

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 5
SEPTEMBER 1, 2014, THROUGH AUGUST 31, 2015**

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the Auditor of Public Accounts.**

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Issued on February 1, 2016

EDUCATIONAL SERVICE UNIT NO. 5

TABLE OF CONTENTS

	<u>Page</u>
Exit Conference	1
Comment and Recommendation	2 - 4
Financial Section	
Independent Auditor's Report	5 - 7
Basic Financial Statements:	
Agency-Wide Financial Statements:	
Statement of Net Position – Cash Basis	8
Statement of Activities – Cash Basis	9
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balance – Governmental Fund	10
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Governmental Fund	11
Statement of Fiduciary Net Position – Cash Basis – Fiduciary Fund	12
Statement of Changes in Fiduciary Net Position – Cash Basis – Fiduciary Fund	13
Notes to the Financial Statements	14 - 21
Other Information:	
Budgetary Comparison Schedule – Cash Basis – General Fund	22 - 23
Schedule of Disbursements by Program and Object – Cash Basis – Budget and Actual – General Fund	24 - 28
Notes to the Budgetary Comparison Supplementary Information	29
Government Auditing Standards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30 - 31

EDUCATIONAL SERVICE UNIT NO. 5

EXIT CONFERENCE

An exit conference was held November 23, 2015, with Educational Service Unit No. 5 (ESU No. 5) to discuss the results of our examination. Those in attendance for ESU No. 5 were:

NAME	TITLE
Brian Gegg	Administrator
Jan Reimer	Business Manager

COMMENT AND RECOMMENDATION

Internal Control Issues

We noted multiple internal control deficiencies throughout a variety of financial areas, which are described in more detail below.

A good internal control plan requires an adequate segregation of duties that prevents one individual from processing a transaction from beginning to end, or compensating controls to ensure no one individual is able both to perpetrate and/or to conceal errors or irregularities. A good internal control plan also requires documented procedures to ensure the following:

- billings to schools are accurate,
- all receipts are accounted for,
- checks received are endorsed immediately upon receipt,
- capital asset listings are accurate,
- Board-approved policies on capital asset processes exist, and
- disbursements are reviewed by appropriate management before payment is made.

Receipts

During review of the receipt and billing processes for Educational Service Unit No. 5 (ESU No. 5), the following was noted:

- The Business Manager had the ability to perform all aspects of the billing and receipting process, including creating invoices, recording the invoices in the accounting system, making the deposits, and reconciling the bank statements.
- An initial listing of monies received was created by ESU No. 5 staff when opening mail. Although, this listing was reconciled to the bank deposit slip, that review was not formally documented.
- Checks were not endorsed immediately upon opening the mail, increasing the risk of misappropriation. During a cash count, it was noted that none of the three checks on hand were restrictively endorsed.
- No formal documented review of school invoices was performed by a second individual to ensure the accuracy of the amounts billed and the accounting system coding.

Capital Assets

During review of ESU No. 5's capital asset procedures, we noted the following:

- One individual was able to perform all functions of the capital asset processing. The individual had the ability to add, delete, and maintain the capital assets listing. Furthermore, there was no independent review of the capital asset listing to ensure all items were added and deletions were proper.

COMMENT AND RECOMMENDATION

(Continued)

Internal Control Issues (Continued)

- ESU No. 5 did not perform an annual inventory of its capital assets to ensure assets were properly accounted for and the capital asset listing was accurate.
- For one disbursement tested, the capital assets purchased were not included on the inventory listing.
- ESU No. 5 did not have formal capital asset policies regarding the types and dollar value of items to be added to the listing.

Payroll

ESU No. 5 lacked an adequate segregation of duties over payroll, as the Business Manager had the ability to perform all aspects of the payroll process. The Business Manager was primarily responsible for payroll and initiated direct deposit amounts. Per ESU No. 5, a review of the payroll registers by the Administrator was completed; however, due to an absence of documentation, this could not be verified.

Disbursements

It was noted that the department heads or Administrator did not document their review of invoices before payment was made. The department heads and the Administrator received monthly disbursement reports; however, their review of those reports was not documented. Though disbursements were approved by the Board at a monthly meeting; however, the members lacked direct knowledge of the appropriateness of disbursements. We would recommend department heads or the Administrator approve invoices prior to payment.

When controls over these financial areas are not adequate, there is an increased risk that errors or abuse could occur and not be detected. For example, receipts could be misplaced, billings could be incorrect, inventory items could be lost or stolen, and improper payments could be issued.

