

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 15
SEPTEMBER 1, 2017, THROUGH AUGUST 31, 2018**

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the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
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Issued on December 10, 2018

EDUCATIONAL SERVICE UNIT NO. 15

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EDUCATIONAL SERVICE UNIT NO. 15

KEY OFFICIALS AND CONTACT INFORMATION

At August 31, 2018

Board Members

| Name | Title |
|-----------------|----------------|
| Kate Repass | President |
| Allison Sandman | Vice President |
| Cheri Burke | Secretary |
| John Metzger | Board Member |
| Don Remington | Board Member |
| David Jibben | Board Member |
| Jesse Stevens | Board Member |
| Dennis Chipman | Board Member |
| Warren Everts | Board Member |
| Jason Loop | Board Member |

Educational Service Unit No. 15 Executive Management

| Name | Title |
|----------------|------------------|
| Paul Calvert | Administrator |
| Cindy McCorkle | Business Manager |

Educational Service Unit No. 15
344 Main Street
P.O. Box 398
Trenton, NE 69044
308-334-516



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EDUCATIONAL SERVICE UNIT NO. 15

INDEPENDENT AUDITOR'S REPORT

Educational Service Unit No. 15 Board
Trenton, Nebraska

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and the major fund of Educational Service Unit No. 15 (ESU No. 15), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise ESU No. 15'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 modified cash basis of accounting described in Note 1. This includes determining that the modified 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 ESU No. 15'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. 15'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and the major fund of ESU No. 15 as of August 31, 2018, and the respective changes in modified cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Emphasis of Matters – 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 modified 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole, which collectively comprise ESU No. 15's basic financial statements. The Budgetary Comparison Schedule – Budget and Actual – General Fund – Modified Cash Basis, on pages 13-17, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budgetary Comparison Schedule – Budget and Actual – General Fund – Modified Cash Basis, pages 13-17, is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018, on our consideration of ESU No. 15's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESU No. 15's internal control over financial reporting and compliance.



Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

November 27, 2018

EDUCATIONAL SERVICE UNIT NO. 15
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
August 31, 2018

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Cash and Cash Equivalents (Note 1.D) | \$ 2,653,940 |
| Cash at County Treasurer | 187,294 |
| TOTAL ASSETS | \$ 2,841,234 |
| LIABILITY | |
| Due to Employees | \$ 6,561 |
| NET POSITION | |
| Unrestricted | 2,834,673 |
| TOTAL LIABILITY AND NET POSITION | \$ 2,841,234 |

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

EDUCATIONAL SERVICE UNIT NO. 15
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended August 31, 2018

| Functions: | Cash Disbursements | Program Cash Receipts | | Net (Disbursement) Receipts and Changes in Net Position |
|---------------------------------------|-----------------------|---|--|--|
| | | Fees, Fines, and Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| Instruction | \$ (1,330,450) | \$ 1,334,364 | \$ - | \$ 3,914 |
| Support Services - Pupils | (103,423) | - | - | (103,423) |
| Staff Support | (342,686) | - | - | (342,686) |
| Maintenance and Operation of Building | (35,492) | - | - | (35,492) |
| General Administration | (383,744) | - | - | (383,744) |
| Federal Programs | (529,407) | - | 747,336 | 217,929 |
| Core Services | (20,709) | - | - | (20,709) |
| Technology Infrastructure | (195,768) | - | - | (195,768) |
| Total Governmental Activities | \$ (2,941,679) | \$ 1,334,364 | \$ 747,336 | (859,979) |

General Receipts:

| | |
|-------------------------------|------------------|
| Property Taxes | 906,200 |
| State Aid | 61,300 |
| Interest Income | 13,812 |
| Miscellaneous | 47,128 |
| Total General Receipts | 1,028,440 |

| | |
|----------------------------------|---------------------|
| Increase in Net Position | 168,461 |
| Net Position - Beginning of year | 2,666,212 |
| Net Position - End of year | \$ 2,834,673 |

