

**AUDIT REPORT
OF THE
LEARNING COMMUNITY OF
DOUGLAS AND SARPY COUNTIES**

SEPTEMBER 1, 2016, THROUGH AUGUST 31, 2017

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Issued on May 9, 2018

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

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LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

KEY OFFICIALS AND CONTACT INFORMATION

Council Members

Name	Title
Jeanne Anderson	Subcouncil 1
Nancy Jacobson	Subcouncil 1 – Council Secretary
Cornelius Williams	Subcouncil 2
Carol Hahn	Subcouncil 2 – Council Treasurer
Lorraine Chang	Subcouncil 3 – Council Chair
Jack Heidel	Subcouncil 3
Susan Kelley	Subcouncil 4 – Council Vice Chair
Allen Hager	Subcouncil 4
Tonya Ward	Subcouncil 5
D. Paul Hartnett	Subcouncil 5
Mike Avery	Subcouncil 6
Jill Woodward	Subcouncil 6

Learning Community of Douglas and Sarpy Counties Leadership

Name	Title
David Patton, Ed. S.	Chief Executive Officer
David Moon	Finance Director

Learning Community of Douglas and Sarpy Counties
1612 N. 24th Street
Omaha, NE 68110
www.learningcommunityds.org

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

SUMMARY OF COMMENTS

During our audit of the Learning Community of Douglas and Sarpy Counties (Learning Community), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Expenditures in Excess of Budget:*** Expenditures in the Elementary Learning Center Fund exceeded the adopted budget by \$892,252.
2. ***Financial Statement Errors:*** The Auditor of Public Accounts (APA) identified errors in the compiled financial statements. Receipts for property and other taxes were overstated for the Capital Projects Fund and understated for the Elementary Learning Centers Fund by \$35,465. Errors were also identified in the footnotes to the financial statements, ranging from an understatement and overstatement of \$14,038,284.

More detailed information regarding 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 Learning Community 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.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

COMMENTS AND RECOMMENDATIONS

1. Expenditures in Excess of Budget

During our audit, we noted that for the year ended August 31, 2017, the disbursements in the Elementary Learning Centers Fund exceeded the adopted budget by \$892,252.

The error was caused in part by the Learning Community's failure to include \$1,123,717 in disbursements for ESU Core Services Research and Evaluation on the adopted budget as disbursements for the Elementary Learning Centers Fund for fiscal year 2017. This amount was included on the Learning Community's internal budget documentation but was inadvertently excluded from the amount listed on the budget adopted by the Learning Community Coordinating Council on August 25, 2016

Neb. Rev. Stat. § 13-510 (Reissue 2012) states, in relevant part, the following:

No expenditure during any fiscal year or biennial period shall be made in excess of the amounts indicated in the adopted budget statement

When expenditures are made in excess of the amounts budgeted, with no amended budget to address those excesses, the Learning Community is not in compliance with State statute.

We recommend the Learning Community implement procedures to monitor closely its budget status on an ongoing basis to avoid individual funds incurring expenses in excess of the amounts budgeted.

Learning Community Response: The auditor has noted the Learning Community made disbursements that appear to have exceeded the adopted budget by \$892,252. The State budget form that was filed did not contain the ESU Core Services Research and Evaluation revenues & expenses. This was a clerical error. The Core Services Research and Evaluation revenues and expenses were included in the budget hearing held by the Council and in the budget adopted by the Council. All revenues and expenses of these funds were included in all subsequent quarterly budget to actual reviews provided to the Council.

While on paper it appears the Learning Community exceeded its budget, in reality all expected revenues and disbursements of the Core Services Research and Evaluation revenues were within the council-approved budget.

APA Response: Neb. Rev. Stat. § 13-508 (Supp. 2017) requires the Learning Community to file with the auditor a copy of the adopted budget statement.

2. Financial Statement Errors

The Learning Community's financial statements were compiled by an accounting firm. The APA then audited those financial statements. During our audit, we noted errors in the compiled financial statements. Receipts for property and other taxes were overstated for the Capital Projects Fund and understated for the Elementary Learning Centers Fund by \$35,465. After reviewing the Learning Community's general ledger, we found that a receipt from the Sarpy County Treasurer for June 2017 property tax collections for the Elementary Learning Centers Fund in the amount of \$35,465 was incorrectly recorded to the Capital Projects Fund revenue account instead of the Elementary Learning Centers Fund revenue account, which caused the errors identified above.