We recommend ESU No. 5 implement procedures to segregate adequately the various aspects involved in the receipt, payroll, inventory, and disbursement financial reporting processes. If a segregation of duties is not possible due to limited staff, we recommend ESU No. 5 implement controls to compensate for the lack of segregation of duties. The following are examples of such compensating controls:

- For receipts, the initial listing of payment received in the mail could be compared to the deposits entered in the accounting and deposited to the bank; that review should be documented. Additionally, a documented review of monthly receipts could be performed by each department.
- For billings to schools, ESU No. 5 could have a second individual perform a formal, documented review of each of the billing invoices to ensure accuracy.

EDUCATIONAL SERVICE UNIT NO. 5

COMMENT AND RECOMMENDATION
(Concluded)

Internal Control Issues (Concluded)

- For capital assets, an individual in each department, without access to the inventory records, could perform a periodic review of assets.
- For payroll, the Administrator could document his detailed review of the payroll registers, and a comparison of the Administrator-approved payroll register to the amounts transferred to employee accounts could be performed and documented.
- For disbursements, the Administrator and/or department staff could initial the invoices prior to payment to indicate their review and approval of the disbursement. Additionally, a documented review of monthly disbursements could be performed by each department.

We also recommend ESU No. 5 develop Board-approved policies on capital assets procedures, which include standards on what items will be added to the inventory listing and require a formal inventory check of capital assets.

ESU No. 5 Response:

Receipts, Payroll and Disbursements:

ESU #5 has implemented controls to compensate for the lack of segregation of duties relating to the various aspects involved in the receipt, payroll and disbursement financial reporting processes. These controls will be formally documented going forward.

Capital Assets:

ESU #5 will develop a process for tracking capital assets and prepare a formal policy for Board adoption regarding the types and dollar value of items to be added to the listing.



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EDUCATIONAL SERVICE UNIT NO. 5

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Service Unit No. 5
Beatrice, NE

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the major fund, and the fiduciary fund of Educational Service Unit No. 5 (ESU No. 5), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise ESU No. 5's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ESU No. 5's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the fiduciary fund of ESU No. 5, as of August 31, 2015, and the respective changes in financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Required Supplementary Information

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

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise ESU No. 5's basic financial statements. The Schedule of Disbursements by Program and Object – Cash Basis – Budget and Actual – General Fund, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of ESU No. 5'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. 5's internal control over financial reporting and compliance.



Zachary Wells, CPA, CISA
Audit Manager

January 25, 2016

EDUCATIONAL SERVICE UNIT NO. 5
STATEMENT OF NET POSITION – CASH BASIS
 August 31, 2015

	Governmental Activities
ASSETS	
Cash and Cash Equivalents (Note 1.E)	\$ 4,502,130
Cash on Hand with County Treasurer	255,343
TOTAL ASSETS	\$ 4,757,473
 NET POSITION	
Unrestricted	\$ 4,757,473
TOTAL NET POSITION	\$ 4,757,473

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

EDUCATIONAL SERVICE UNIT NO. 5
STATEMENT OF ACTIVITIES – CASH BASIS
For the Year Ended August 31, 2015

Functions:	Cash Disbursements	<u>Program Cash Receipts</u>		Net (Disbursement) Receipts and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Contracted Services:				
General Education	\$ 185,334	\$ 187,505	\$ -	\$ 2,171
Special Education	1,697,931	1,638,671	173,790	114,530
PowerSchool Consortium	398,853	392,255	-	(6,598)
Distance Learning	130,858	127,721	-	(3,137)
PowerSchool Cloud Hosting	263,873	141,431	-	(122,442)
General Administration:				
Board of Education	19,183	-	-	(19,183)
Administration	168,239	-	-	(168,239)
Business Services	37,843	-	-	(37,843)
Vehicle Acquisition	15,000	-	-	(15,000)
Building and Grounds Maintenance	78,370	-	-	(78,370)
Materials and Equipment	67,313	-	-	(67,313)
Core Services:				
Staff Development	435,005	-	175,117	(259,888)
Technology	391,856	224,398	-	(167,458)
Supplemental Enrichment Programs	186,255	109,576	30,170	(46,509)
Instructional Materials	24,974	-	-	(24,974)
State Early Intervention Program	110,104	-	170,090	59,986
Federal Programs	166,753	-	188,404	21,651
Debt Service	78,422	-	-	(78,422)
Flow-Through Items	279,335	259,667	-	(19,668)
Total Governmental Activities	<u>\$ 4,735,501</u>	<u>\$ 3,081,224</u>	<u>\$ 737,571</u>	<u>(916,706)</u>
General Receipts:				
				974,261
				77,690
				75,000
				48,028
				<u>1,174,979</u>
				258,273
				4,499,200
				<u>\$ 4,757,473</u>

