

Educational Service Unit No. 19
Omaha, Nebraska

**Financial Statements
and Supplementary Information
August 31, 2014**

Together with Independent Auditor's Report

Educational Service Unit No. 19

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 – 2
Management's Discussion and Analysis.....	3 – 10
Financial Statements:	
Governmental Fund Balance Sheet / Statement of Net Position August 31, 2014	11
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance / Statement of Activities For the Year Ending August 31, 2014.....	12
Notes to Financial Statements August 31, 2014	13 – 20
Required Supplementary Information:	
Budgetary Comparison Schedule and Notes to Required Supplementary Information – Budgetary Comparison Schedule	21 – 22
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	23

Independent Auditor's Report

To the Governing Board
Educational Service Unit No. 19:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of Educational Service Unit No. 19 (ESU), a component unit of Douglas County School District #0001 (the District), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the ESU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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. These 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of ESU as of August 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial position and changes in financial position of ESU and do not purport to, and do not, present fairly the financial position of the District as of August 31, 2014 or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 and budgetary comparison information on pages 21 through 22, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014 on our consideration of the ESU'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 the ESU's internal control over financial reporting and compliance.

SEEM JOHNSON, LLP

Omaha, Nebraska,
November 10, 2014.

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2014



OVERVIEW

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

REPORT COMPONENTS

This annual report consists of the following components:

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

EDUCATIONAL MISSION AND AIMS

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

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

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

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2014

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

GOVERNANCE, ORGANIZATION AND RESPONSIBILITIES

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

FINANCIAL STRUCTURE

The general operating fund of ESU No. 19 is a taxing fund. Accordingly, property taxes are legally restricted by State Statutes to 1.5 cents per \$100 of assessed valuation. Nearly 54% of the budgeted expenditures of ESU No. 19 pay for salaries and benefits of professional and support staff. The remainder of the revenue collected by ESU No. 19 is used for supplies, equipment and other approved operating expenditures. The 2013-14 budget for this fund was approximately \$19,098,148.

LOCAL SOURCES OF ESU REVENUES

- **Property Tax:** The property tax has been a traditional local source for the support of local political subdivisions. This tax has been qualified as more regressive than income and sales taxes. If the property value per student is large, a political subdivision is considered wealthy. In Nebraska, property taxes are determined by a rate per \$100 of assessed property value. Most political subdivisions do not have contiguous boundaries which makes monitoring of property taxes confusing and difficult for taxpayers.
- **Interest from Investments:** The cash on hand of ESU No. 19 varies greatly throughout the year. In periods when cash on hand is in a positive position, the surplus funds are invested in approved, secured, and liquid investments. The interest earned becomes revenue for ESU No. 19.

STATE SOURCES OF ESU REVENUES

- **ProRate Motor Vehicles:** Payments made on a fleet of apportionable vehicles in lieu of registration. The money is distributed to counties for redistribution to political subdivisions based on the relationship of their levy(s) to the total levy(s) in the county.

BUDGET AND FINANCIAL POLICIES

One of the most time consuming activities carried out by the Governing Board and staff involves the preparation and adoption of an annual budget. Limitations, as defined in Nebraska state statutes, exist on the amount that ESU is allowed to levy for property taxes. In addition, political subdivisions must deal with changes in non-tax revenues which can vary greatly from one year to the next. These uncontrollable factors must be dealt with while also addressing the service needs of a continually changing school district. Certain procedures must be carried out when adopting a budget or a tax request, and there are deadlines to meet throughout the budget adoption process.

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2014

- **Determining Budget Authority.** All political subdivisions in the State of Nebraska are under spending limitations on the general fund budget. With the downturn in the state's economy, these restrictions were reduced further.
- **Exceeding the Budget Authority.** If a political subdivision decides that the calculated budget authority is insufficient, additional measures are provided to increase the level of spending authority. The additional measures would provide the appropriate level of service within their political subdivision. Unused revenue authority carried over from the previous year is available to be applied to a future budget.
- **Cash Reserve Limitation.** When preparing a budget, political subdivisions are allowed, and even encouraged; for cash flow purposes, to budget for a cash reserve. A budgeted cash reserve is the amount of funds a political subdivision expects to have on hand at the end of the fiscal year. As revenue sources are not received evenly throughout the fiscal year, an ESU could find itself in a cash short position with bills that need to be paid. By having cash on hand, an ESU is more likely to make payroll and pay bills when they are due, even in times of minimal cash receipts. Many political subdivisions consider at least two months of expenditures to be an adequate budgeted reserve.

