

**AUDIT REPORT
OF THE
EDUCATIONAL SERVICE UNIT
COORDINATING COUNCIL**

SEPTEMBER 1, 2016, THROUGH AUGUST 31, 2017

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on April 24, 2018

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1 - 5
Mission Statement	6
Organizational Chart	7
Key Officials and Agency Contact Information	8
Comments Section	
Summary of Comments	9
Comments and Recommendations	10 - 11
Financial Section	
Independent Auditor's Report	12 - 14
Management's Discussion and Analysis	15 - 20
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position – Cash Basis	21
Statement of Activities – Cash Basis	22
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balance – Governmental Fund	23
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Governmental Fund	24
Notes to the Financial Statements	25 - 33
Other Information:	
Budgetary Comparison Schedule – Budget and Actual – General Fund	34
Notes to the Budgetary Comparison Schedule	35
Combining Schedule of Cash Basis Receipts and Disbursements – General Fund	36
Government Auditing Standards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37 - 38

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

BACKGROUND

The Nebraska Educational Service Unit Coordinating Council (ESUCC) was created in statute to coordinate statewide activities of Nebraska's 17 Educational Service Units (ESUs). The governing body for the ESUCC consists of an administrator representative from each ESU. The ESUCC was created by LB 603 (2007) and officially came into existence according to statute on July 1, 2008. Fiscal year 2008-2009 was the first year of operation for the ESUCC. The duties of the ESUCC are set out at Neb. Rev. Stat §§ 79-1245 to 79-1249 (Reissue 2014, Cum. Supp. 2016). Section 79-1246(1) provides the following:

The Educational Service Unit Coordinating Council shall work toward statewide coordination to provide the most cost-effective services for the students, teachers, and school districts in each educational service unit. The council's duties include, but are not limited to:

- (a) Preparation of strategic plans to assure the cost-efficient and equitable delivery of services across the state;*
- (b) Administration of statewide initiatives and provision of statewide services; and*
- (c) Coordination of distance education.*

Prior to the creation of the ESUCC, the legislature passed LB 1208 (2006), which created the Distance Education Council (DEC). The duties and responsibilities of the DEC were transferred to the ESUCC with the passage of LB 603.

While discussing the formation of the ESUCC, the administrators for the ESUs considered the intent of LB 603. In consultation with legal counsel, policy makers, and various State officials, it was decided that all statewide activities offered in partnership by the ESUs would be placed under the umbrella of the ESUCC. In order to transition to the new structure, the ESUCC established a master services agreement with each ESU. Additionally, fiscal agents for each of the projects were continued in the transition to the ESUCC.

In April 2010, the ESUCC held a planning session and adopted a new organizational chart and administrative structure to manage the statewide projects by September 1, 2010. The new organizational structure organized each of the statewide projects under the administration of a single entity and under management of the ESUCC Executive Director. Much of this transition, including centralizing the accounting, policies, and procedures, was completed during the summer of 2010.

Although complete, this transition continues presently with the review of policies and procedures, as well as the development of strategic plans for each project and the ESUCC as a whole. Additionally, Title 92 NAC 84-003.02A1 provides the following:

The ESU administrator or his or her designee shall participate in two jointly established meetings with representatives of the Department and the ESU Coordinating Council annually to establish the focus and coordination of necessary core services based on priorities and on needs that are identified through the analysis of data.

The Nebraska Department of Education (NDE) and the ESUCC meet annually during October and April of each year to identify collaborative efforts to meet the core services needs of ESUs and school districts.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

BACKGROUND

(Continued)

Overview of Statewide Projects and Activities:

- **ESU Professional Development Organization (ESUPDO):** The ESUPDO serves as a collaborative effort to provide statewide training for ESU employees and key NDE Staff statewide. Professional development is among the core services identified by State statute for ESUs. The ESUPDO consists of five affiliate groups comprised of ESU employees across the 17 ESUs with representation from essential NDE Staff. As the NDE and the ESUCC continue with statewide efforts, alignment with the NDE Strategic Plan, as well as the six tenets of AQuESTT (Accountability for a Quality Education System, Today and Tomorrow), will better define the direction for the ESUPDO. These groups are the following:
 - **Staff Development Affiliate (SDA):** Members are responsible for providing staff development for their school districts and have assisted the NDE's efforts on statewide and local assessment as well as school improvement for Nebraska's school districts.
 - **Technology Assistance Group (TAG):** Members provide assistance to school districts in the dissemination and integration of new educational technologies deployed by school districts. Additionally, TAG members may provide assistance to school districts in the use of new software and computer applications, including statewide assessment. The governance structure within the TAG Affiliate is recommended as part of the Teaching and Learning with Technology (TLT) Affiliate with full implementation beginning 2017-2018.
 - **Network Operations Committee (NOC):** NOC supports the extensive communications network within and among the ESUs and school districts. NOC provides network security and protocols for its districts and ESUs and ensures that the communications network for distance education, internet, email, and internet protocol phones are functioning and secure. Statewide, this group establishes common frameworks and capacities for assisting one another to help ensure the education network functions well.
 - **Instructional Materials Affiliate (I-Mat):** I-Mat consists of media professionals from across the State. It serves the dual role of providing for and assisting school districts in using and implementing the statewide I-Mat digital resources. Originally, I-Mat served to ensure that school districts had access to educational films, videos, and DVDs. Currently, I-Mat is developing plans for digital delivery of library and media resources. This service is among the core services identified by State statute. The governance structure within the I-MAT Affiliate is recommended as part of the Teaching and Learning with Technology (TLT) Affiliate, with full implementation beginning 2017-2018.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

BACKGROUND

(Continued)

- **Teaching and Learning with Technology (TLT):** Between 2015 and 2017, membership for TAG, I-Mat, and Distance Education began a dialogue regarding combined efforts within the three affiliates/projects based upon the fact that 46% of the membership serve in multiple roles. Formalized discussion began during January of 2016 and, as a result of the membership's efforts, the concept of a newly formed affiliate, TLT, evolved. The initial meeting regarding the development of the TLT began with the following stated purpose:

Enhance communication through efficient and effective planning, development and implementation while maintaining autonomy of each affiliate.

The development and implementation of the TLT governance and structure will continue throughout the 2016-17 year, with final approval made by the ESUCC during March of 2017 and full implementation beginning 2017-2018.

- **ESU Special Populations Directors (ESPD):** This affiliate group consists of the special education directors and staff from across the State. It was included in ESUPDO as the need for special education professional development for special education and classroom teachers emerged in the age of standards and assessment, along with the need to develop and share professional development efforts for special education teachers and classroom teachers alike. ESPD is also involved with the NDE in providing leadership for special education training and support.
- **Nebraska ESU Cooperative Purchasing (Coop):** The Coop provides cooperative purchasing services to ESU member schools throughout the State of Nebraska. The service is offered by the ESUCC and Nebraska's 17 ESUs in a joint effort. The ESUCC serves as the governing body for cooperative purchasing.

Per the ESUCC's website (<http://www.esucc.org/COOP-PURCHASING>), the Coop's vision is to "provide compliant, competitive, aggregated bidding and purchasing to control and reduce costs to its members by maximizing efficiency of resources and processes in Nebraska and nationwide."

