \$250/month)



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EDUCATIONAL SERVICE UNIT NO. 19

**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

Educational Service Unit No. 19 Board
Omaha, 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. 19 (ESU No. 19), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise ESU No. 19's basic financial statements, and have issued our report thereon dated November 28, 2016. The report was modified to emphasize that the financial statements present only the funds of ESU No. 19.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ESU No. 19'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. 19's internal control. Accordingly, we do not express an opinion on the effectiveness of ESU No. 19'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. 19'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control that we consider to be significant deficiencies that are described in the Comments Section of the report: Comment Number 1 (Capital Asset Records) and Comment Number 2 (Printing and Publication Internal Controls).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ESU No. 19'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 also noted certain additional items that we reported to management of ESU No. 19 in the Comments Section of this report as Comment Number 3 (Prepaid Expense Amounts) and Comment Number 4 (Interlocal Agreements).

ESU No. 19's Response to Findings

ESU No. 19's response to the findings identified in our audit are described in the Comments Section of the report. ESU No. 19's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ESU No. 19'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. 19's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 28, 2016



Zachary Wells, CPA, CISA
Audit Manager