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

EDUCATIONAL SERVICE UNIT NO. 5
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUND

August 31, 2015

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents (Note 1.E)	\$ 4,502,130
Cash on Hand with County Treasurer	<u>255,343</u>
TOTAL ASSETS	<u><u>\$ 4,757,473</u></u>
FUND BALANCE	
Unassigned	\$ 4,757,473
TOTAL CASH BASIS FUND BALANCE	<u><u>\$ 4,757,473</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 5
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCE**
GOVERNMENTAL FUND
For the Year Ended August 31, 2015

	General Fund
RECEIPTS	
Local Sources	\$ 4,181,203
State Sources	549,167
Federal Sources	188,404
Bond Proceeds	75,000
TOTAL RECEIPTS	4,993,774
 DISBURSEMENTS	
Current:	
Contracted Services:	
General Education	185,334
Special Education	1,697,931
PowerSchool Consortium	398,853
Distance Learning	130,858
PowerSchool Cloud Hosting	263,873
General Administration:	
Board of Education	19,183
Administration	168,239
Business Services	37,843
Vehicle Acquisition	15,000
Building and Grounds Maintenance	78,370
Materials and Equipment	67,313
Core Services:	
Staff Development	435,005
Technology	391,856
Supplemental Enrichment Programs	186,255
Instructional Materials	24,974
State Early Intervention Program	110,104
Federal Programs	166,753
Debt Service	78,422
Flow-Through Items	279,335
TOTAL DISBURSEMENTS	4,735,501
Net Change in Cash Basis Fund Balance	258,273
 CASH BASIS FUND BALANCE - BEGINNING	 4,499,200
 CASH BASIS FUND BALANCE - ENDING	 \$ 4,757,473

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

EDUCATIONAL SERVICE UNIT NO. 5
STATEMENT OF FIDUCIARY NET POSITION – CASH BASIS
FIDUCIARY FUND
August 31, 2015

	PayFlex Plan Fund
ASSETS	
Cash and Cash Equivalents	\$ 20,913
TOTAL ASSETS	\$ 20,913
 NET POSITION	
Held in Trust for Employees	\$ 20,913
TOTAL NET POSITION	\$ 20,913

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

EDUCATIONAL SERVICE UNIT NO. 5
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – CASH BASIS
FIDUCIARY FUND
For the Year Ended August 31, 2015

	PayFlex Plan Fund
ADDITIONS	
Participant Contributions	\$ 28,871
Total Additions	28,871
 DEDUCTIONS	
Payments to Participants	29,508
Total Deductions	29,508
Change in Net Position Held in Trust for Employees	(637)
CASH BASIS NET POSITION - BEGINNING	21,550
CASH BASIS NET POSITION - ENDING	\$ 20,913

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

EDUCATIONAL SERVICE UNIT NO. 5

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended August 31, 2015

1. Summary of Significant Accounting Policies

A. Basis of Presentation

Educational Service Unit No. 5 (ESU No. 5) adopted the provisions of Statement No. 34 (Statement 34) of the Governmental Accounting Standards Board (GASB), “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” Statement 34 established standards for external financial reporting for all State and local government entities, which includes government-wide financial statements, fund financial statements, and the classification of net position into three components – (a) net investment in capital assets; (b) restricted; (c) unrestricted. ESU No. 5 reported restricted and unrestricted net position.

B. Reporting Entity

ESU No. 5 is a governmental entity that provides supplies, equipment, materials, and services to school districts within ESU No. 5’s region. ESU No. 5 was established under, and is governed by, the laws of the State of Nebraska. As such, ESU No. 5 is exempt from State and Federal income taxes. The financial statements include all funds of ESU No. 5. ESU No. 5 has also considered all potential component units for which it is financially accountable and other organizations that are fiscally dependent on ESU No. 5 or whose relationships with ESU No. 5 are so significant that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of ESU No. 5 to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 5. ESU No. 5 is also considered financially accountable if an organization is fiscally dependent on it, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 5, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present ESU No. 5. No component units were identified, and ESU No. 5 is not considered a component unit of any other governmental entity.