COMMENTS AND RECOMMENDATIONS

(Concluded)

2. Financial Statement Errors (Concluded)

We also noted errors in the footnotes to the financial statements. While reviewing the Operating Lease Commitments footnote, we noted an understatement of \$9,882 in the amount reported on the schedule of future minimum lease payments for the fiscal year 2021 and 2022, and an overstatement of \$122,758 in the amount reported for the combined fiscal years 2023-2025. While reviewing the Summary of Significant Accounting Policies footnote regarding Property Taxes and Common Levies, we noted the amount reported for the General Fund Common Levy for Distributions to Member Schools was understated, and the amount for Cash held by county treasurers at August 31, 2017, was overstated each by \$14,038,284.

The APA discussed the identified errors with the Learning Community, and all adjustments were made to correct the errors when proposed by the APA.

A good internal control plan and sound accounting practices require financial information to be complete and accurate. This includes procedures to ensure the financial statements are correct.

Without strong accounting practices to ensure financial information is complete, accurate, and in accordance with accounting standards, there is a greater risk that material misstatements may occur and remain undetected.

We recommend the Learning Community implement procedures to ensure financial information is complete, accurate, and compiled correctly.

Learning Community Response: The Learning Community has adjusted the account balance review practices of the current internal controls sufficient to prevent a revenue overstatement or understatement in future financial statements. Additionally, oversight of future lease obligations has been established.



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LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

INDEPENDENT AUDITOR'S REPORT

Learning Community Coordinating Council
Learning Community of Douglas and Sarpy Counties
Omaha, Nebraska

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities and each major fund of the Learning Community of Douglas and Sarpy Counties (Learning Community), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Learning Community'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Learning Community'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 the Learning Community'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities and each major fund of the Learning Community as of August 31, 2017, and the respective changes in cash-basis financial position for the year then ended in conformity with the 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 opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole, which collectively comprise the Learning Community's basic financial statements. The Management's Discussion and Analysis and Budgetary Comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Management's Discussion and Analysis and Budgetary Comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements; accordingly, we do not express an opinion or provide any assurance on such information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2018, on our consideration of the Learning Community's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Learning Community's internal control over financial reporting and compliance.



May 8, 2018

Mark Avery, CPA
Assistant Deputy Auditor

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Learning Community of Douglas and Sarpy Counties (Learning Community) presents this Management's Discussion and Analysis of its financial statements to provide a narrative overview and analysis of the financial activities as of and for the fiscal years ended August 31, 2017 and 2016. Please read it in conjunction with the Learning Community's financial statements, which begin on page 11.

Financial Highlights

- General Fund receipts for the years ended August 31, 2017 and 2016, amounted to \$500,639 and \$503,546, respectively. General Fund disbursements decreased from \$609,104 in fiscal year 2016 to \$468,831 in fiscal year 2017. The Learning Community's General Fund balance increased from \$420,620 at the end of fiscal year 2016 to \$452,428 at the end of fiscal year 2017.
- Elementary Learning Centers Fund receipts for the years ended August 31, 2017 and 2016, amounted to \$8,210,440 and \$8,246,498, respectively. Elementary Learning Centers Fund disbursements increased for the year ended August 31, 2017, compared to the year ended August 31, 2016, with disbursements of \$9,450,235 and \$7,522,976, respectively. The increase in Elementary Learning Centers Fund disbursements is due to continued expansion of programming offerings, notably the 2nd full year of operations for the Learning Community Center of North Omaha, which was established in 2015, and increased program offerings through collaborations with various community partners.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Learning Community's financial activities.
- The Government-Wide financial statements consist of a Statement of Net Position – Cash Basis and a Statement of Activities – Cash Basis. These statements provide information about the activities of the Learning Community as a whole and present an overall view of the Learning Community's finances.
- The Fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Learning Community's operations in more detail than the Government-Wide financial statements by providing information about the most significant funds. The Fund financial statements of the Learning Community only include governmental activities. The Learning Community has no business type (proprietary) or fiduciary funds.
- Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- The budgetary information further explains and supports the financial statements with a comparison of the Learning Community's budget for the year.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE LEARNING COMMUNITY

Net Position

The Learning Community's net position reported in the Statement of Net Position – Cash Basis represents the financial position of the Learning Community. The Learning Community's net position at August 31, 2017 and 2016, amounted to \$5,820,041 and \$7,065,815, respectively. The decrease in the financial position resulted primarily from an increase in disbursements in the Elementary Learning Centers Fund due to expanding program offerings.