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

EDUCATIONAL SERVICE UNIT NO. 15
**STATEMENT OF MODIFIED CASH BASIS ASSETS, LIABILITIES, AND
 FUND BALANCE - GENERAL FUND**
 August 31, 2018

| | General Fund |
|---|--------------------|
| ASSETS | |
| Cash and Cash Equivalents (Note 1.D) | \$2,653,940 |
| Cash at County Treasurer | 187,294 |
| TOTAL ASSETS | \$2,841,234 |
| LIABILITY | |
| Due to Employees | \$ 6,561 |
| FUND BALANCE | |
| Unassigned | 2,834,673 |
| TOTAL MODIFIED CASH BASIS FUND BALANCE AND LIABILITY | \$2,841,234 |

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

EDUCATIONAL SERVICE UNIT NO. 15
**STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GENERAL FUND**
For the Year Ended August 31, 2018

| | General Fund |
|---|--------------|
| RECEIPTS | |
| Property Taxes | \$ 906,200 |
| State Aid | 61,300 |
| Federal Aid | 747,336 |
| Service Contracts | 1,334,364 |
| Interest Income | 13,812 |
| Miscellaneous | 47,128 |
| TOTAL RECEIPTS | 3,110,140 |
| DISBURSEMENTS | |
| Instruction | 1,330,450 |
| Support Services - Pupils | 103,423 |
| Staff Support | 342,686 |
| General Administration | 383,744 |
| Maintenance and Operation of Building | 35,492 |
| Federal Programs | 529,407 |
| Core Services | 20,709 |
| Technology Infrastructure | 195,768 |
| TOTAL DISBURSEMENTS | 2,941,679 |
| EXCESS OF RECEIPTS OVER DISBURSEMENTS | 168,461 |
| MODIFIED CASH BASIS FUND BALANCE - BEGINNING | 2,666,212 |
| MODIFIED CASH BASIS FUND BALANCE - ENDING | \$ 2,834,673 |

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

EDUCATIONAL SERVICE UNIT NO. 15

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended August 31, 2018

1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies utilized in the accounting system of Educational Service Unit No. 15 (ESU No. 15).

A. Reporting Entity

ESU No. 15 is a governmental entity established under and governed by the laws of the State of Nebraska (State) and administrative regulations of the Nebraska Department of Education. ESU No. 15 serves as an educational service provider to its member school districts and is managed by Board members who are elected on a political ballot for four-year terms. As a political subdivision of the State, ESU No. 15 is exempt from State and Federal income taxes. The financial statements include all funds of ESU No. 15. ESU No. 15 has also considered all potential component units for which it is financially accountable, as well as other organizations that are either fiscally dependent on ESU No. 15 or maintain a significant relationship with ESU No. 15, such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of ESU No. 15 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. 15.

As required by Generally Accepted Accounting Principles (GAAP), these financial statements present ESU No. 15 (the primary government). No component units were identified.

B. Basis of Presentation

Government-Wide Financial Statements. The Statement of Net Position – Modified Cash Basis and Statement of Activities – Modified Cash Basis display information about the activities of ESU No. 15 and is in the format of government-wide statements, as required by GASB Statement Number 34. These statements include all the financial activities of ESU No. 15. Internal activities in these statements were eliminated. Governmental Generally Accepted Accounting Principles (GAAP) requires internal activity to be eliminated to minimize double counting. ESU No. 15 reports governmental activities only. Governmental activities are generally financed through taxes, intergovernmental receipts, and other nonexchange transactions.

The Statement of Activities – Modified Cash Basis demonstrates the degree to which the direct disbursement 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 the following: 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. All other receipts not properly included among program receipts are reported instead as general receipts. ESU No. 15 reported the following general receipts: Property Taxes, State Aid, Interest Income, and Miscellaneous Receipts.

EDUCATIONAL SERVICE UNIT NO. 15

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Fund Financial Statements. The fund financial statements provide information about ESU No. 15's funds. GAAP requires separate statements by fund category – governmental, proprietary, and fiduciary. ESU No. 15 has only the governmental fund category. The ESU No. 15 Board is the highest level of decision-making authority and has the authority, by resolution, to establish, modify, or rescind the commitment or assignment of a fund balance to a specific purpose. When resources for a specific purpose are available in more than one fund balance classification, ESU No. 15's policy is to use resources in the following order: restricted, committed, assigned, and unassigned. The emphasis of fund financial statements is on the major governmental fund. ESU No. 15 reports the following major governmental fund:

General Fund. This is ESU No. 15's primary operating fund. It accounts for financial resources of the general government.