C. Government-Wide and Fund Financial Statements

Agency-Wide Financial Statements. The Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis display information about the activities of ESU No. 5 and are in the format of government-wide statements, as required by GASB Statement Number 34. These statements include all the financial activities of ESU No. 5, except for fiduciary activities. The effect of interfund activity has been removed from these statements. ESU No. 5 reports governmental activities only. Governmental activities generally are financed through taxes and intergovernmental receipts.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

The Statement of Net Position – Cash Basis presents the reporting entity’s non-fiduciary assets and liabilities, with the difference reported as net position. ESU No. 5 has a portion of its net position listed as restricted for Bond Indebtedness. The remainder of ESU No. 5’s net position is reported as unrestricted, which can have constraints on resources that are imposed by management (rather than external constraints), but those constraints can be removed or modified.

The Statement of Activities – Cash Basis demonstrates the degree to which the direct disbursements of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. ESU No. 5 reported the following general receipts: Taxes, Taxes – Bond, Bond Proceeds, and Interest Income.

Fund Financial Statements. The fund financial statements provide information about ESU No. 5’s funds, including its Governmental Fund and Fiduciary Fund. The accounts of ESU No. 5 are organized on the basis of funds, which are grouped into the following governmental and fiduciary fund types:

General Fund – This is ESU No. 5’s operating fund. It is used to account for all financial resources. All property tax receipts and other receipts are accounted for in this fund. General operating disbursements and new and replacement capital outlay costs are paid from the General Fund. This is a Governmental Fund.

PayFlex Plan Fund – Fiduciary funds report assets held in a trustee capacity for others and, therefore, cannot be used to support ESU No. 5’s own programs. The contributions and disbursements related to certain employee benefits, including medical and dependent care reimbursements, are accounted for in the PayFlex Plan Fund. This is a Fiduciary Fund.

D. Basis of Accounting

ESU No. 5’s policy is to prepare its financial statements on the cash basis, which is consistent with the requirements of both the Commissioner of Education and the Nebraska Department of Education. Under the cash basis of accounting, receipts are recognized when collected rather than when earned, and disbursements are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial information in accordance with generally accepted accounting principles. Property taxes collected by the County Treasurers are recognized as receipts when received by the County Treasurers.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

The basic financial statements have been prepared primarily from accounts maintained by ESU No. 5's accounting system.

E. Cash and Cash Equivalents

In addition to bank accounts, this classification includes all short-term investments, such as certificates of deposit and money market accounts. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at August 31, 2015, approximates market. Banks pledge collateral, as required by law, to guarantee ESU No. 5's funds held.

F. Inventories and Prepaid Items

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

G. Capital Assets

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

H. Compensated Absences

ESU No. 5 has entered into negotiated agreements with certified and non-certified personnel. In those agreements, ESU No. 5 has agreed to provide benefits for personal and sick leave. In accordance with the cash basis of accounting, these benefits are recorded as a disbursement when paid. ESU No. 5 policy indicates such benefits will not be paid out upon termination.

I. Property Taxes and Funds Held by County Treasurers

The tax levied for all political subdivisions in each county is certified by the County Board on or before October 15. Real estate and personal property taxes are due and become an enforceable lien on property on January 1. The first half of real estate and personal property taxes becomes delinquent on May 1, and the second half becomes delinquent on September 1 following the levy date. The combined tax rate subject to limitations of ESU No. 5 for the year ended August 31, 2015, was \$0.0150 per \$100 assessed valuation of all taxable property within its geographic region. Property taxes levied are recognized when received.

EDUCATIONAL SERVICE UNIT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Property taxes are collected on behalf of ESU No. 5 by counties, which then remit the funds collected to ESU No. 5. Taxes are recognized as receipts by ESU No. 5 when received by the counties. Cash available for ESU No. 5 at various County Treasurers' offices has been included in the beginning and ending fund balances of the Governmental Fund. Additionally, Local Receipts or Local District Taxes reflect actual tax receipts collected by the County Treasurers during the fiscal year ending August 31, 2015, for ESU No. 5. The following County Treasurers' ending balances are included in the fund balance for the year ended August 31, 2015:

County	As of August 31, 2015
Clay County	\$ 540
Fillmore County	5,185
Gage County	88,134
Jefferson County	75,741
Johnson County	719
Lancaster County	47
Nuckolls County	9,479
Otoe County	134
Saline County	11,950
Thayer County	63,414
Total	\$ 255,343

J. Fund Balance

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

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

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

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

EDUCATIONAL SERVICE UNIT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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

Unassigned – Fund balance amounts are the residual classification for ESU No. 5's general fund and include all spendable amounts not contained in the other classifications.

ESU No. 5's policy is to spend restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal restrictions that prohibit doing so. Additionally, ESU No. 5 first spends committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when disbursements are made. The General Fund balance at August 31, 2015, was classified as unassigned. ESU No. 5 does not have a formal minimum fund balance policy.