Governmental Activities

A summary of the governmental activities of the Learning Community are as follows:

	Fiscal year ended <u>August 31, 2017</u>	Fiscal year ended <u>August 31, 2016</u>	Change from Prior Year
Receipts:			
Property and other taxes	\$ 8,190,057	\$ 8,212,604	\$ (22,547)
State appropriations	1,189,720	1,154,383	35,337
Investment earnings	2,395	3,932	(1,537)
Other	--	2,520	(2,520)
	<u>9,382,172</u>	<u>9,373,439</u>	<u>8,733</u>
Disbursements:			
Elementary learning centers	10,159,115	8,258,871	1,900,244
Diversity	5,450	7,095	(1,645)
Coordinating Council	56,106	11,251	44,855
Administration	407,275	590,758	(183,483)
	<u>10,627,946</u>	<u>8,867,975</u>	<u>1,759,971</u>
Change in net position	<u>\$ (1,245,774)</u>	<u>\$ 505,464</u>	<u>\$ (1,751,238)</u>

The increase in governmental disbursements was due primarily to the increase in amounts expended for elementary learning center program activities.

Individual Fund Analysis

As mentioned previously, the Fund financial statements report the Learning Community's activities in more detail than the Government-Wide statements by providing information about the most significant funds. The fund financial statements of the Learning Community include only governmental activities – the General Fund, Capital Projects Fund, and the Elementary Learning Centers Fund.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

General Fund – The General Fund is funded by appropriations from the State of Nebraska. The General Fund fund balance amounted to \$452,428 at August 31, 2017, an increase of \$31,808 from the fund balance at August 31, 2016, primarily due to shifting of half of personnel costs to the Elementary Learning Centers fund as a result of a decrease in appropriations from the State of Nebraska, and the diminishment of fund reserves in the prior fiscal year. General Fund disbursements were less than total budgeted disbursements in the amount of \$67,669. Excess amounts are being carried over to the 2017-2018 fiscal year to fund future programs and ongoing operations of the Learning Community.

Capital Projects Fund – The Capital Projects Fund consists of unspent tax levies restricted by State statute for capital projects and lease or leasehold improvements. The Capital Projects Fund fund balance amounted to \$749,550 at August 31, 2017, a decrease of \$37,787 from the fund balance at August 31, 2016. In 2017, \$708,880 was expended for purposes of leases and leasehold improvements for elementary learning centers.

Elementary Learning Centers Fund – The Elementary Learning Centers Fund is funded through taxes and other receipts restricted for purposes of supporting elementary learning center program activities. The Elementary Learning Centers Fund fund balance amounted to \$4,618,063 as of August 31, 2017. Disbursements of \$9,450,235 were more than total budgeted disbursements in the amount of \$892,252.

Economic Factors Bearing on the Learning Community's Future

At the time these financial statements were prepared, the Learning Community was aware of several circumstances that impact the future activities of the Learning Community:

- The taxable property valuation for the Learning Community for 2017/2018 increased by 4.99% from the prior-year property valuation.
- The Elementary Learning Centers Fund tax levy rate for 2018 was approved at \$0.015 per \$100 of assessed valuation, compared with the 2017 levy rate at \$0.014 per \$100 of assessed valuation.
- The Capital Projects Fund tax levy rate for 2018 is consistent with the 2017 levy rate at \$0.00125 per \$100 of assessed valuation.
- General Fund monies, which are received through state appropriations, are subject to modification by the Nebraska Unicameral Legislature.
- The passage of Legislative Bill 1067 (2016), which was signed into law on April 20, 2016, brings about the following changes for the Learning Community for the 2017/2018 fiscal year as follows:
 - Beginning September 1, 2017, the General Fund Common Levy (between \$0.00 and \$0.95 within the \$1.05 levy limit per \$100 of assessed valuation) tax receipts for member school districts will be discontinued. Additionally, levy authority for the Special Building Fund Common Levy for member school districts (between \$0.00 and \$0.02 per \$100 of assessed valuation) is discontinued.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Concluded)