ESU No. 15 designates fund balances as follows:

Unassigned. This portion of the General Fund is not restricted, committed, or assigned for a specific purpose.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of ESU No. 15 are maintained and the government-wide financial statements were reported on the modified basis of cash receipts and disbursements, which is in conformity with the accounting practices prescribed or permitted by the State of Nebraska Department of Education. As such, the measurement focus includes only those assets, liabilities, and fund balances arising from cash transactions on the Statement of Net Position – Modified Cash Basis and the Statement of Activities – Modified Cash Basis. ESU No. 15's liability is for funds owed to employees as part of ESU No. 15's cafeteria plan. Receipts are recognized when received, and disbursements are recognized when warrants are paid. This differs from governmental GAAP, which requires the government-wide financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting, receipts are recorded when earned, and disbursements are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements were also reported on the modified cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used, as described above. This differs from governmental GAAP, which requires governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, receipts are recognized as soon as they are both measurable and available. Receipts are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Disbursements are generally recorded when a liability is incurred, as under accrual accounting. However, disbursements related to compensated absences and claims are recorded only when payment is due.

EDUCATIONAL SERVICE UNIT NO. 15

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Taxes and other receipts collected by the county treasurers are included in receipts of ESU No. 15 in the year collected by the counties, and ESU No. 15 funds held by the county treasurers at year-end are included as assets of ESU No. 15. This is in accordance with the requirements of the State of Nebraska Department of Education.

D. Assets and Net Position

Cash and Cash Equivalents. ESU No. 15's cash and cash equivalents are considered to be cash on hand and demand deposits.

Capital Assets. Under the modified cash receipts and disbursements basis of accounting, capital assets are not recorded as assets on the government-wide or fund financial statements, and depreciation is not recognized. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets were not recorded on the modified cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Compensated Absences. Employees of ESU No. 15 earn paid sick days, vacation days, personal days, and other time off depending on the length of service and position. ESU No. 15 maintains records of cumulative days of sick, vacation, and personal leave. Sick leave is cumulative for up to 60 days. Vacation leave is cumulative for up to 40 days. Personal leave is cumulative for up to five days. ESU No. 15's policy is that employees are not paid for unused paid leave either during or upon ending of employment except as may be provided in the negotiated agreement with the designated association of certified employees or in written employment contracts approved by the Board, and except as required by law.

Budgetary Process and Property Taxes. ESU No. 15 is required by State law to hold public hearings and adopt annual budgets for all funds on the cash basis of accounting. Total disbursements for each fund may not exceed the total budgeted disbursements. The General Fund is also subject to a total non-special education disbursement limit. Appropriations for disbursements lapse at year-end. Any revisions to the adopted budget of total disbursements to any fund require a public hearing. State statutes of the Nebraska Budget Act provide the prescribed budget practices and procedures that governing bodies are required to follow. The amounts that may be budgeted for certain specific funds are subject to various disbursements and/or tax levy limitations.

The property tax requirement resulting from the budget process is utilized to establish the tax levy in accordance with State statutes, which tax levy attaches as an enforceable lien on property within the District as of January 1. Taxes are due as of that date. For counties with a population of less than one hundred thousand, one-half of the real estate taxes due January 1 become delinquent after the following May 1, with the second half becoming delinquent after September 1.

EDUCATIONAL SERVICE UNIT NO. 15

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. Deposits and Investments

The following deposits – including checking accounts, certificates of deposit, and money market accounts – are all classified as cash or cash and cash equivalents on the financial statements.

At year end, ESU No. 15's carrying amount of deposits was \$2,653,940. The bank balances for all ESU No. 15 funds totaled \$2,744,633. For purposes of classifying categories of custodial risk, the bank balances of ESU No. 15's deposits, as of August 31, 2018, were not entirely insured or collateralized with securities held in ESU No. 15's name in the form of joint safekeeping receipts. ESU No. 15 lacked \$91,711 of sufficient collateral at year end. State law requires all funds in depositories to be fully insured or collateralized, and ESU No. 15's policy is to require depositories to provide pledged securities to cover deposits in excess of FDIC limits.