Additionally, the ESUCC's website provides the following information regarding the Coop:

ESUCC Cooperative Purchasing represents 17 Educational Service Units statewide who in turn service Nebraska school districts with over 300,000 students and is currently in its 5th decade of operation. ESUCC Cooperative Purchasing is authorized to coordinate purchases for public school districts, nonpublic school systems, other ESUs, and other public agencies, including any county, city, village, school district, or agency of the state government, any drainage district, sanitary and improvement district, or other municipal corporation or political subdivision of the State of Nebraska.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

BACKGROUND

(Continued)

- **Distance Education:** Created by LB 1208 (2006), the Distance Education Council began as a State project with ESU 10 serving as the fiscal agent. Coordination of the Distance Education project has since been taken over by the ESUCC, however. In striving to build, improve, and maintain the State's Distance Education network, the ESUCC exercises the powers and duties specified at Neb. Rev. Stat. § 79-1248 (Reissue 2014), as follows:
 - (1) *Providing public access to lists of qualified distance education courses;*
 - (2) *Collecting and providing school schedules for participating educational entities;*
 - (3) *Facilitation of scheduling for qualified distance education courses;*
 - (4) *Brokering of qualified distance education courses to be purchased by educational entities;*
 - (5) *Assessment of distance education needs and evaluation of distance education services;*
 - (6) *Compliance with technical standards as set forth by the Nebraska Information Technology Commission and academic standards as set forth by the State Department of Education related to distance education;*
 - (7) *Establishment of a system for scheduling courses brokered by the council and for choosing receiving educational entities when the demand for a course exceeds the capacity as determined by either the technology available or the course provider;*
 - (8) *Administration of learning management systems, either through the staff of the council or by delegation to an appropriate educational entity, with the funding for such systems provided by participating educational entities; and*
 - (9) *Coordination with educational service units and postsecondary educational institutions to provide assistance for instructional design for both two-way interactive video distance education courses and the offering of graduate credit courses in distance education.*

The governance structure within the Distance Education project is recommended as part of the TLT Affiliate, with full implementation beginning 2017-2018.

- **Instructional Materials (I-Mat):** I-Mat has a long history of providing services statewide for school districts through Nebraska's network of ESUs. For approximately 40 years, the ESUs have worked together to purchase rights to media resources and make those available through local ESUs. Beginning in 2010-11, the fiscal management was moved under the ESUCC's central accounting system. ESUs contribute to the project for the "spring buy" and "special projects" each year, as needed and defined by the affiliate(s). The purpose of the I-Mat project is designed for research and development of digital resources. The governance structure within the I-MAT project is recommended as part of the TLT Affiliate, with full implementation beginning 2017-2018.
- **BlendED:** Beginning 2015-2016, a statewide committee comprised of NDE, ESUCC, and ESU staff recommended that three learning management systems (LMS) be included within the ESUCC market place. The recommended LMS included Schoology, Canvas, and BlackBoard. In addition to the LMS, the BlendED Advisory Committee was charged with providing a recommendation for a statewide Learning Object Repository (LOR). After a lengthy review, the recommendation included the integration of the current Learn360 project, Amazon Inspire, and the IlliniCloud ISLE program.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

BACKGROUND

(Concluded)

The BlendEd Project leadership is comprised of a tiered governance structure that includes a BlendEd/Distance Education Director, co-chairs for the overall BlendEd Initiative, and leadership for the BlendEd Pilot Project. Specific duties for each level of leadership includes: 1) the Director serving as a project manager for the BlendEd Project; 2) the BlendEd co-chairs providing leadership for the BlendEd Initiative; and 3) the BlendEd Pilot leadership providing the vision and guidance for the daily operations of the pilot program. In addition, a BlendEd Advisory Committee comprised of NDE, ESUCC, ESU staff and school district staff provides the direction and input for the BlendEd Project.

- **Special Education (SPED) Projects:** Three special education projects are managed by the ESUCC. The projects also transitioned in 2010-11 to the ESUCC from a fiscal agent management model under ESU 1. The purpose of the SPED Project is for participating parties to pool their resources in connection with the special education services and for the training of special education teachers and other staff members employed by educational institutions within the State of Nebraska. Each participating ESU contributes a \$5,500 annual fee in general support of the projects; additionally, each participating school is assessed a fee for services provided under the Student Records System (SRS) fee structure.
 - **Improving Learning for Children with Disabilities (ILCD):** ILCD is a State self-assessment Project that gathers information for Federal reporting requirements. The ILCD Project utilizes parent, teacher, and administration survey assessments. The survey results can be accessed via the ILCD website. The ESUCC's technology role includes purchasing, distributing, and scanning surveys. ESUCC staff provides technical assistance for the ILCD website and survey design.
 - **Project PARA:** Project PARA is a web-based method for school districts to provide introductory training for their para-educators. The project assists schools in meeting the para-educator training requirements of No Child Left Behind, Title 92 NAC 11, and the Individuals with Disabilities Education Act. Project PARA is a collaborative effort between the University of Nebraska, the NDE, and Nebraska ESUs.
 - **Student Records System (SRS):** SRS is an online special education record-keeping system designed to create all special education documents required by Title 92 NAC 51, including IEP, MDT, IFSP, and all required notices. The SRS is a highly secured system that organizes and stores documents and provides easy access to files from anywhere via the internet. SRS training is provided across the State for district staff and college and university staff.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

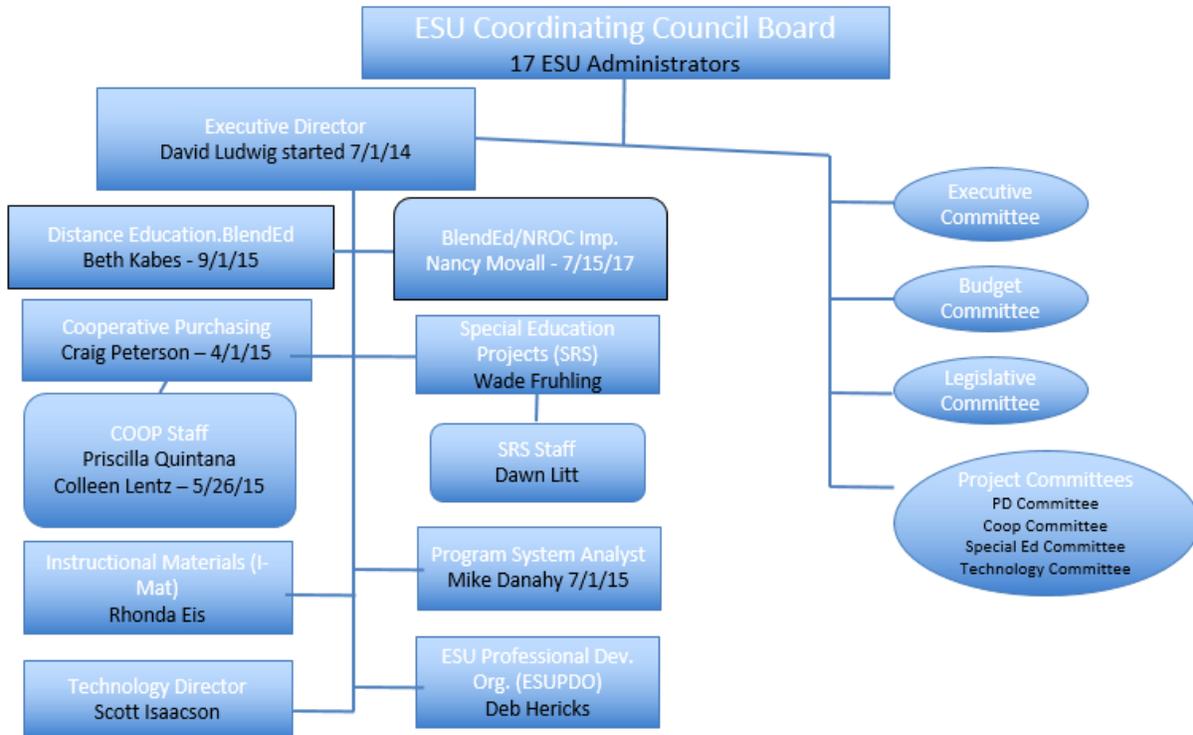
MISSION STATEMENT

The mission of the ESUCC is to provide the most cost-effective educational support for the students, teachers, and school districts in each Nebraska educational service unit by facilitating statewide coordination of educational services and strategic planning.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