- Effective for the 2017-2018 school year, all learning community school districts will return to the option enrollment program established pursuant to Neb. Rev. Stat. § 79-234 (Cum. Supp. 2016). A student enrolled in a learning community school district school for any part of school year 2016-2017 (unless having graduated or been expelled) as an open enrollment student pursuant to Neb. Rev. Stat. § 79-2110 (Cum. Supp. 2016) will continue as an open enrollment student until departure from said school building. Effective for the 2017-2018 school year, therefore, the Learning Community will no longer be involved in the administration of an open enrollment program.
- As administered by the Nebraska Department of Education, transition aid will be payable for school fiscal years 2017-2018 and 2018-2019.

Contacting the Learning Community's Financial Management

This financial report is designed to provide the citizens, taxpayers, legislators and member school districts with a general overview of the Learning Community's finances and to demonstrate the Learning Community's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Learning Community of Douglas and Sarpy Counties, 1612 N. 24th Street, Omaha NE, 68110.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

Statement of Net Position – Cash Basis
August 31, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 5,466,276
Cash held by County Treasurer	<u>353,765</u>
Total assets	<u>\$ 5,820,041</u>
NET POSITION	
Restricted for:	
Leases and leasehold improvements	749,550
Research and evaluation	416,993
Elementary learning centers	4,279,126
Unrestricted	<u>374,372</u>
Total net position	<u>5,820,041</u>

See accompanying notes to the financial statements.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

Statement of Activities – Cash Basis
For the Year Ended August 31, 2017

	FUNCTION				
	Governmental Activities Total	Administration	Coordinating Council	Elementary Learning Centers	Diversity
DISBURSEMENTS					
Personnel services	\$ 758,797	165,079	--	593,718	--
Contracted/purchased services	8,965,239	128,295	51,738	8,779,756	5,450
Supplies and materials	64,967	15,330	1,252	48,385	--
Occupancy	753,276	16,020	--	737,256	--
Other	85,667	82,551	3,116	--	--
Total disbursements	<u>10,627,946</u>	<u>407,275</u>	<u>56,106</u>	<u>10,159,115</u>	<u>5,450</u>
RECEIPTS					
Property and other taxes	8,190,057				
State appropriations	1,189,720				
Investment earnings	2,395				
Total receipts	<u>9,382,172</u>				
CHANGE IN NET POSITION	(1,245,774)				
NET POSITION, BEGINNING OF YEAR	<u>7,065,815</u>				
NET POSITION, END OF YEAR	<u>\$ 5,820,041</u>				

See accompanying notes to the financial statements.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

Balance Sheet – Governmental Funds – Cash Basis
August 31, 2017

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Elementary Learning Centers Fund	
ASSETS				
Cash and cash equivalents	\$ 452,428	720,577	4,293,271	5,466,276
Cash held by County Treasurer	--	28,973	324,792	353,765
Total assets	<u>\$ 452,428</u>	<u>749,550</u>	<u>4,618,063</u>	<u>5,820,041</u>
FUND BALANCES				
Restricted for leases and leasehold improvements	--	749,550	--	749,550
Restricted for research and evaluation	78,056	--	338,937	416,993
Restricted for elementary learning centers	--	--	4,279,126	4,279,126
Unassigned	<u>374,372</u>	<u>--</u>	<u>--</u>	<u>374,372</u>
Total fund balances	<u>452,428</u>	<u>749,550</u>	<u>4,618,063</u>	<u>5,820,041</u>

See accompanying notes to the financial statements.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

**Statement of Receipts, Disbursements, and Changes in Fund Balances –
Governmental Funds – Cash Basis**
For the Year Ended August 31, 2017

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Elementary Learning Centers Fund</u>	
RECEIPTS				
Property and other taxes	\$ --	670,761	7,519,296	8,190,057
State appropriations	500,000	--	689,720	1,189,720
Investment earnings	639	332	1,424	2,395
Total receipts	<u>500,639</u>	<u>671,093</u>	<u>8,210,440</u>	<u>9,382,172</u>
DISBURSEMENTS				
Elementary learning centers	--	708,880	9,450,235	10,159,115
Diversity	5,450	--	--	5,450
Coordinating Council	56,106	--	--	56,106
Administration	407,275	--	--	407,275
Total disbursements	<u>468,831</u>	<u>708,880</u>	<u>9,450,235</u>	<u>10,627,946</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	31,808	(37,787)	(1,239,795)	(1,245,774)
FUND BALANCES, BEGINNING OF YEAR	<u>420,620</u>	<u>787,337</u>	<u>5,857,858</u>	<u>7,065,815</u>
FUND BALANCES, END OF YEAR	<u>\$ 452,428</u>	<u>749,550</u>	<u>4,618,063</u>	<u>5,820,041</u>