2. **Deposits**

Listed below is a summary of the investment portfolio that comprises the Cash and Cash Equivalents on ESU No. 5's August 31, 2015, basic financial statements.

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. At August 31, 2015, ESU No. 5 held bank deposits and certificates of deposits. Nebraska statutes allow ESU No. 5 to make any investment allowed by the State Investment Officer. This includes bank certificates of deposit.

ESU No. 5's bank balance and carrying amount of deposits at August 31, 2015, are below. The carrying amount of deposits is a reasonable estimate of fair value.

	Bank Balance	Carrying Amount
Bank Deposits	\$ 4,563,553	\$ 4,523,043

ESU No. 5 does not have a policy for custodial credit risk associated with deposits.

ESU No. 5 is required by State statute to collateralize bank deposits in excess of federally insured amounts. It is ESU No. 5's policy for deposits to be secured by collateral, less the amount of the FDIC coverage. During the fiscal year ended August 31, 2015, ESU No. 5's deposits were adequately collateralized.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Risk Management

ESU No. 5 is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. During the fiscal year, ESU No. 5 carried commercial insurance for property, general liability, crime, inland marine, and automobile liability. No significant reductions in insurance coverage have occurred during the fiscal year ending August 31, 2015. Settled claims resulting from these risks have not exceeded the above coverage in the past three years.

4. Unemployment Compensation Insurance

ESU No. 5 has adopted the reimbursable option of the State's Unemployment Compensation Insurance Program. Under this option, a claimant would receive unemployment compensation from the State. ESU No. 5 is liable to reimburse the State for the actual amount of the claim(s).

5. Bond Payable

Liabilities related to bonded indebtedness are omitted from the Statement of Net Position and Statement of Cash Basis Assets and Fund Balance, consistent with the cash basis of accounting. Bond proceeds are recorded as receipts and bond payments are recorded as disbursements on the Statement of Activities and Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance in the year in which the cash is received or paid.

ESU No. 5 was obligated under the bond issue at the financial statement date as follows:

General Obligation Technology Bonds were issued by ESU No. 5 on September 16, 2014. The bonds were part of a joint project between ESU No. 5, Beatrice Public Schools, Conestoga Public Schools, and Southern Public Schools. The total bond issue was for \$375,000, of which \$75,000 related to ESU No. 5. The bonds were financed by a property tax levy, secured by the general revenues of the ESU, and matured August 15, 2015. Interest was due semi-annually in February and August at 0.5% during fiscal year ended August 31, 2015.

As of August 31, 2015, the amount of property taxes received in relation to the bond tax levy is as follows:

Fiscal Year	Bond Tax Levy Received	Bond Principal Paid	Bond Interest Paid	Total Bond Payments	Excess Funds
2015	\$ 77,690	\$ 75,000	\$ 462	\$ 75,462	\$ 2,228

As the bond was paid off in fiscal year ended August 31, 2015, there is no restriction on the excess funds.

EDUCATIONAL SERVICE UNIT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Operating Leases

ESU No. 5 is the lessee of office space with a commencement date of September 10, 2003, and an option to renew it annually. The contracted rate is \$450 and it still paid today. During the fiscal year, ESU No. 5 paid \$5,400 for equipment leases. Following is a schedule of minimum future rental payments on noncancelable operating leases for the next five years:

<u>Fiscal Year</u>	<u>Future Payments</u>
2016	\$ 5,400
2017	5,400
2018	5,400
2019	5,400
2020	5,400

7. Fiduciary Fund

ESU No. 5 provides for a qualifying Cafeteria Plan within the meaning of Section 125 of the Internal Revenue Code of 1986 (Code). The benefits that an employee elects to receive under the Cafeteria Plan are includable or excludable from the employee's income under Section 125(a) and other applicable sections of the Code. At August 31, 2015, ESU No. 5 had collected \$28,871 from employees to be paid out when claims are filed. ESU No. 5 maintains a separate checking account to pay these claims. As of August 31, 2015, that account had a carrying value of \$20,913, which is included in the Statement of Fiduciary Net Position – Cash Basis.

8. Retirement System

The Retirement System for Nebraska Schools (the Plan) is a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement Board (NPERB) in accordance with the provisions of the School Employees Retirement Act. The Plan provisions are established under Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2014, Supp. 2015) and may be amended through legislative action.

Participation in the Plan is required of all regular full-time or part-time employees who work 20 or more hours per week.