ORGANIZATIONAL CHART

As of 1/1/18



EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Educational Service Unit Coordinating Council (ESUCC)
(Per State statute, Educational Service Unit (ESU) Executive Directors are Council members of the ESUCC and serve on the Council as long as they are in that position.)

<u>Name</u>	<u>Title</u>
Kraig Lofquist ESU 09	Chairperson
Bill Heimann ESU 01	Council member
Ted DeTurk ESU 02	Council member
Dan J.Schnoes ESU 03	Council member
Gregg Robke ESU 04	Council member
Brenda McNiff ESU 05	Council member
Daniel Shoemake ESU 06	Council member
Larianne Polk ESU 07	Council member
Bill Mowinkel ESU 08	Council member
Wayne Bell ESU 10	Council member
Greg Barnes ESU 11	Council member
Jeff West ESU 13	Council member
Paul Calvert ESU 15	Council member
Deb Paulman ESU 16	Council member
Geraldine Erickson ESU 17	Council member
Liz Standish ESU 18	Council member
Connie Wickham ESU 19	Council member

Educational Service Unit Coordinating Council

<u>Name</u>	<u>Title</u>
David M. Ludwig	Executive Director

Educational Service Unit Coordinating Council
6949 South 110th Street
LaVista, Nebraska, 68128
dludwig@esucc.org

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

SUMMARY OF COMMENTS

During our audit of the Educational Service Unit Coordinating Council (ESUCC), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Lack of Segregation of Duties:*** In our review of receipts and capital assets, we noted a lack of segregation of duties.
2. ***Accounting Errors:*** Accounting entries were incorrectly recorded on the accounting system. These entries required adjustments to ensure the financial statements were not materially misstated.

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

Draft copies of this report were furnished to the ESUCC 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.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

1. Lack of Segregation of Duties

During our review of the ESUCC's receipt and capital asset processes, as well as our testing of selected transactions, we noted a lack of segregation of duties. We also noted compensating controls adopted by the ESUCC. However, these compensating controls do not completely eliminate the risk of errors or fraud occurring and going undetected. We noted the following:

- **Receipts:** There is a lack of segregation of duties over the receipts process due to two employees having the ability to perform all of the following processes: receive checks and record initial control, perform the deposit entry, and reconcile the deposit document to the general ledger. We noted compensating controls in place during the fiscal year, including review of the deposit slip by the person who recorded initial control before taking the deposit to the bank, initials of both the individuals preparing and reviewing the deposit on the deposit slip, and review and approval of deposits, bank statements, and reconciliation reports by the Board.
- **Capital Assets:** There is a lack of segregation of duties over the capital assets process. Five employees had the ability to add capital assets to, as well as remove them from, the accounting records. ESUCC did not have a formal documented review of the capital asset listing and any additions and deletions. ESUCC stated they had compensating controls in place during the fiscal year, including a review of capital asset activity at the monthly staff meetings. ESUCC did perform an annual inventory during the fiscal year.

It was also noted that the ESUCC lacked formal policies or procedures for capital asset management, including procedures to be followed when adding or deleting assets.

During testing, 3 of 15 ESUCC assets selected from the ESUCC's capital asset listing could not be located. One asset was moved to ESU No. 3 and should have been removed from the listing, but it was not. A Bluetooth MacBook Pro keyboard selected was identified; however, because it lacked a tag, the APA was unable to verify that it was the asset selected. Lastly, a MacBook Pro selected for testing did not have a tag number to verify that it was the one selected. According to the ESUCC, this asset had been designated for disposal, but the disposal form provided was dated after our initial request was provided.

A good internal control plan involves an adequate segregation of duties to ensure that no one person is in a position both to perpetuate and to conceal errors or irregularities.

A similar finding was noted in the previous reports.

When one individual is able to perform all phases of a transaction, there is an increased risk for errors or fraud to occur and go undetected, resulting in loss or misuse of ESUCC funds.

We recommend the ESUCC review its staffing and assignments to determine if an adequate segregation of duties can be obtained, so no one individual is able to process a transaction from being to end. If an adequate segregation of duties cannot be obtained, we

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Concluded)

1. Lack of Segregation of Duties (Concluded)

recommend the ESUCC continue monitoring to ensure compensating controls are in place and effective. We also recommend the ESUCC adopt formal capital asset policies that identify the procedures ESUCC employees are to follow when adding and removing capital assets.

ESUCC Response: Receipts - We will continue to monitor and ensure compensating controls are in place and effective. We will also continue to ensure that all transactions are reviewed and approved by multiple personnel. We will continue to review at monthly budget meetings, FAB Committee meetings, and ESUCC Board meetings.

Inventory - We will continue to monitor during monthly budget meetings and scheduled staff meetings for review and documentation.

2. Accounting Errors

During testing, the following accounting errors were identified:

- The ESUCC made two entries in the accounting system that resulted in receipts being understated by \$30,754. The ESUCC received an overpayment from an Educational Service Unit (ESU) for \$30,754. When repaying this to the ESU, the ESUCC recorded the payment as a reduction to receipts, which is reasonable; however, the initial check was voided, and another check was issued. As a result of the amount being recorded twice, the ESUCC's receipts were understated by \$30,754. This was adjusted on the financial statements.
- ESUCC entered into a \$295,000 contract with the Nebraska Department of Education to provide more effective and efficient services to students, school districts, and ESUs and their employees through project collaboration. When recording the contract receipts, the ESUCC recorded them as a reduction to disbursements rather than as receipts. Due to this, adjustments were made to increase receipts and disbursements by \$295,000.

A good internal control plan requires procedures for ensuring the proper and consistent coding of transactions in the accounting system. Without such procedures, there is an increased risk of material recording errors, resulting in inaccurate financial statements.

We recommend the ESUCC strengthen its procedures for reviewing accounting transactions to ensure they are correctly recorded in the accounting system.