See accompanying notes to the financial statements.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of the Learning Community of Douglas and Sarpy Counties (Learning Community) consistently applied in the preparation of the accompanying financial statements. The Learning Community's financial statements are presented on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

A. Reporting Entity

The Learning Community is a tax-exempt political subdivision in the state of Nebraska organized under Neb. Rev. Stat. § 79-2102 (Reissue 2014). The geographic area served by the Learning Community consists of the metropolitan area surrounding Omaha, Nebraska, generally located within Douglas, Sarpy, and Washington Counties, and includes the geographic territory of the 11 school districts headquartered in Douglas and Sarpy Counties. The Learning Community is governed by a twelve-member Learning Community Coordinating Council (Council) elected from its six Subcouncil Districts, and with regard to each of its six Subcouncil Districts, an Achievement Subcouncil composed of the Learning Community Coordinating Council's members who represent the Subcouncil District.

The Learning Community's financial statements are presented as the primary government and include all the funds and activities for which the Learning Community is financially accountable.

B. Basis of Presentation

Government-Wide Financial Statements. The Government-Wide financial statements include the Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis, which present information about the Learning Community as a whole. The statements present the Learning Community's financial statements as governmental activities. The Learning Community has no business type or fiduciary activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions.

Fund Financial Statements. Fund financial statements report information about the Learning Community's funds. The Learning Community consists of five funds, the General Fund Common Levy Fund, the Special Building Fund Common Levy Fund, the General Fund, the Capital Projects Fund, and the Elementary Learning Centers Fund. Pursuant to Neb. Rev. Stat. § 79-1073 (Cum. Supp. 2016) and § 79-1073.01 (Cum. Supp. 2016), General Fund Common Levy tax receipts and Special Building Fund Common Levy tax receipts are distributed directly by county treasurers to member school districts rather than deposited in a Learning Community depository account and distributed by the Learning Community. The activities of the General Fund Common Levy and Special Building Fund Common Levy funds are not included in the financial statements of the Learning Community because no activity is recorded to the Learning Community's funds.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Separate columns are presented for each major governmental fund in the fund financial statements.

The Learning Community has three governmental funds in the fund financial statements, described below:

General Fund – The General Fund is the operating fund of the Learning Community. It is used to account for all financial resources except those required to be accounted for in other funds.

Capital Projects Fund – The Capital Projects Fund is used to account for taxes levied and other receipts used to acquire or improve sites and/or erect, alter or improve buildings, and to finance facility lease payments and any leasehold improvements.

Elementary Learning Centers Fund – The Elementary Learning Centers Fund is used to account for taxes levied and other receipts used to support elementary learning center program activities.

C. Measurement Focus and Basis of Accounting

The Government-Wide and fund financial statements are presented using a cash basis measurement focus. The reported net position and fund balances are considered a measurement of “available cash and investments.” The activities reported focus on cash received and cash disbursed.

Under the cash basis of accounting, revenues are recognized when cash is received by the Learning Community, and expenditures are recognized when paid.

D. Budget Process

The Learning Community is required by State law to adopt annual operating budgets at the fund level for its five funds. Budgets are prepared and presented on the cash basis of accounting, which is consistent with the basis of accounting used in presenting the basic financial statements and with the requirements of the State of Nebraska Budget Act.

Public hearings are held to obtain taxpayer comments regarding the proposed budget, and the budget is legally adopted by the Learning Community Coordinating Council on or before September 1 through passage of a resolution in accordance with State statutes. Total disbursements cannot legally exceed the adopted budget. Any revisions for increases in the budget must be approved by the Learning Community Coordinating Council following a hearing to obtain taxpayer comments.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

E. Property Taxes and Common Levies

Under Neb. Rev. Stat. § 79-2104 (Cum. Supp. 2016), the Learning Community Coordinating Council has the authority to levy the following property taxes:

- General Fund Common Levy (between \$0.00 and \$0.95 within the \$1.05 levy limit, as noted in Neb. Rev. Stat § 77-3442 (Supp. 2017) per \$100 of assessed valuation). General Fund Common Levy tax receipts are distributed by county treasurers directly to member school districts based upon the amount which the Learning Community Coordinating Council certifies for each member school district in accordance with Neb. Rev. Stat. § 79-1073 (Cum. Supp. 2016).