ESU No. 5 employees contribute 9.78% of their total compensation. In addition, ESU No. 5 contributes an amount equal to 101% of the employee's contribution. The contribution rates are established by Neb. Rev. Stat. § 79-958 (Reissue 2014) and may be amended through legislative action. The employee's and employer's contributions are kept in separate accounts. The employee's account is fully vested. The employee is fully vested after five years of creditable service.

EDUCATIONAL SERVICE UNIT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

8. Retirement System (Concluded)

For the year ended August 31, 2015, ESU No. 5 employees contributed \$224,117, and ESU No. 5 contributed \$226,358.

9. Subsequent Events

ESU No. 5 authorized the issuance of bonds in January 2016. The bonds are part of a joint project between ESU No. 5, Southern Public Schools, and Beatrice Public Schools. The total bond issue was for \$256,775. ESU No. 5's portion of the bond was \$56,775.

EDUCATIONAL SERVICE UNIT NO. 5
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND

For the Year Ended August 31, 2015

	Original and Final Budget	Actual	Variance Positive (Negative)
RECEIPTS			
Local Sources:			
Property Taxes	\$ 962,302	\$ 974,261	\$ 11,959
Property Taxes - Bond	75,327	77,690	2,363
Interest	10,000	48,028	38,028
Contracted Services:			
General Education	207,250	187,505	(19,745)
Special Education	1,591,981	1,638,671	46,690
PowerSchool Consortium	365,300	392,255	26,955
Distance Learning	130,760	127,721	(3,039)
PowerSchool Cloud Hosting	-	141,431	141,431
Technology	201,272	224,398	23,126
Supplemental Enrichment Programs	104,188	109,576	5,388
Cooperative Purchasing	18,000	-	(18,000)
Materials & Equipment	3,000	-	(3,000)
Flow-Through Items	187,950	259,667	71,717
State Sources:			
Core Services	175,117	175,117	-
Distance Learning Incentive Payment	20,000	30,170	10,170
Early Intervention Program	120,000	170,090	50,090
State Special Education	182,658	173,790	(8,868)
Federal Sources:			
Title II, Part A NCLB Teacher Quality Grant	-	119,225	119,225
NDE/ESU Collaborative Projects	43,312	43,312	-
Special Education Continuous Improvement	-	13,731	13,731
Early Development Network	17,250	12,136	(5,114)
Other Federal Grants	3,550,000	-	(3,550,000)
Bond Proceeds	72,050	75,000	2,950
TOTAL RECEIPTS	8,037,717	4,993,774	(3,043,943)

(Continued)

EDUCATIONAL SERVICE UNIT NO. 5
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND

For the Year Ended August 31, 2015

	Original and Final Budget	Actual	Variance Positive (Negative)
DISBURSEMENTS			
Contracted Services:			
General Education	212,250	185,334	26,916
Special Education	1,765,639	1,697,931	67,708
PowerSchool Consortium	365,300	398,853	(33,553)
Distance Learning	133,443	130,858	2,585
PowerSchool Cloud Hosting	300,000	263,873	36,127
General Administration:			
Board of Education	37,100	19,183	17,917
Administration	175,377	168,239	7,138
Business Services	42,120	37,843	4,277
Vehicle Acquisition	24,000	15,000	9,000
Building and Grounds Maintenance	154,000	78,370	75,630
Materials and Equipment	95,050	67,313	27,737
Core Services:			
Staff Development	490,591	435,005	55,586
Technology	440,957	391,856	49,101
Supplemental Enrichment Programs	194,542	186,255	8,287
Instructional Materials	29,936	24,974	4,962
State Early Intervention Program	120,000	110,104	9,896
Federal Programs:			
Title II, Part A NCLB Teacher Quality Grant	164,000	93,507	70,493
NDE/ESU Collaborative Projects	43,312	43,312	-
Special Education Continuous Improvement	-	10,668	(10,668)
Early Development Network	17,250	14,910	2,340
Other Federal Grants	3,560,000	4,356	3,555,644
Debt Service	75,327	78,422	(3,095)
Flow-Through Items	179,950	279,335	(99,385)
TOTAL DISBURSEMENTS	8,620,144	4,735,501	3,884,643
Net Change in Cash Basis Fund Balance		258,273	
CASH BASIS FUND BALANCE - BEGINNING		4,499,200	
CASH BASIS FUND BALANCE - ENDING		\$ 4,757,473	

(Concluded)

See accompanying Notes to the Budgetary Comparison Required Supplementary Information.