ESUCC Response: We will continue to work on procedures to ensure compensating controls are in place and effective. We will also continue to ensure that all transactions are properly reviewed, recorded and approved by multiple personnel. We will continue to review transactions at monthly budget meetings, FAB Committee meetings, and ESUCC Board meetings.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov

PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Service Unit Coordinating Council
LaVista, Nebraska

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities and the General Fund of the Educational Service Unit Coordinating Council, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Educational Service Unit Coordinating Council'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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the Educational Service Unit Coordinating Council'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 previously present fairly, in all material respects, the respective cash basis financial position of the governmental activities and the General Fund of the Educational Service Unit Coordinating Council, as of August 31, 2017, and the respective changes in cash basis financial position thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting and Emphasis of Matter

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise the Educational Service Unit Coordinating Council's basic financial statements. The Combining Schedule of Cash Basis Receipts and Disbursements – General Fund, Management's Discussion and Analysis, Budgetary Comparison Schedule – Budget and Actual – General Fund, and Notes to the Budgetary Comparison Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Schedule of Cash Basis Receipts and Disbursements – General Fund 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 Combining Schedule of Cash Basis Receipts and Disbursements – General Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Management's Discussion and Analysis, Budgetary Comparison Schedule, and Notes to the Budgetary Comparison Schedule on pages 15 through 20, 34, and 35 herein have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2018, on our consideration of the Educational Service Unit Coordinating Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Unit Coordinating Council's internal control over financial reporting and compliance.

April 20, 2018



Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Educational Service Unit Coordinating Council (ESUCC) provides the following discussion and analysis of the ESUCC's financial performance, as reflected in the financial report for the fiscal year ended August 31, 2017. Please read it in conjunction with the ESUCC's basic financial statements, which follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the ESUCC's financial statements. The provisions of Statement No. 34 (Statement 34) of the Governmental Accounting Standards Board (GASB), "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," established standards for external financial reporting for all State and local government entities. These standards require three components for the ESUCC's basic financial statements: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other information (Budgetary Comparison Schedule, and Combining Schedule of Cash Basis Receipts and Disbursements – General Fund) in addition to the basic financial statements. These components are described below:

Government-Wide Financial Statements

These statements are intended to provide a broad view of the ESUCC's operations in a manner similar to the private sector, providing both a short-term and a long-term view of the ESUCC's financial position. The ESUCC prepared its government-wide statements on the cash basis of accounting. Under the cash basis, receipts are recognized when collected rather than when earned, and disbursements are recognized when paid rather than when incurred. Accordingly, the ESUCC's government-wide financial statements are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles (GAAP) accepted in the United States of America. The government-wide financial statements include two statements, the Statement of Net Position and the Statement of Activities.

The *Statement of Net Position* on page 21 presents all of the ESUCC's assets on the cash basis, as described above.

The *Statement of Activities* on page 22 presents information showing how the ESUCC's net position changed during the reported year. Changes reported are on the cash basis, as described above. The statement of activities demonstrates the degree to which the direct disbursements of a given function or segment are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Appropriations and other items not properly included among program receipts are reported, instead, as general receipts.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fund Financial Statements

This is the second set of financial statements presented in the report. Under GAAP, these statements would be different from the government-wide statements in that these statements would use a different accounting approach and focus on the near-term inflows and outflows of ESUCC operations.

The ESUCC has only one fund, the General Fund. GAAP classifies funds into three categories – Governmental Funds, Proprietary Funds, and Fiduciary Funds. The General Fund of an entity is classified as a Governmental Fund, as it accounts for all basic services. The Fund Financial Statements, which can be found on pages 23 and 24, provide detailed information about the ESUCC's General Fund. A fund is a method of accounting that uses a set of accounts to maintain accountability and control over specific sources of funding and spending for a particular activity or objective. GAAP requires governmental funds to use the modified accrual basis of accounting.

The six projects that make up the General Fund in addition to ESUCC Administration are: ESU Professional Development Organization (ESUPDO); Nebraska ESU Cooperative Purchasing Unit (Coop); Distance Education; Instructional Materials (I-Mat); and Student Records System (SRS).

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in all of the basic financial statements. The notes can be found beginning on page 25.

Other Information

Following the basic financial statements and the accompanying notes thereto is additional information that further explains and supports the information in such financial statements. The other information consists of the Budgetary Comparison Schedule and notes, and the Combining Schedule of Cash Basis Receipts and Disbursements – General. This information can be found beginning on page 34.

FINANCIAL AND OPERATING HIGHLIGHTS

The ESUCC's Net Position for the fiscal year ended August 31, 2017, compared to the fiscal year ended August 31, 2016, increased by \$132,776. This increase is primarily due to the fact that the ESUCC's fiscal year ends in the middle of the Coop Annual Buy timeframe; therefore, its end of the year balance is directly affected by the timing of receipts of vendor administrative fees. The table on the following page provides a more detailed picture of the changes in net position.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF ESUCC AS A WHOLE

Net Position

The ESUCC's assets totaled \$1,176,665 at August 31, 2017, as compared to \$1,043,889 at August 31, 2016. Due to the preparation of the financial statements on a cash basis for fiscal years ended August 31, 2017, and August 31, 2016, there were no liabilities as of August 31, 2017, and as of August 31, 2016.

Unrestricted net position is all other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt." The ESUCC's unrestricted net position totaled \$1,176,665, as of August 31, 2017.

	Net Position As of August 31	
	Cash Basis 2017	Cash Basis 2016
ASSETS:		
Cash and Cash Equivalents	\$ 1,176,665	\$ 1,043,889
Total Assets	1,176,665	1,043,889
 NET POSITION:		
Unrestricted	1,176,665	1,043,889
Total Net Position:	\$ 1,176,665	\$ 1,043,889

As of August 31, 2017, and as of August 31, 2016, the ESUCC's assets consisted of cash and cash equivalents.

The ESUCC did not have any liabilities as of August 31, 2017, and as of August 31, 2016.

The ESUCC's net position was \$1,176,665 and \$1,043,889 as of August 31, 2017, and 2016, respectively. The ESUCC's net position may vary based on receipts and disbursements in Cooperative Purchasing as well as other ESUCC projects.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Changes in Net Position

The condensed financial information below was derived from the government-wide Statement of Activities and reflects how the ESUCC's net position changed during the year. Following the table is management's analysis of the changes in net position for the fiscal year ended August 31, 2017.

Changes in Net Position

	Fiscal Year Ended August 31, 2017 Cash Basis	Fiscal Year Ended August 31, 2016 Cash Basis
Receipts:		
Program Receipts		
Charges for Services	\$ 1,778,443	\$ 1,588,400
Operating Grants and Contributions	463,310	680,062
General Receipts:		
State Appropriations	565,593	565,593
Miscellaneous	4,499	15,929
Total Receipts	<u>2,811,845</u>	<u>2,849,984</u>
Disbursements:		
ESU Professional Development	798,063	1,127,064
Distance Education Council	362,804	326,307
My E-Learning	-	268,364
Special Education	428,452	408,445
Instructional Materials	288,947	225,326
Nebraska ESU Cooperative	800,803	569,971
Total Disbursements	<u>2,679,069</u>	<u>2,925,477</u>
Change in Net Position	132,776	(75,493)
Net Position - Beginning	<u>1,043,889</u>	<u>1,119,382</u>
Net Position - Ending	<u>\$ 1,176,665</u>	<u>\$ 1,043,889</u>

Receipts

The largest single source of receipts for the ESUCC is charges for services. Charges for services are primarily receipts generated by the Nebraska ESU Cooperative Purchasing Unit for services provided to ESUs and school districts and program receipts for the various projects. Charges for services for the fiscal year ended August 31, 2017, were \$1,778,443 and for the fiscal year ended August 31, 2016, were \$1,588,400. As mentioned previously, fluctuations in the timing of the ESUCC's Coop vendor administrative fee receipts are expected given the ESUCC's fiscal year ends in the middle of the Coop annual buy timeframe.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The second largest source of receipts, during fiscal year 2017, is State Appropriations. State Appropriations for the fiscal year ended August 31, 2017, were \$565,593 and for the fiscal year ended August 31, 2016, were \$565,593.