Effective September 1, 2017, under Legislative Bill 1067 (2016), the General Fund Common Levy tax receipts for member school districts are discontinued.

- Special Building Fund Common Levy (between \$0.00 and \$0.02 within the \$1.05 levy limit as noted in Neb. Rev. Stat. § 77-3442 (Cum. Supp. 2016) per \$100 of assessed valuation). Special Building Fund Common Levy tax receipts are distributed by county treasurers directly to member school districts based upon the amount which the Learning Community Coordinating Council certifies for each member school district in accordance with Neb. Rev. Stat. § 79-1073.01 (Cum. Supp. 2016).

Effective September 1, 2017, under Legislative Bill 1067 (2016), the levy authority for the Special Building Common Levy for member school districts (between \$0.00 and \$0.02 per \$100 of assessed valuation) is discontinued.

- Capital Projects Levy (between \$0.00 and \$0.005, as noted in Neb Rev. Stat § 77-3442 (Supp. 2017), per \$100 of assessed valuation) to be used by the Learning Community for capital projects related to elementary learning centers or new focus schools or programs.
- Elementary Learning Center Levy (between \$0.00 and \$0.015, as noted in Neb Rev. Stat § 77-3442 (Supp. 2017), per \$100 of assessed valuation) for elementary learning center operations, pilot projects and employees.

The property tax requirement resulting from the budgeting process is utilized to establish the tax levy in accordance with State statutes, which attaches as an enforceable lien on the property within the Learning Community as of December 31. Taxes are due as of that date. One-half of the real estate taxes become delinquent after the following April 1, and the second one-half is delinquent after August 1. The combined tax levy of the Learning Community for the year ended August 31, 2017, per \$100 of assessed valuation was as follows:

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

	<u>Levy Rate</u>	<u>Amount</u>
General Fund Common Levy	\$ 0.95	\$ 510,740,208
Special Building Fund Common Levy	0.00	--
Capital Projects Levy	0.00125	672,027
Elementary Learning Center Levy	0.014	7,526,698

Total receipts by county treasurers and distributions to the member school districts under the common levies for the year ended August 31, 2017, are as follows:

	<u>General Fund Common Levy</u>	<u>Special Building Fund Common Levy</u>
Cash held by county treasurers, August 31, 2016	\$ 9,059,272	\$ 125
Total collections, net of 1% county treasurer commission	524,666,870	101
Less distributions to member school districts	(525,807,197)	(350)
Cash held by county treasurers, August 31, 2017	<u>\$ 7,918,945</u>	<u>\$ (124)</u>

F. Cash and Cash Equivalents

The Learning Community's cash and cash equivalents are considered to be cash and short-term investments with original maturities of three months or less from the date of acquisition.

G. Net Position

Net position of the Learning Community is classified in two components:

- *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, contributors or laws or regulations external to the Learning Community.
- *Unrestricted net position* is remaining net position that does not meet the definition of *restricted*.

H. Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – This component of fund balance consists of amounts that are not in a spendable form or are required to be maintained intact. At August 31, 2017, the Learning Community had no nonspendable fund balances.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Restricted – This component of fund balance consists of amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers. At August 31, 2017, the Learning Community had restricted fund balances of \$5,445,669.

Committed – This component of fund balance consist of amounts that can be used only for the specific purposes determined by a formal action by the Learning Community Coordinating Council. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally. At August 31, 2017, the Learning Community had no committed fund balances.

Assigned – This component of fund balance consists of amounts intended to be used by the Learning Community for specific purposes as intended by the Learning Community Coordinating Council. At August 31, 2017, the Learning Community had no assigned fund balances.

Unassigned – This component of fund balance is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

The Learning Community first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted resources are available.

I. Use of Estimates

The preparation of financial statements in conformity with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

J. Subsequent Events

The Learning Community considered events occurring through May 8, 2018, for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **Deposits**

Neb. Rev. Stat. § 77-2341 (Reissue 2009) provides that the Learning Community Coordinating Council may invest in the following:

[C]ertificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made.