The County did not have sufficient collateral securities to protect deposits at all times during the fiscal year.

3. Retirement System

The Retirement System for Nebraska Schools (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, Cum. Supp. 2016, Supp. 2017) 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. 15 employees contribute 9.78% of their total compensation. In addition, ESU No. 15 contributes an amount equal to 101% of the employee's contribution. The contribution rates are established by Neb. Rev. Stat. § 79-958 (Supp. 2017) and may be amended through legislative action. The employee's and employer's contributions are kept in separate accounts. The employee's account is fully vested. The employee is fully vested after five years of creditable service.

For the year ended August 31, 2018, ESU No. 15 employees contributed \$154,071, and ESU No. 15 contributed \$155,612.

4. Risk Management

ESU No. 15 is exposed to various risks of loss related to the following: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. ESU No. 15 is a member of All Lines Interlocal Cooperative Aggregate Pool (ALICAP), a public entity risk pool currently operating as a common risk management and insurance program for over 150 school districts and educational service units throughout Nebraska.

EDUCATIONAL SERVICE UNIT NO. 15

NOTES TO FINANCIAL STATEMENTS

(Concluded)

4. Risk Management (Concluded)

ESU No. 15 pays an annual deposit premium, as calculated by the administrator of the pool. The premium is based on the losses and exposures of each entity and the entire pool. If the pool becomes insolvent or otherwise unable to discharge its legal liabilities and obligations, ESU No. 15 may be assessed for an additional contribution. Each county remains liable for such assessments, regardless of such county's withdrawal from participation or the termination of the agreement, as well as for liabilities of the pool incurred during such county's period of membership.

The agreement with ALICAP requires the risk pool to provide coverage for up to a maximum amount per occurrence and purchase commercial insurance for claims in excess of coverage provided. In the event of a liability exceeding the commercial insurance, ESU No. 15 would be responsible for funding the excess amount.

| | Maximum Coverage |
|-----------------------------|--------------------------------------|
| General Liability Claim | \$ 5,000,000 |
| Workers' Compensation Claim | Statutory Limits |
| Property Damage Claim | Insured Value at Replacement Cost |

ESU No. 15 has not paid any additional assessments to the pool or paid out any amounts that exceeded coverage provided by the pool in the last three fiscal years. There were no significant reductions in insurance coverage from the prior year coverage.

5. Operating Leases

ESU No. 15 leases copiers under operating leases. Operating lease payments for the year ended August 31, 2018, totaled \$4,012. The future minimum annual lease payments for operating leases, as of August 31, 2018, are as follows:

| <u>Year</u> | <u>Governmental Activities</u> |
|-------------|------------------------------------|
| 2019 | \$ 3,396 |
| 2020 | 3,704 |
| 2021 | 2,160 |
| Total | <u>\$ 9,260</u> |