Disbursements

The largest purpose of disbursements for the ESUCC was for goods and services disbursed by the Nebraska ESU Cooperative Purchasing Unit, which were then provided to ESUs and school districts. Disbursements for these services for the fiscal year ended August 31, 2017, were \$800,803 and for the fiscal year ended August 31, 2016, were \$569,971. The largest cause of this increase was due to a legal settlement with a software vendor. The Cooperative Purchasing Unit paid this vendor \$120,000 during the fiscal year as part of the settlement.

The second largest purpose of disbursements for the ESUCC was for ESU Professional Development Organization (ESUPDO), which provides training for ESU employees statewide. Disbursements for these services for the fiscal year ended August 31, 2017, were \$798,063 and for the fiscal year ended August 31, 2016, were \$1,127,064. This decrease was caused by a reduction in Federal funds available to be used on the Nebraska Mathematics Professional Development Series.

The remaining disbursements for the ESUCC relate primarily to the various other programs managed by the ESUCC. Disbursements for various programs for the fiscal year ended August 31, 2017, were \$1,080,203 and for the fiscal year ended August 31, 2016, were \$1,228,442.

ANALYSIS OF ESUCC'S GENERAL FUND VARIATIONS

The table below provides a comparison of budgeted receipts and disbursements to actual receipts and disbursements.

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Beginning Balance	\$ 1,043,889	\$ 1,043,889	\$ -
Total Receipts	4,730,807	2,811,845	(1,918,962)
Total Disbursements	4,730,807	2,679,069	2,051,738
Net Increase (Decrease)	-	132,776	132,776
Ending Balance	<u>\$ 1,043,889</u>	<u>\$ 1,176,665</u>	<u>\$ 132,776</u>

The largest variance between budgeted and actual receipts was Local Receipts, which were budgeted to be \$3,092,841 but were actually \$1,778,443. The majority of this variance can be explained primarily by the budgeted flow-through revenues included in the budget.

The largest variances between budgeted and actual disbursements were due to General Administration, which had budgeted \$1,424,165 but incurred actual costs of \$262,779.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Concluded)

FACTORS THAT WILL AFFECT THE FUTURE

Several factors influence the future of the ESUCC and its projects. Projects that are based on conditions of ESUs and school districts, as far as purchasing of products and services, tend to vary depending on the levels of participation in Cooperative Purchasing, and professional development. General economics have created an environment where schools and ESUs have fewer resources available to buy goods and services. Additionally, State appropriations have been reduced for support of the ESUCC and the Distance Education program. These reductions will impact overall resources available for the foreseeable future. Long-term trends will include further strategic reorganization of projects and services to address the likelihood of a decrease in future resources. Strategic reorganization efforts impacting the future will include organizing professional development services under a new structure that will allow for the development of new statewide projects. Additionally, existing projects in technology are being organized to most efficiently and effectively manage the changing environment in educational technology. Future fiscal years will continue to combine efforts in instructional materials and distance education under a "BlendEd" initiative. Similarly, professional development efforts will include new statewide projects and services. Future projects and services of the ESUCC will be maintained through expanded partnerships and possibly through statewide grants or contracts facilitated by the ESUCC.

CONTACTING ESUCC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers a general overview of the ESUCC's finances and to demonstrate the ESUCC's accountability for the money with which it is entrusted. If you have questions about this report or need additional financial information, contact David M. Ludwig, Educational Service Unit Coordinating Council Executive Director, 6949 South 110th Street, LaVista, Nebraska, 68128. The telephone number is (402) 597-4915, and the email address is dludwig@esucc.org.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

STATEMENT OF NET POSITION - CASH BASIS

August 31, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 1,176,665</u>
Total Assets	<u><u>1,176,665</u></u>
NET POSITION	
Unrestricted	<u>1,176,665</u>
Total Net Position	<u><u>\$ 1,176,665</u></u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

STATEMENT OF ACTIVITIES - CASH BASIS

For the Year Ended August 31, 2017

	Disbursements	Program Receipts		Net (Disbursements), Receipts, and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities
FUNCTIONS/PROGRAMS:				
Primary Government				
ESU Professional Development	\$ 798,063	\$ 385,182	\$ 182,822	\$ (230,059)
Distance Education Council	362,804	37,517	149,894	(175,393)
Special Education	428,452	456,597	21,766	49,911
Instructional Materials:				
General Administration	149,602	225,215	87,062	162,675
I-Mat Program Purchases	139,345	-	-	(139,345)
Nebraska ESU Cooperative Purchasing:				
General Administration	564,089	673,932	21,766	131,609
Coop Program Purchases	236,714	-	-	(236,714)
Total Governmental Activities	<u>\$ 2,679,069</u>	<u>\$ 1,778,443</u>	<u>\$ 463,310</u>	<u>(437,316)</u>
General Receipts:				
State Appropriations				565,593
Miscellaneous				4,499
Total General Receipts				<u>570,092</u>
Change in Net Assets				132,776
Net Position - Beginning				<u>1,043,889</u>
Net Position - Ending				<u>\$ 1,176,665</u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUND**

August 31, 2017

	<u>General Fund</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 1,176,665</u>
 Total Assets	 <u><u>\$ 1,176,665</u></u>
 FUND BALANCE:	
Committed	250,000
Unassigned	<u>926,665</u>
 Total Fund Balance	 <u><u>\$ 1,176,665</u></u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCE
GOVERNMENTAL FUND**

For the Fiscal Year Ended August 31, 2017

	General Fund
RECEIPTS:	
Local	\$ 1,778,443
State - Appropriations	565,593
State - Contracts/Grants (Neb.Dept. of Ed)	360,190
Federal	103,120
Miscellaneous	4,499
Total Receipts	<u>2,811,845</u>
DISBURSEMENTS:	
Purchased Services (Note 6)	1,342,580
General Administration	262,779
Supplies	2,465
Capital Outlay	31,044
Computer Software and Other Equipment	80,958
Travel	51,067
Instructional Materials (I-MAT)	850
Network Operations Committee (NOC)	26,784
Staff Development Affiliate (SDA)	181,807
Special Education Projects (SPED)	20,691
Parents Encouraging Parents Conference (PEP)	23,934
Technology Assistance Group (TAG)	6,455
NE Mathematics Professional Development Series (NMPDS)	39,717
Innovation Grant	111,774
Legal Settlement (Note 10)	120,000
Distance Education Program Purchases	105
I-Mat Program Purchases	139,345
Coop Program Purchases	236,714
Total Disbursements	<u>2,679,069</u>
Excess of Receipts Over Disbursements	132,776
Fund Balance - Beginning	<u>1,043,889</u>
Fund Balance - Ending	<u>\$ 1,176,665</u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended August 31, 2017