EDUCATIONAL SERVICE UNIT NO. 5
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended August 31, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
CONTRACTED SERVICES:			
General Education - 1100, 1101, 1108:			
Salaries	\$ 102,740	\$ 94,879	\$ 7,861
Employee Benefits	38,843	35,704	3,139
Purchased Services	45,220	44,677	543
Supplies and Materials	10,047	3,270	6,777
Capital Outlay	8,100	6,151	1,949
Other Expenses	7,300	653	6,647
Total	<u>212,250</u>	<u>185,334</u>	<u>26,916</u>
Special Education - 1200's:			
Salaries	989,237	994,974	(5,737)
Employee Benefits	323,764	316,509	7,255
Purchased Services	397,138	337,134	60,004
Supplies and Materials	24,500	14,758	9,742
Capital Outlay	9,000	18,000	(9,000)
Other Expenses	22,000	16,556	5,444
Total	<u>1,765,639</u>	<u>1,697,931</u>	<u>67,708</u>
PowerSchool Consortium - 2212:			
Salaries	163,966	164,798	(832)
Employee Benefits	30,989	28,027	2,962
Purchased Services	39,145	28,774	10,371
Supplies and Materials	8,200	4,036	4,164
Other Expenses	123,000	173,218	(50,218)
Total	<u>365,300</u>	<u>398,853</u>	<u>(33,553)</u>
Distance Learning - 2224:			
Salaries	104,721	104,764	(43)
Employee Benefits	20,347	18,507	1,840
Purchased Services	3,575	3,949	(374)
Supplies and Materials	2,000	1,789	211
Capital Outlay	300	-	300
Other Expenses	2,500	1,849	651
Total	<u>133,443</u>	<u>130,858</u>	<u>2,585</u>
PowerSchool Cloud Hosting - 2225:			
Supplies and Materials	300,000	263,873	36,127
Total	<u>300,000</u>	<u>263,873</u>	<u>36,127</u>

(Continued)

EDUCATIONAL SERVICE UNIT NO. 5
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended August 31, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
GENERAL ADMINISTRATION:			
Board of Education - 2310:			
Employee Benefits	400	-	400
Purchased Services	14,200	10,016	4,184
Supplies and Materials	500	34	466
Other Expenses	22,000	9,133	12,867
Total	37,100	19,183	17,917
Administration - 2320:			
Salaries	132,800	132,800	-
Employee Benefits	24,477	21,666	2,811
Purchased Services	7,100	5,019	2,081
Supplies and Materials	2,000	1,187	813
Other Expenses	9,000	7,567	1,433
Total	175,377	168,239	7,138
Business Services - 2510:			
Salaries	30,393	29,800	593
Employee Benefits	5,627	5,337	290
Purchased Services	600	456	144
Supplies and Materials	3,500	1,140	2,360
Other Expenses	2,000	1,110	890
Total	42,120	37,843	4,277
Vehicle Acquisition - 2520:			
Capital Outlay	24,000	15,000	9,000
Total	24,000	15,000	9,000
Building and Grounds Maintenance - 2600:			
Purchased Services	96,000	49,848	46,152
Supplies and Materials	6,000	1,892	4,108
Capital Outlay	52,000	26,630	25,370
Total	154,000	78,370	75,630
Materials and Equipment - 2920, 2922:			
Supplies and Materials	8,000	-	8,000
Capital Outlay	87,050	67,313	19,737
Total	95,050	67,313	27,737

(Continued)

EDUCATIONAL SERVICE UNIT NO. 5
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended August 31, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
CORE SERVICES:			
Staff Development - 3550, 3552:			
Salaries	256,901	255,975	926
Employee Benefits	84,424	81,747	2,677
Purchased Services	74,187	72,714	1,473
Supplies and Materials	62,604	10,854	51,750
Other Expenses	12,475	13,715	(1,240)
Total	490,591	435,005	55,586
Technology - 3554:			
Salaries	275,469	270,927	4,542
Employee Benefits	83,783	79,524	4,259
Purchased Services	61,579	18,224	43,355
Supplies and Materials	9,626	4,162	5,464
Capital Outlay	1,200	11,165	(9,965)
Other Expenses	9,300	7,854	1,446
Total	440,957	391,856	49,101
Supplemental Enrichment Programs - 1110, 3553, 3555:			
Salaries	97,244	97,244	-
Employee Benefits	41,398	40,858	540
Purchased Services	39,000	35,582	3,418
Supplies and Materials	13,800	9,806	3,994
Capital Outlay	1,600	1,545	55
Other Expenses	1,500	1,220	280
Total	194,542	186,255	8,287
Instructional Materials - 3556:			
Salaries	8,684	8,727	(43)
Employee Benefits	1,602	1,562	40
Purchased Services	3,500	3,500	-
Supplies and Materials	16,150	11,185	4,965
Total	29,936	24,974	4,962