EDUCATIONAL SERVICE UNIT NO. 15
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
GENERAL FUND - MODIFIED CASH BASIS

For the Year Ended August 31, 2018

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|-------------------|-------------------|---|
| RECEIPTS | | | | |
| Property Taxes | \$ 907,100 | \$ 907,100 | \$ 906,200 | \$ (900) |
| State Aid | 65,000 | 65,000 | 61,300 | (3,700) |
| Federal Aid | 673,500 | 673,500 | 747,336 | 73,836 |
| Service Contracts | 1,668,400 | 1,668,400 | 1,334,364 | (334,036) |
| Interest Income | 3,000 | 3,000 | 13,812 | 10,812 |
| Other | 52,000 | 52,000 | 47,128 | (4,872) |
| TOTAL RECEIPTS | <u>3,369,000</u> | <u>3,369,000</u> | <u>3,110,140</u> | <u>(258,860)</u> |
| DISBURSEMENTS | | | | |
| Instruction | | | | |
| Southwest Nebraska Distance Learning Consortium | | | | |
| Salaries | \$ 26,000 | \$ 26,000 | \$ 20,958 | \$ 5,042 |
| Employee Benefits | 8,500 | 8,500 | 6,699 | 1,801 |
| Other Expenses | 500 | 500 | 97 | 403 |
| | <u>\$ 35,000</u> | <u>\$ 35,000</u> | <u>\$ 27,754</u> | <u>\$ 7,246</u> |
| Alternative Education - McCook | | | | |
| Salaries | \$ 71,700 | \$ 71,700 | \$ 63,339 | \$ 8,361 |
| Employee Benefits | 42,000 | 42,000 | 33,196 | 8,804 |
| Purchased Services | 100 | 100 | 11 | 89 |
| Supplies and Materials | 20,000 | 20,000 | 2,501 | 17,499 |
| Other Expenses | 500 | 500 | 182 | 318 |
| | <u>\$ 134,300</u> | <u>\$ 134,300</u> | <u>\$ 99,229</u> | <u>\$ 35,071</u> |
| Early Childhood | | | | |
| Salaries | \$ 163,000 | \$ 163,000 | \$ 156,245 | \$ 6,755 |
| Employee Benefits | 77,500 | 77,500 | 69,285 | 8,215 |
| Supplies and Materials | 1,100 | 1,100 | 911 | 189 |
| Other Expenses | 25,500 | 25,500 | 16,561 | 8,939 |
| | <u>\$ 267,100</u> | <u>\$ 267,100</u> | <u>\$ 243,002</u> | <u>\$ 24,098</u> |
| Summer Speech | | | | |
| Salaries | \$ 10,000 | \$ 10,000 | \$ 8,353 | \$ 1,647 |
| Employee Benefits | 2,500 | 2,500 | 363 | 2,137 |
| Other Expenses | 1,000 | 1,000 | 2,199 | (1,199) |
| | <u>\$ 13,500</u> | <u>\$ 13,500</u> | <u>\$ 10,915</u> | <u>\$ 2,585</u> |

(Continued)

EDUCATIONAL SERVICE UNIT NO. 15
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
GENERAL FUND - MODIFIED CASH BASIS

For the Year Ended August 31, 2018

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------------|---------------------|---------------------|-------------------|---|
| DISBURSEMENTS (Continued) | | | | |
| Special Education | | | | |
| Salaries | \$ 672,000 | \$ 672,000 | \$ 524,144 | \$ 147,856 |
| Employee Benefits | 357,000 | 357,000 | 215,641 | 141,359 |
| Purchased Services | 140,000 | 140,000 | 133,911 | 6,089 |
| Supplies and Materials | 52,500 | 52,500 | 28,108 | 24,392 |
| Other Expenses | 70,600 | 70,600 | 47,746 | 22,854 |
| | <u>\$ 1,292,100</u> | <u>\$ 1,292,100</u> | <u>\$ 949,550</u> | <u>\$ 342,550</u> |
| Distance Learning | | | | |
| Purchased Services | \$ 170,000 | \$ 170,000 | \$ - | \$ 170,000 |
| | <u>\$ 170,000</u> | <u>\$ 170,000</u> | <u>\$ -</u> | <u>\$ 170,000</u> |
| Support Services - Pupils | | | | |
| Service Coordination | | | | |
| Salaries | \$ 69,000 | \$ 69,000 | \$ 61,335 | \$ 7,665 |
| Employee Benefits | 38,000 | 38,000 | 35,413 | 2,587 |
| Purchased Services | 2,500 | 2,500 | 953 | 1,547 |
| Supplies and Materials | 2,000 | 2,000 | - | 2,000 |
| Other Expenses | 6,000 | 6,000 | 5,722 | 278 |
| | <u>\$ 117,500</u> | <u>\$ 117,500</u> | <u>\$ 103,423</u> | <u>\$ 14,077</u> |
| Staff Support | | | | |
| Staff Development | | | | |
| Salaries | \$ 192,000 | \$ 192,000 | \$ 179,438 | \$ 12,562 |
| Employee Benefits | 95,000 | 95,000 | 77,867 | 17,133 |
| Purchased Services | 35,000 | 35,000 | 22,348 | 12,652 |
| Supplies and Materials | 10,000 | 10,000 | 2,486 | 7,514 |
| Capital Outlay | 5,000 | 5,000 | - | 5,000 |
| Other Expenses | 25,000 | 25,000 | 18,712 | 6,288 |
| | <u>\$ 362,000</u> | <u>\$ 362,000</u> | <u>\$ 300,851</u> | <u>\$ 61,149</u> |
| Media & Technology | | | | |
| Salaries | \$ 35,000 | \$ 35,000 | \$ 29,911 | \$ 5,089 |
| Employee Benefits | 15,500 | 15,500 | 11,508 | 3,992 |
| Purchased Services | 9,800 | 9,800 | 416 | 9,384 |
| Supplies and Materials | 5,000 | 5,000 | - | 5,000 |
| Other Expenses | 500 | 500 | - | 500 |
| | <u>\$ 65,800</u> | <u>\$ 65,800</u> | <u>\$ 41,835</u> | <u>\$ 23,965</u> |