1. **Summary of Significant Accounting Policies**

A. Organization

The Educational Service Unit Coordinating Council (ESUCC) was created in statute to coordinate statewide activities of Nebraska's 17 Educational Service Units (ESUs). The governing body for the ESUCC consists of an Administrator Representative from each of the 17 ESUs and an Executive Director. The ESUCC was created by LB 603 (2007) and officially came into existence, according to statute, on July 1, 2008. Neb. Rev. Stat. § 79-1246(1) (Reissue 2014) outlines the ESUCC's general responsibilities and duties as follows:

The Educational Service Unit Coordinating Council shall work toward statewide coordination to provide the most cost-effective services for the students, teachers, and school districts in each educational service unit. The Council's duties include, but are not limited to:

- (a) Preparation of strategic plans to assure the cost-efficient and equitable delivery of services across the state;*
- (b) Administration of statewide initiatives and provision of statewide services; and*
- (c) Coordination of distance education.*

Prior to the creation of the ESUCC by the Nebraska Legislature, the 17 ESUs worked in partnership to provide statewide activities. Based on the above statutory authority, the ESUCC decided that all statewide activities offered in partnership by the ESUs would be placed under the umbrella of the ESUCC. Although identified separately in the "ESUCC Admin and Professional Development Organization" column of the Combining Schedule, the ESUCC reports the general administrative costs of the ESUCC overall, along with the ESUPDO project costs. The ESUCC contracts with ESU 17 to provide all staff for the ESUCC. This is accomplished annually by ESU 17 developing employment contracts with all ESUCC project employees, including the Executive Director of the ESUCC. Thus, all ESUCC project employees and the ESUCC Executive Director are ESU 17 employees. Through an interlocal agreement, the ESUCC reimburses ESU 17 for all salaries and benefits for these employees.

The following is a brief description of each statewide project budgeted for and administered by the ESUCC:

- **ESU Professional Development Organization (ESUPDO):** The ESUPDO serves as a collaborative effort to provide training for ESU employees statewide. Professional development is among the core services identified by State statute for ESUs.
- **Distance Education:** Distance Education originated with the Distance Education Council, which was formed by legislation in 2006 and has since evolved into a program under the ESUCC. Neb. Rev. Stat. § 79-1248 (Reissue 2014) includes, among the powers and duties of the ESUCC, various responsibilities pertaining to the operation of the State's distance education network.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

- **Nebraska ESU Cooperative Purchasing (Coop):** Coop provides cooperating purchasing services to Educational Service Unit Member schools throughout the State of Nebraska.
- **Instructional Materials (I-Mat):** I-Mat is a statewide project that purchases rights to media materials and makes them available through local ESUs in a variety of formats.
- **Special Education (SPED) Projects:** The purpose of the SPED Projects is for participating parties to pool their resources in connection with the special education services and for the training of special education teachers and other staff members employed by educational institutions within the State of Nebraska.
- **BlendEd Initiative (Technology Direction):** In May 2013, the position of Technology Director was formed to coordinate this work across the ESUCC project areas. Projects involved in this effort are the Distance Education and I-Mat, including Learning Object Repository. Blended education calls for making strategic choices about when face-to-face (synchronous) instruction is needed and when and how online (asynchronous) instruction can be best used to provide elements of student control over time, place, path, and pace and provide more equity, efficiency, and flexibility.

B. Reporting Entity

The ESUCC is a governmental entity established under and governed by the laws of the State of Nebraska. In evaluating how to define the ESUCC for financial reporting purposes, all potential component units have been considered. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. Based upon the above criteria, the accompanying financial statements include all funds for which the ESUCC has oversight responsibility. The ESUCC does not have any component units and has only one fund – the General Fund. The ESUCC is not considered a component unit of any other governmental entity.

C. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The reporting model, based on GASB Statement 34, focuses on the ESUCC as a whole in the government-wide financial statements and major individual funds in the fund financial statements. The government-wide financial statements report information on all of the activities of the primary government and any component units. The ESUCC has only one fund – the General Fund – and has no component units. Governmental activities, which normally are supported by taxes and intergovernmental receipts, are reported separately.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

The Statement of Activities demonstrates the degree to which the direct disbursements of a given function or segment are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Appropriations and other items not properly included among program receipts are reported instead as general receipts.

D. Fund Types

The accounts of the ESUCC are organized on the basis of funds. The ESUCC has only one governmental fund type – the General Fund.

E. Basis of Accounting

The ESUCC prepares its financial statements, both its governmental-wide and fund statements, on the cash basis of accounting. Under the cash basis of accounting, receipts are recognized when collected rather than when earned, and disbursements are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial information in accordance with generally accepted accounting principles.

F. Cash and Cash Equivalents

In addition to the ESUCC's bank account, this classification includes all short-term investments, such as certificates of deposit, and investments in the Nebraska Public Agency Investment Trust (NPAIT), having original maturities of less than two years. NPAIT deposits and investments include certificate of deposits, demand deposit accounts, repurchase agreements, and government agency securities. These investments are valued at amortized cost, which approximates fair value due to the short-term nature of the investments.

G. Basis of Presentation

The ESUCC adopted the provisions of Statement No. 34 (Statement 34) of the Government Accounting Standards Board (GASB), "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." Statement 34 established standards for external financial reporting for all State and local government entities, which includes government-wide financial statements, fund financial statements, and the classification of net position into three components: (a) invested in capital assets, net of related debt; (b) restricted; and (c) unrestricted. The ESUCC reported only unrestricted net position.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

H. Net Position Classification

Government-Wide Statements. Net Position is displayed as unrestricted net position. Unrestricted net position is all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements. Governmental fund equity is classified as fund balance. Fund balances are further classified as committed or unassigned. Commitments of fund balances are established to identify the existence of assets that are intended to be used for specific purposes that are internally imposed by the government through formal action of the Board, and the constraints do not lapse at year-end. The ESUCC had committed fund balance in the amount of \$250,000. Unassigned fund balance is the residual classification for the General Fund.

I. Capital Assets

Capital assets are recorded as disbursements at the time of purchase. This differs from generally accepted accounting principles, which require capital assets to be capitalized and depreciated over the life of the asset.

J. Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Compensated Absences

The ESUCC contracts with ESU 17, through an interlocal agreement, to provide staffing for the ESUCC. The ESUCC has entered into negotiated agreements with contracted personnel. In those agreements, the ESUCC has agreed to provide benefits for personal and sick leave. In accordance with the cash basis of accounting, these benefits are recorded as a disbursement when paid.

2. **Deposits and Investments**

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents on the ESUCC’s August 31, 2017, basic financial statements.

Deposits – Custodial credit risk is the risk that, in the event of a bank failure, a government’s deposits may not be returned to it. At August 31, 2017, the ESUCC held bank deposits and also held funds in certificates of deposits, demand deposits, and money market accounts with the Nebraska Public Agency Investment Trust (NPAIT).

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. Deposits and Investments (Continued)

The NPAIT was established in June 1996 through the Interlocal Cooperation Act and commenced operations on July 25, 1996. The NPAIT was established to assist public bodies throughout the State of Nebraska with the investment of their available cash reserves. Participation in the investment trust is voluntary for its members. The objective of the NPAIT is to provide its owner members with a conservative and effective investment alternative tailored to the needs of its members. The NPAIT currently consists of and operates one portfolio and a fixed-term account. The NPAIT portfolio management generally follows established investment criteria developed by the Securities and Exchange Commission (SEC) for money market funds designed to offer acceptable yield while maintaining liquidity. The NPAIT is not registered with the SEC as an investment company. For a copy of the most recent audit report for the NPAIT, which is as of June 30, 2017, contact David Ludwig, Executive Director, Educational Service Unit Coordinating Council, 6949 South 110th Street, LaVista, Nebraska, 68128. The telephone number is (402) 597-4915, and the email address is dludwig@esucc.org.