OPERATIONAL ACTIVITIES

	Budgetary Activity (in thousands)		
	2013	2014	Change
RECEIPTS			
Local	\$ 2,845	2,830	(15)
State	2,251	2,234	(17)
Federal	7,178	1,949	(5,229)
Other non-revenue	180	226	46
Total revenue	12,454	7,239	(5,215)
DISBURSEMENTS			
Support services	23,995	19,098	(4,897)
Disbursements in excess of receipts	(11,541)	(11,859)	(318)
Transfers In	11,541	11,859	318
Net change in fund balance	--	--	--
Fund balance, beginning of year	2,390	3,686	1,296
Fund balance, end of year	\$ 2,390	3,686	1,296

In reviewing the fiscal year 2014 revenue budget, ESU No. 19 budgeted approximately \$5,229,000 less in Federal Revenue for the Supplemental Educational Services (SES) program based upon current expectations and a revised formula. The reduction of program expenditures is in direct relationship to the scaled back revenue stream.

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2014

	Government-Wide		
	Statement of Net Position (in thousands)		
	2013	2014	Change
ASSETS			
Cash and cash equivalents	\$ 3,518	4,772	1,254
Property tax receivable	153	236	83
Other current assets	1,270	1,078	(192)
Capital assets, net of depreciation	<u>2,495</u>	<u>2,539</u>	<u>44</u>
Total assets	<u>7,436</u>	<u>8,625</u>	<u>1,189</u>
LIABILITIES			
Accounts payable	280	136	(144)
Payroll liabilities	1,319	1,474	155
Other liabilities	<u>413</u>	<u>167</u>	<u>(246)</u>
Total liabilities	<u>2,012</u>	<u>1,777</u>	<u>(235)</u>
NET POSITION			
Net investment in capital assets	2,219	2,457	238
Unrestricted	<u>3,205</u>	<u>4,391</u>	<u>1,186</u>
Total net position	<u>\$ 5,424</u>	<u>6,848</u>	<u>1,424</u>

The current assets of ESU No. 19 are predominately cash and cash equivalents, considered to be held over 90 days at the Nebraska Liquid Asset Fund (NLAF). NLAF is similar to a mutual fund account and its portfolio of investments consists of those investment instruments permitted under Nebraska statutes. NLAF allows participation from any Nebraska school districts, ESU's, and technical community colleges and other political subdivisions organized under Nebraska laws. Cash and investments held at the end of fiscal year 2014 were 36% higher than in fiscal year 2013. The reason for this increase is primarily due to actual receipts exceeding budgeted amounts. Other current assets are comprised of inventory and prepaid expenses which increased mainly due to a payment for a new service agreement with a provider of professional development training.

Net capital assets of ESU No. 19 include capitalized furniture, fixtures, equipment and software, net of depreciation, totaling approximately \$2.539 million at August 31, 2014. These capital assets are depreciated over various useful lives, depending on their asset category, and are depreciated using the straight-line depreciation method. During fiscal year 2014 ESU No. 19 had net acquisitions of approximately \$1,092,000 in additional capital assets and had approximately \$1,043,000 in depreciation expense. The capitalizable amount for financial statement purposes is a unit cost of greater than or equal to \$5,000.

Other liabilities decreased by 60% due to cash transferred from District's General Fund to cover cash balances. Funds were received by ESU19 in early September 2014.

Payroll liabilities consist of time worked in August but paid in September. In addition, ESU No. 19 has accrued approximately \$272,000 and \$492,000 for accrued vacation and sick leave respectively. The accounts payable liability decrease is due to timing of when vouchers are received and paid.

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2014

	Government-Wide Statement of Activities (in thousands)		
	2013	2014	Change
REVENUES			
Local	\$ 2,801	2,801	--
State	2,262	2,297	35
Federal	1,491	1,770	279
Other non-revenue	2,501	2,308	(193)
Total revenue	9,055	9,176	121
EXPENSES			
Support services	16,973	17,451	478
Property tax recapture	13	15	2
Debt service interest	13	--	(13)
Total expenses	16,999	17,466	467
Excess of expenses over revenue	(7,944)	(8,290)	(346)
Other financing sources	9,084	9,714	630
Change in net assets	1,140	1,424	284
Net position, beginning of year	4,284	5,424	1,140
Net position, end of year	\$ 5,424	6,848	1,424

Program revenues consist largely of transfers in as a result of the Interlocal Agreement with the District for providing educational data processing services. This Interlocal Agreement was created under the guidelines of the Interlocal Cooperation Act of the State of Nebraska (NEB. Rev. Stat. 13-801 et seq.). The guidelines allow two or more public agencies to enter into agreements for joint or cooperative exercise of any power, privilege or authority exercised or capable of exercise individually by such public agencies. This amount is represented by the transfers in on ESU19 statement of revenue, expenditures and changes in fund balance.

During the current fiscal year ESU19 realized approximately \$279,000 more in Federal revenue from the SES program than in the previous year due to the increase in number of students served.