(Continued)

EDUCATIONAL SERVICE UNIT NO. 15
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
GENERAL FUND - MODIFIED CASH BASIS

For the Year Ended August 31, 2018

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|-------------------|-------------------|---|
| DISBURSEMENTS (Continued) | | | | |
| General Administration | | | | |
| Board | | | | |
| Salaries | \$ 10,000 | \$ 10,000 | \$ 5,264 | \$ 4,736 |
| Employee Benefits | 7,000 | 7,000 | 4,049 | 2,951 |
| Purchased Services | 85,000 | 85,000 | 40,132 | 44,868 |
| Supplies and Materials | 5,000 | 5,000 | 488 | 4,512 |
| Other Expenses | 35,500 | 35,500 | 11,530 | 23,970 |
| | <u>\$ 142,500</u> | <u>\$ 142,500</u> | <u>\$ 61,463</u> | <u>\$ 81,037</u> |
| Administration | | | | |
| Salaries | \$ 209,000 | \$ 209,000 | \$ 155,999 | \$ 53,001 |
| Employee Benefits | 73,000 | 73,000 | 51,986 | 21,014 |
| Purchased Services | 81,000 | 81,000 | 71,698 | 9,302 |
| Supplies and Materials | 10,000 | 10,000 | 6,254 | 3,746 |
| Capital Outlay | 5,000 | 5,000 | 3,362 | 1,638 |
| Other Expenses | 85,000 | 85,000 | 32,982 | 52,018 |
| | <u>\$ 463,000</u> | <u>\$ 463,000</u> | <u>\$ 322,281</u> | <u>\$ 140,719</u> |
| Maintenance and Operation of Building | | | | |
| Maintenance and Operation of Building | | | | |
| Salaries | \$ 5,000 | \$ 5,000 | \$ 3,283 | \$ 1,717 |
| Employee Benefits | 1,000 | 1,000 | 251 | 749 |
| Purchased Services | 125,000 | 125,000 | 31,038 | 93,962 |
| Supplies and Materials | 1,000 | 1,000 | 920 | 80 |
| Capital Outlay | 108,000 | 108,000 | - | 108,000 |
| | <u>\$ 240,000</u> | <u>\$ 240,000</u> | <u>\$ 35,492</u> | <u>\$ 204,508</u> |
| Federal Programs | | | | |
| Title III Grant | | | | |
| Salaries | \$ 15,000 | \$ 15,000 | \$ 12,721 | \$ 2,279 |
| Employee Benefits | 7,000 | 7,000 | 4,550 | 2,450 |
| Purchased Services | 15,500 | 15,500 | 320 | 15,180 |
| Supplies and Materials | 10,000 | 10,000 | 3,991 | 6,009 |
| Other Expenses | 10,000 | 10,000 | 4,378 | 5,622 |
| | <u>\$ 57,500</u> | <u>\$ 57,500</u> | <u>\$ 25,960</u> | <u>\$ 31,540</u> |
| Planning Region Team Grant | | | | |
| Salaries | \$ - | \$ - | \$ 925 | \$ (925) |
| Employee Benefits | - | - | 453 | (453) |
| Purchased Services | 6,000 | 6,000 | 3,408 | 2,592 |
| Supplies and Materials | 4,000 | 4,000 | 2,531 | 1,469 |
| Other Expenses | 3,000 | 3,000 | 3,529 | (529) |
| | <u>\$ 13,000</u> | <u>\$ 13,000</u> | <u>\$ 10,846</u> | <u>\$ 2,154</u> |