The ESUCC's bank balance and carrying amount of cash and cash equivalents at August 31, 2017, are set out below:

	Bank Balance	Carrying Amount
Bank Deposits	\$ 46,398	\$ (42,059)
NPAIT Investments	1,218,724	1,218,724
Total	<u>\$ 1,265,122</u>	<u>\$ 1,176,665</u>

Bank Deposits: The ESUCC does not have a policy for custodial credit risk associated with deposits.

The ESUCC is required by State statute to collateralize bank deposits in excess of federally insured amounts. The bank deposits at August 31, 2017, were covered by the Federal Depository Insurance Corporation (FDIC).

The carrying amount for the Bank Deposit is negative because at August 31, 2017, the outstanding checks exceeded the bank balance. However, the NPAIT account sends funds to the bank account when checks clear the bank.

Investments – The NPAIT may legally invest in direct obligations of, as well as other obligations guaranteed as to principal by, the U.S. Treasury and U.S. Agency and Instrumentalities and in bank repurchase agreements. It may also invest in guaranteed student loans, loans guaranteed by the Small Business Administration, Federal Home Administration, or any other agency of the United States, as well as any other type of investment permitted for public agencies by State law. At June 30, 2017, all of the NPAIT's investments in U.S. agencies and repurchase agreements mature in a period of less than two years.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

At August 31, 2017, the ESUCC had \$1,218,724 in NPAIT investments. These investments consisted of government agency securities and repurchase agreements, which were collateralized by U.S. government securities.

The ESUCC is exposed to the risks noted below in relation to its investments in the NPAIT. The ESUCC does not have a policy for these risks.

Interest Rate Risk – As a means of limiting its members’ exposure to fair value losses resulting from rising interest rates, all of the NPAIT’s investments have maturities of less than two years.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. According to the latest audit report on the NPAIT, as of June 30, 2017, the NPAIT’s investments in government agency securities were rated as AA+.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the NPAIT will not be able to recover the value of its investment or collateral securities that are in the possession of the outside party.

The ESUCC has no specific policy as to credit risk. All of the underlying securities for the NPAIT investments in repurchase agreements at June 30, 2017, the latest audit report date for the NPAIT, are held by the counterparties in the NPAIT’s name.

Concentration of Credit Risk – The NPAIT places no limit on the amount that may be invested in any one issuer.

Reconciliation of deposits and investments for the ESUCC to Cash and Cash Equivalents on the Statement of Net Position, as of August 31, 2017, is as follows:

Carrying Value:	
Bank Deposits	\$ (42,059)
NPAIT Investments	1,218,724
Total	<u>\$ 1,176,665</u>

3. **Contingencies and Commitments**

Risk Management – The ESUCC is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors, or omissions, injuries to employees, and natural disasters. During the fiscal year, the ESUCC chose to purchase the following commercial insurance policies to cover these risks:

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments (Concluded)

	Limit	Deductible
Personal Property Coverage (per location)	\$ 1,000	\$ 500
Electronic Data Processing Equip. (Various Coverage types from \$5,000 to \$50,000. With limits from \$10,000 to \$200,000.)	\$ 10,000 to \$ 200,000	\$ 1,000
Commercial General Liability (Each Occurrence limit-\$1,000,000, Aggregate Limit-\$2,000,000)	\$ 2,000,000	\$ -
Commercial Umbrella Liability Coverage (Each Occurrence limit-\$1,000,000, Aggregate Limit-\$1,000,000)	\$ 1,000,000	\$ -
Employee Benefits Liability (Each Employee Limit-\$1,000,000, Aggregate Limit-\$3,000,000, & deductible is per employee)	\$ 3,000,000	\$ 1,000
Automobile (Non-Owned & Hired) Liability	\$ 1,000,000	\$ -
Automobile (Comprehensive, Collision)	\$ 50,000	\$ 250
Workers' Compensation Insurance	\$ 500,000	\$ -
Transportation Coverage	\$ 300,000	\$ 1,000

No insurance claims resulting from these risks were filed during the fiscal year by the ESUCC. Settled claims resulting from these risks have not exceeded the above coverage in the past three years.

4. School Retirement

Plan Description

The ESUCC contracts with ESU 17 to provide all staff for the ESUCC. Thus, all of the ESUCC project employees and the ESUCC Executive Director are ESU 17 employees. Through an interlocal agreement, the ESUCC agreed to reimburse ESU 17 for all salaries and benefits for these employees. Benefits provided by the ESUCC included retirement benefits, as ESU 17 employees are eligible to be members of the Nebraska School Employees Retirement System. Thus, ESU 17 contributes to the Nebraska School Employees Retirement System on behalf of the ESUCC from retirement contributions collected from the ESUCC. The Nebraska School Employees Retirement System is a cost-sharing, multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement System (NPERS). NPERS provides retirement and disability benefits to plan members and beneficiaries. The School Employees Retirement

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. School Retirement (Concluded)

Act establishes benefit provisions. NPERS issues a publicly available financial report that includes financial statements and required supplementary information for NPERS. That report may be obtained by writing NPERS, 1526 K Street, Suite 400, P.O. Box 94816, Lincoln, NE, 68509-4816, or by calling 1-800-245-5712.

Plan members were required to contribute 9.78% of their annual covered salary from September 1, 2016, to August 31, 2017. The ESUCC is required to contribute 101% of the employee contribution. The contribution requirements of the plan members and the ESUCC are established by the Nebraska statutes. For the fiscal year ended August 31, 2017, the ESUCC employees contributed \$101,404, and the ESUCC contributed \$102,418, which equaled the required contribution. For the fiscal years ended August 31, 2016, and August 31, 2015, the ESUCC employees contributed \$87,171 and \$77,074, respectively, and the ESUCC contributed \$88,042 and \$77,845, respectively, which equaled the required contribution.

5. Lease Commitments

ESUCC leases office facilities under operating leases. The future minimum annual lease payments are as follows:

<u>Year</u>	<u>Governmental Activities</u>
2018	43,430
2019	10,674
2020	3,300
Total	<u>\$ 57,404</u>

Operating lease payments for the year ended August 31, 2017, totaled \$44,550.

6. Reclassification

The ESUCC records in its general ledger employee salaries and benefits; however, the ESUCC staff are ESU 17 employees, as the ESUCC contracts through an interlocal agreement, with ESU 17 to provide staffing for the ESUCC, making all employees of the ESUCC contract employees. To better reflect the nature of these disbursements, \$1,213,469 of salaries and benefits was classified as Purchased Services on the Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance.

7. Accounts Receivable

At August 31, 2017, the ESUCC had \$147,253 in accounts receivable. In accordance with the cash basis of accounting, these receivables are not recorded on the financial statements. They are recorded as receipts on the financial statements when the ESUCC receives the funds.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

(Concluded)

8. Unemployment Compensation Insurance

The ESUCC has adopted the reimbursable option of the State's Unemployment Compensation Insurance Program. Under this option, a claimant would receive unemployment compensation from the State. The ESUCC is liable to reimburse the State the actual amount of the claim(s).