Deposits

As of August 31, 2017, the carrying amount of the Learning Community's deposits was \$5,466,276, and the bank balance was \$5,855,060. The deposits were fully collateralized at August 31, 2017.

Credit Risk

Custodial credit risk is the risk that, in event of a bank failure, the Learning Community's deposits may not be returned. The Learning Community does not have a formal deposit policy for custodial credit risk beyond requirements set forth by the State statutes. At August 31, 2017, the Learning Community has no deposits exposed to custodial credit risk.

3. **Funds Held by County Treasurer**

Funds in the amount of \$271,428, \$79,764, and \$2,573 were held by the Douglas, Sarpy, and Washington County Treasurers, respectively, for the Elementary Learning Centers Fund and the Capital Projects Fund of the Learning Community as of August 31, 2017. These amounts are remitted to the Learning Community subsequent to year end.

4. **Operating Lease Commitments**

The Learning Community leases office space under various operating lease agreements that have non-cancelable lease terms in excess of one year. Rental expenditures relating to these leases for the year ending August 31, 2017, amounted to \$708,880.

The following is a schedule by year of future minimum lease payments under operating leases as of August 31, 2017, that have initial or remaining lease terms in excess of one year:

<u>Year Ended August 31,</u>	<u>Amount</u>
2018	\$ 683,700
2019	685,918
2020	720,670
2021	729,476
2022	731,831
2023-2025	1,447,908

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. Tax Abatements

Tax abatements are a reduction in tax revenues that result from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled, and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Property tax revenues of the Learning Community were reduced by the following amounts for the year ended August 31, 2017, under agreements entered into by the following entities:

<u>Entity</u>	<u>Tax Abatement Program</u>	<u>Amount of Tax Abated</u>
City of Omaha	Tax Increment Financing	\$ 235,006
City of Bellevue	Tax Increment Financing	13,911

Under the General Fund Common Levy, property tax revenues of the member school districts were reduced by \$15,506,300 for the year ended August 31, 2017, under Tax Increment Financing agreements entered into by various political subdivisions within the boundaries of the Learning Community in Douglas, Sarpy, and Washington Counties, Nebraska.

6. Contingencies

The Learning Community is exposed to various risks of loss related to torts; theft; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Learning Community carries commercial insurance for risks of loss including workers' compensation. The Learning Community assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage since its inception in January 2009. Significant coverage includes the following:

	<u>Maximum Coverage</u>
General Liability Claim	\$ 2,000,000
Workers' Compensation Claim	\$ 500,000
Crime/Employee Dishonesty Claim	\$ 1,000,000
Auto Claim	\$ 1,000,000
Umbrella Policy	\$ 4,000,000
School Leader Risk Protector	\$ 3,000,000

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Concluded)

7. Subsequent Events

The passage of Legislative Bill 1067 (2016), which was signed into law on April 20, 2016, brings about the following changes for the Learning Community for the 2017/2018 fiscal year as follows:

- Beginning September 1, 2017, the General Fund Common Levy (between \$0.00 and \$0.95 within the \$1.05 levy limit per \$100 of assessed valuation) tax receipts for member school districts will be discontinued. Additionally, levy authority for the Special Building Fund Common Levy for member school districts (between \$0.00 and \$0.02 per \$100 of assessed valuation) is discontinued.
- Effective for the 2017-2018 school year, all learning community school districts will return to the option enrollment program established pursuant to Neb. Rev. Stat. § 79-234 (Cum. Supp. 2016). A student enrolled in a learning community school district school for any part of school year 2016-2017 (unless having graduated or been expelled) as an open enrollment student pursuant to Neb. Rev. Stat. § 79-2110 (Cum. Supp. 2016) will continue as an open enrollment student until departure from said school building. Effective for the 2017-2018 school year, therefore, the Learning Community will no longer be involved in the administration of an open enrollment program.
- As administered by the Nebraska Department of Education, transition aid will be payable for school fiscal years 2017-2018 and 2018-2019.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