EDUCATIONAL SERVICE UNIT NO. 15
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
GENERAL FUND - MODIFIED CASH BASIS

For the Year Ended August 31, 2018

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------------|--------------------|-------------------|-------------------|---|
| DISBURSEMENTS (Continued) | | | | |
| RDA DTIP Grant | | | | |
| Salaries | \$ 31,000 | \$ 31,000 | \$ 21,051 | \$ 9,949 |
| Employee Benefits | 19,500 | 19,500 | 10,649 | 8,851 |
| Purchased Services | 20,000 | 20,000 | 17,850 | 2,150 |
| | <u>\$ 70,500</u> | <u>\$ 70,500</u> | <u>\$ 49,550</u> | <u>\$ 20,950</u> |
| Migrant Grant | | | | |
| Salaries | \$ 277,000 | \$ 277,000 | \$ 223,248 | \$ 53,752 |
| Employee Benefits | 104,500 | 104,500 | 94,316 | 10,184 |
| Purchased Services | 45,200 | 45,200 | 16,399 | 28,801 |
| Supplies and Materials | 13,500 | 13,500 | 12,085 | 1,415 |
| Capital Outlay | 5,000 | 5,000 | 3,625 | 1,375 |
| Other Expenses | 60,500 | 60,500 | 54,657 | 5,843 |
| Fund Balance - Ending | <u>\$ 505,700</u> | <u>\$ 505,700</u> | <u>\$ 404,330</u> | <u>\$ 101,370</u> |
| Medicaid | | | | |
| Salaries | \$ 3,000 | \$ 3,000 | \$ 1,755 | \$ 1,245 |
| Employee Benefits | 2,500 | 2,500 | 1,349 | 1,151 |
| Supplies and Materials | 3,000 | 3,000 | 2,374 | 626 |
| Fund Balance - Ending | <u>\$ 8,500</u> | <u>\$ 8,500</u> | <u>\$ 5,478</u> | <u>\$ 3,022</u> |
| Carl Perkins | | | | |
| Purchased Services | \$ 15,000 | \$ 15,000 | \$ 7,856 | \$ 7,144 |
| Supplies and Materials | 20,000 | 20,000 | 22,017 | (2,017) |
| Other Expenses | 6,000 | 6,000 | 3,370 | 2,630 |
| Fund Balance - Ending | <u>\$ 41,000</u> | <u>\$ 41,000</u> | <u>\$ 33,243</u> | <u>\$ 7,757</u> |
| Core Services | | | | |
| Coop Purchasing | | | | |
| Salaries | \$ 20,000 | \$ 20,000 | \$ 14,955 | \$ 5,045 |
| Employee Benefits | 9,000 | 9,000 | 5,754 | 3,246 |
| | <u>\$ 29,000</u> | <u>\$ 29,000</u> | <u>\$ 20,709</u> | <u>\$ 8,291</u> |
| Technology Infrastructure | | | | |
| Internet | | | | |
| Salaries | \$ 105,000 | \$ 105,000 | \$ 112,872 | \$ (7,872) |
| Employee Benefits | 57,500 | 57,500 | 46,956 | 10,544 |
| Purchased Services | 10,000 | 10,000 | 6,007 | 3,993 |
| Supplies and Materials | 30,000 | 30,000 | 19,275 | 10,725 |
| Capital Outlay | 15,000 | 15,000 | - | 15,000 |
| Other Expenses | 16,000 | 16,000 | 10,658 | 5,342 |
| | <u>\$ 233,500</u> | <u>\$ 233,500</u> | <u>\$ 195,768</u> | <u>\$ 37,732</u> |

(Continued)