9. Related Parties

The governing body for the ESUCC consists of the Administrator from each of the 17 ESUs across the State. The ESUCC coordinates statewide activities and provides services for the 17 ESUs. In turn, the ESUCC bills each of the ESUs for those services.

10. Subsequent Event

In the prior year, the ESUCC was involved in litigation with ESM Solutions Corporation (ESM), a vendor with whom it had contracted. During the fiscal year, ESUCC paid ESM \$120,000 as part of a settlement agreement. As part of the settlement agreement, ESUCC is required to pay ESM \$33,333 during each of the next three fiscal years. These payments will conclude on September 30, 2019.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended August 31, 2017

	Budget (Original/Final)	Actual	Positive (Negative) Variance with Final Budget
RECEIPTS:			
Local	\$ 3,092,841	\$ 1,778,443	\$ (1,314,398)
State - Appropriations	565,593	565,593	-
State - Contracts (Neb.Dept. of Labor & Neb.Dept. of Ed)	-	360,190	360,190
Federal	1,072,373	103,120	(969,253)
Miscellaneous	-	4,499	4,499
Total Receipts	<u>4,730,807</u>	<u>2,811,845</u>	<u>(1,918,962)</u>
DISBURSEMENTS:			
Purchased Services	2,393,834	1,342,580	1,051,254
General Administration	1,424,165	262,779	1,161,386
Supplies	4,250	2,465	1,785
Capital Outlay	30,521	31,044	(523)
Computer Software and Other Equipment	200,750	80,958	119,792
Travel	67,884	51,067	16,817
Instructional Materials (I-MAT)	6,500	850	5,650
Network Operations Committee (NOC)	27,600	26,784	816
Staff Development Affiliate (SDA)	116,030	181,807	(65,777)
Special Education Projects (SPED)	16,000	20,691	(4,691)
Parents Encouraging Parents Conference (PEP)	25,500	23,934	1,566
Technology Assistance Group (TAG)	8,400	6,455	1,945
NE Mathematics Professional Development Series (NMPDS)	32,123	39,717	(7,594)
Legal Settlement	120,000	120,000	-
Innovation Grant	-	111,774	(111,774)
Distance Education Program Purchases	-	105	(105)
I-Mat Program Purchases	257,250	139,345	117,905
Coop Program Purchases	-	236,714	(236,714)
Total Disbursements	<u>4,730,807</u>	<u>2,679,069</u>	<u>2,051,738</u>
Excess of Receipts Over Disbursements	-	132,776	132,776
Fund Balance - Beginning	1,043,889	1,043,889	-
Fund Balance - Ending	<u>\$ 1,043,889</u>	<u>\$ 1,176,665</u>	<u>\$ 132,776</u>

See the Notes to the Budgetary Comparison Schedule.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended August 31, 2017

BUDGETARY COMPARISON SCHEDULE

Basis of Budgeting – The ESUCC prepares its budget on the cash basis, which is consistent with the financial statement presentation.

Budget Process and Property Taxes – The ESUCC follows these procedures in establishing the budgetary data reflected in the accompanying statements:

- Public hearings are conducted at public meetings to obtain taxpayer comments.
- Prior to September 20, the budget is legally adopted by the Board through passage of a resolution. Total disbursements may not legally exceed total appropriations. Appropriations lapse at year end, and any revisions thereto require Board approval.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMBINING SCHEDULE OF CASH BASIS RECEIPTS AND DISBURSEMENTS
GENERAL FUND**

For the Fiscal Year Ended August 31, 2017

	ESUCC Admin and Professional Development Organization	Distance Education Council	Instructional Materials	Special Education	Nebraska ESU Cooperative Purchasing	Total General Fund
RECEIPTS:						
Local	\$ 385,182	\$ 37,517	\$ 225,215	\$ 456,597	\$ 673,932	\$ 1,778,443
State - Appropriations	275,228	290,365	-	-	-	565,593
State - Contracts (Neb.Dept. of Labor & Neb.Dept. of Ed)	79,702	149,894	87,062	21,766	21,766	360,190
Federal	103,120	-	-	-	-	103,120
Miscellaneous	4,499	-	-	-	-	4,499
Total Revenues	<u>\$ 847,731</u>	<u>\$ 477,776</u>	<u>\$ 312,277</u>	<u>\$ 478,363</u>	<u>\$ 695,698</u>	<u>\$ 2,811,845</u>
DISBURSEMENTS:						
Purchased Services	\$ 218,047	\$ 325,846	\$ 135,382	\$ 378,795	\$ 284,510	\$ 1,342,580
General Administration	146,199	15,324	8,211	23,754	69,291	262,779
Supplies	741	774	64	68	818	2,465
Capital Outlay	-	5,903	4,271	16,315	4,555	31,044
Computer Software and Other Equipment	424	2,849	48	5,465	72,172	80,958
Travel	20,640	12,003	1,626	4,055	12,743	51,067
Instructional Materials (I-MAT)	850	-	-	-	-	850
Network Operations Committee (NOC)	26,784	-	-	-	-	26,784
Staff Development Affiliate (SDA)	181,807	-	-	-	-	181,807
Special Education Projects (SPED)	20,691	-	-	-	-	20,691
Parents Encouraging Parents Conference (PEP)	23,934	-	-	-	-	23,934
Technology Assistance Group (TAG)	6,455	-	-	-	-	6,455
NE Mathematics Professional Development Series (NMPDS)	39,717	-	-	-	-	39,717
Innovative Grant	111,774	-	-	-	-	111,774
Legal Settlement	-	-	-	-	120,000	120,000
Distance Education Program Purchases	-	105	-	-	-	105
I-Mat Program Purchases	-	-	139,345	-	-	139,345
Coop Program Purchases	-	-	-	-	236,714	236,714
Total Disbursements/Expenditures	<u>\$ 798,063</u>	<u>\$ 362,804</u>	<u>\$ 288,947</u>	<u>\$ 428,452</u>	<u>\$ 800,803</u>	<u>\$ 2,679,069</u>



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov

PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

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

Independent Auditor's Report

Board of Directors
Educational Service Unit Coordinating Council
LaVista, 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 General Fund of the Educational Service Unit Coordinating Council, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Educational Service Unit Coordinating Council's basic financial statements, and have issued our report thereon dated April 20, 2018. The report notes the financial statements were prepared on the cash basis of accounting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Educational Service Unit Coordinating Council'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 Educational Service Unit Coordinating Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Unit Coordinating Council'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 Educational Service Unit Coordinating Council's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the Comments and Recommendations section as Comment Number 2 (“Accounting Errors”) that we consider to be a significant deficiency.

Compliance and Other Matters

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

Additional items

We noted a certain additional item that we reported to management of the Educational Service Unit Coordinating Council as Comment Number 1 (“Lack of Segregation of Duties”) in the accompanying Comments and Recommendations section of this report.

The Educational Service Unit Coordinating Council’s Response to our Comments and Recommendations

The Educational Service Unit Coordinating Council’s responses to our Comments and Recommendations identified in our audit are described in the Comments and Recommendations section of this report. The Educational Service Unit Coordinating Council’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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, not to provide an opinion on the effectiveness of the Educational Service Unit Coordinating Council’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 Educational Service Unit Coordinating Council’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

April 20, 2018