**Other Information –
Budgetary Comparison Schedule – General Fund
For the Year Ended August 31, 2017**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
RECEIPTS				
State appropriations	\$ 500,000	500,000	500,000	--
Investment earnings	1,500	1,500	639	(861)
Total receipts	<u>501,500</u>	<u>501,500</u>	<u>500,639</u>	<u>(861)</u>
DISBURSEMENTS				
Diversity	--	--	5,450	(5,450)
Coordinating Council Administration	25,100	25,100	56,106	(31,006)
	511,400	511,400	407,275	104,125
Total disbursements	<u>536,500</u>	<u>536,500</u>	<u>468,831</u>	<u>67,669</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(35,000)	(35,000)	31,808	66,808
FUND BALANCE, BEGINNING OF YEAR	<u>417,342</u>	<u>417,342</u>	<u>420,620</u>	<u>3,278</u>
FUND BALANCE, END OF YEAR	<u>\$ 382,342</u>	<u>382,342</u>	<u>452,428</u>	<u>70,086</u>

The accompanying notes are an integral part of this schedule.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

**Other Information –
Budgetary Comparison Schedule – Elementary Learning Centers Fund
For the Year Ended August 31, 2017**

	<u>BUDGETED AMOUNTS</u>			VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	
RECEIPTS				
Property and other taxes	\$ 7,451,431	7,451,431	7,519,296	67,865
State appropriations	718,459	718,459	689,720	(28,739)
Investment earnings	5,250	5,250	1,424	(3,826)
Total receipts	<u>8,175,140</u>	<u>8,175,140</u>	<u>8,210,440</u>	<u>35,300</u>
DISBURSEMENTS				
Elementary learning centers	<u>8,557,983</u>	<u>8,557,983</u>	<u>9,450,235</u>	<u>(892,252)</u>
Total disbursements	<u>8,557,983</u>	<u>8,557,983</u>	<u>9,450,235</u>	<u>(892,252)</u>
DEFICIENCY OF RECEIPTS OVER DISBURSEMENTS	(382,843)	(382,843)	(1,239,795)	(896,952)
FUND BALANCE, BEGINNING OF YEAR	<u>5,443,109</u>	<u>5,443,109</u>	<u>5,857,858</u>	<u>414,749</u>
FUND BALANCE, END OF YEAR	<u>\$ 5,060,266</u>	<u>5,060,266</u>	<u>4,618,063</u>	<u>(442,203)</u>

The accompanying notes are an integral part of this schedule.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO OTHER INFORMATION

For the Year Ended August 31, 2017

BUDGETARY COMPARISON SCHEDULE

The Learning Community has provided budgetary comparison schedules for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules include the original budget and final budget amounts. The original budget is the first complete appropriated budget adjusted by reserves, transfers, and other legally authorized changes before the beginning of the fiscal year. The original budget would also include amounts automatically carried over from prior years when required by law. The final budget is the original budget adjusted by all reserves, transfers, and other legally authorized changes applicable to the fiscal year as approved by the Learning Community Coordinating Council or otherwise legally authorized.

The Learning Community is required by State law to adopt annual operating budgets at the fund level for its five funds. Budgets are prepared and presented on the cash basis of accounting, which is consistent with the basis of accounting used in presenting the basic financial statements and with the requirements of the State of Nebraska Budget Act.

Public hearings are held to obtain taxpayer comments regarding the proposed budget, and the budget is legally adopted by the Learning Community Coordinating Council on or before September 1 through passage of a resolution in accordance with State statutes. Total disbursements cannot legally exceed the adopted budget. Any revisions for increases in the budget must be approved by the Learning Community Coordinating Council following a hearing to obtain taxpayer comments. During the year ended August 31, 2017, actual disbursements exceeded budgeted disbursements in the legally adopted budget of the Elementary Learning Centers Fund.



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LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES
**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

Learning Community Coordinating Council
Learning Community of Douglas and Sarpy Counties
Omaha, Nebraska

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 each major fund of the Learning Community of Douglas and Sarpy Counties (Learning Community) as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Learning Community's basic financial statements, and have issued our report thereon dated May 8, 2018. The report notes that 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 the Learning Community'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 the Learning Community's internal control. Accordingly, we do not express an opinion on the effectiveness of the Learning Community'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 the Learning Community's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Additional Items

We noted certain additional items that we reported to management of the Learning Community as identified in the Comments Section of this report.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Learning Community's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mark Avery, CPA
Assistant Deputy Auditor

May 8, 2018