EDUCATIONAL SERVICE UNIT NO. 15
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
GENERAL FUND - MODIFIED CASH BASIS

For the Year Ended August 31, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|---|----------------------------|-------------------------|---------------------|---|
| DISBURSEMENTS (Concluded) | | | | |
| Non-Program | | | | |
| Other Expenses | \$ 500 | \$ 500 | \$ - | \$ 500 |
| | <u>\$ 500</u> | <u>\$ 500</u> | <u>\$ -</u> | <u>\$ 500</u> |
| | | | | |
| TOTAL DISBURSEMENTS | <u>4,262,000</u> | <u>4,262,000</u> | <u>2,941,679</u> | <u>1,320,321</u> |
| | | | | |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS | <u>(893,000)</u> | <u>(893,000)</u> | <u>168,461</u> | <u>1,061,461</u> |
| | | | | |
| Net Change in Fund Balance | (893,000) | (893,000) | 168,461 | 1,061,461 |
| FUND BALANCE - BEGINNING | <u>1,942,991</u> | <u>1,942,991</u> | <u>2,666,212</u> | <u>723,221</u> |
| FUND BALANCE - ENDING | <u>\$ 1,049,991</u> | <u>\$ 1,049,991</u> | <u>\$ 2,834,673</u> | <u>\$ 1,784,682</u> |

(Concluded)



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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EDUCATIONAL SERVICE UNIT NO. 15
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Educational Service Unit No. 15 Board
Trenton, 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 the major fund of Educational Service Unit No. 15 (ESU No. 15), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise ESU No. 15's basic financial statements, and have issued our report thereon dated November 27, 2018. The report notes the financial statements were prepared on the modified basis of cash receipts and disbursements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ESU No. 15'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ESU No. 15's internal control. Accordingly, we do not express an opinion on the effectiveness of ESU No. 15's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of ESU No. 15's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in ESU No. 15's internal control to be a significant deficiency:

- ESU No. 15 lacked a segregation of duties, as one person could handle all aspects of processing a transaction from beginning to end. Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Inadequate segregation of duties could lead to the misappropriation of assets or improper reporting. Due to a limited number of personnel, an adequate segregation of duties may not be possible without additional cost.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ESU No. 15'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*.

ESU No. 15's Response to Findings

ESU No. 15 declined to respond to the finding described above.

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. 15'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. 15's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

November 27, 2018



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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November 27, 2018

Educational Service Unit No. 15 Board
Trenton, Nebraska

Dear Educational Service Unit No. 15 Board:

We have audited the basic financial statements of Educational Service Unit No. 15 (ESU No. 15) for the fiscal year ended August 31, 2018, and have issued our report thereon dated November 27, 2018. In planning and performing our audit of the basic financial statements of ESU No. 15, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of ESU No. 15's compliance with certain provisions of laws, regulations, contracts, and grants.

During our audit, we noted certain matters involving internal control over financial reporting and other operational matters that are presented here. This comment and recommendation is intended to improve the internal control over financial reporting or result in operational efficiencies in the following area:

Segregation of Duties

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a proper segregation of duties, so no one individual is capable of handling all phases of a transaction from beginning to end.

We noted ESU No. 15 lacked a segregation of duties, as one person could handle all aspects of processing a transaction from beginning to end. This person handles cash receipts, manages the accounting records, processes payroll, prepares deposits and checks, and reconciles the bank statements. A lack of segregation of duties increases the risk of possible errors or irregularities. In order to decrease this risk, the ESU No. 15 Administrator reviews and documents his approval of all disbursements, including payroll, prior to payment. In addition, the ESU No. 15 Board reviews a listing of all receipts and checks, is presented with the bank balances as part of the Board Treasurer's Report, which is approved by the Board at the monthly meetings, and signs the checks written for payment. However, due to a limited number of personnel, an adequate segregation of duties may not be possible without additional cost. This was also noted in prior audits.

We recommend ESU No. 15 review this situation. As always, ESU No. 15 must weigh the cost of hiring additional personnel versus the benefit of a proper segregation of duties.

* * * * *

It should be noted this report is critical in nature, as it contains only our comment and recommendation on the area noted for improvement and does not include our observations on any strong features of ESU No. 15.

Draft copies of this report were furnished to ESU No. 15 to provide management with an opportunity to review the report and to respond to the comment and recommendation included in this report. ESU No. 15 declined to respond

This report is intended solely for the information and use of ESU No. 15, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,



Zachary Wells, CPA
Audit Manager