(Continued)

EDUCATIONAL SERVICE UNIT NO. 5
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended August 31, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
State Early Intervention Program - 3185:			
Salaries	85,902	84,205	1,697
Employee Benefits	20,583	19,591	992
Purchased Services	3,700	3,475	225
Supplies and Materials	3,000	459	2,541
Other Expenses	6,815	2,374	4,441
Total	120,000	110,104	9,896
FEDERAL PROGRAMS:			
Title II, Part A NCLB Teacher Quality Grant - 4315:			
Salaries	9,888	9,655	233
Employee Benefits	2,843	2,703	140
Purchased Services	151,269	73,288	77,981
Supplies and Materials	-	4,928	(4,928)
Other Expenses	-	2,933	(2,933)
Total	164,000	93,507	70,493
NDE/ESU Collaborative Projects - 4000:			
Salaries	30,754	32,450	(1,696)
Employee Benefits	7,558	5,862	1,696
Purchased Services	5,000	5,000	-
Total	43,312	43,312	-
Special Education Continuous Improvement - 4310:			
Purchased Services	-	9,611	(9,611)
Supplies and Materials	-	1,057	(1,057)
Total	-	10,668	(10,668)
Early Development Network - 4401:			
Purchased Services	7,100	5,938	1,162
Supplies and Materials	4,500	6,525	(2,025)
Other Expenses	5,650	2,447	3,203
Total	17,250	14,910	2,340
Other Federal Programs - 4403, 4312, 4672, 4673, 4690, 4693, 4955:			
Purchased Services	-	4,356	(4,356)
Other Expenses	3,560,000	-	3,560,000
Total	3,560,000	4,356	3,555,644

(Continued)

EDUCATIONAL SERVICE UNIT NO. 5
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT – CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended August 31, 2015

	Original and Final Budget	Actual	Variance: Positive (Negative)
OTHER:			
Debt Service - 5000:			
Other Expenses	75,327	78,422	(3,095)
Total	<u>75,327</u>	<u>78,422</u>	<u>(3,095)</u>
Flow-Through Items - 2805, 2915, 2916, 2917, 2918, 2919:			
Purchased Services	24,750	41,762	(17,012)
Other Expenses	155,200	237,573	(82,373)
Total	<u>179,950</u>	<u>279,335</u>	<u>(99,385)</u>
Total Disbursements	<u><u>8,620,144</u></u>	<u><u>4,735,501</u></u>	<u><u>3,884,643</u></u>

(Concluded)

EDUCATIONAL SERVICE UNIT NO. 5

**NOTES TO THE BUDGETARY COMPARISON REQUIRED
SUPPLEMENTARY INFORMATION**

Budgetary Process

ESU No. 5 adopts an annual budget in accordance with the statutory requirements of the Nebraska Budget Act. The budget is prepared on the cash receipts and disbursements basis of accounting. The budget contains only those receipts actually received by ESU No. 5. ESU No. 5 does not utilize an encumbrance accounting system. All appropriated spending authority lapses at the end of the fiscal year.

On or before August 1, ESU No. 5's budget-making authority prepares a budget for each ESU No. 5 fund. The budget includes the requirements, the outstanding warrants, the operating reserves to be maintained, the cash on hand at the close of the preceding fiscal year, the receipts from sources other than taxation, and the amount to be raised by taxation.

The property tax requirement resulting from ESU No. 5's adopted budget is utilized by the County Assessors to establish ESU No. 5's tax levy.



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EDUCATIONAL SERVICE UNIT NO. 5

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

Independent Auditor's Report

Board of Directors
Educational Service Unit No. 5
Beatrice, 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, the major fund, and the fiduciary fund of Educational Service Unit No. 5 (ESU No. 5), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise ESU No. 5's basic financial statements, and have issued our report thereon dated January 25, 2016. The report notes the financial statements were prepared on the cash basis of accounting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ESU No. 5'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. 5's internal control. Accordingly, we do not express an opinion on the effectiveness of ESU No. 5'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. 5'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. We did identify a certain deficiency in internal control, described in the accompanying Comment and Recommendation section that we consider to be significant deficiency, Internal Control Issues.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ESU No. 5'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*.

Educational Service Unit No. 5's Response to Findings

ESU No. 5's response to the finding identified in our audit is described in the Comment Section of the report. ESU No. 5'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. Where no response is indicated, ESU No. 5 declined to respond.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ESU No. 5'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. 5's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Zachary Wells, CPA, CISA
Audit Manager

January 25, 2016