Fund balances have no restrictions defined in State statutes. However, the Governing Board of ESU historically has desired to maintain a cash reserve of approximately 6% of the total budgeted expenditures. The current reserve is 22% for fiscal year ending August 31, 2014.

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

Educational Service Unit No. 19

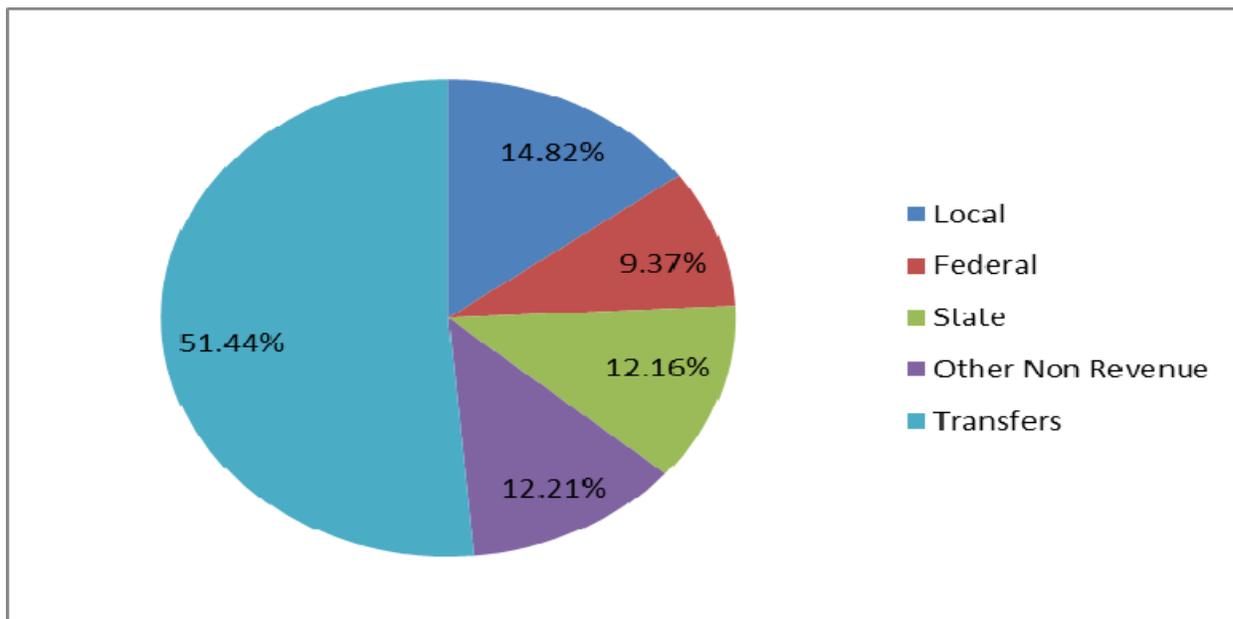
**Management's Discussion and Analysis
August 31, 2014**

	Balance Sheet - General Fund (in thousands)	
	<u>2013</u>	<u>2014</u>
Cash and cash equivalents	\$ 3,518	4,772
Other current assets	<u>1,423</u>	<u>1,314</u>
Total assets	<u>\$ 4,941</u>	<u>6,086</u>
Accounts payable	\$ 280	136
Other liabilities	<u>896</u>	<u>982</u>
Total liabilities	<u>1,176</u>	<u>1,118</u>
Nonspendable	1,270	1,078
Unassigned	<u>2,495</u>	<u>3,890</u>
Total fund balance	<u>3,765</u>	<u>4,968</u>
Total liabilities and fund balance	<u>\$ 4,941</u>	<u>6,086</u>

	Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund (in thousands)	
	<u>2013</u>	<u>2014</u>
Revenue	\$ 9,055	9,176
Other financing sources	9,084	9,720
Program expenditures	<u>(16,694)</u>	<u>(17,693)</u>
Excess of revenue and other financing sources over expenditures	1,445	1,203
Fund balance, beginning of year	<u>2,320</u>	<u>3,765</u>
Fund balance, end of year	<u>\$ 3,765</u>	<u>4,968</u>

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2014



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

HISTORICAL OVERVIEW OF PROPERTY TAXES

The following table illustrates the changes in property tax requests and the amount of property taxes collected by ESU No. 19. The 2013-14 budget, as well as prior year's budgets, reflects strategies that allow ESU No. 19 to utilize funding based upon the educational needs of the students served by ESU No. 19

<u>Property Taxes Collected</u>		<u>2010-11 Actual</u>	<u>2011-12 Actual</u>	<u>2012-13 Actual</u>	<u>2013-14 Actual</u>	<u>2014-15 Budget</u>
General Fund ESU No. 19	\$	<u>2,749,522</u>	<u>2,745,067</u>	<u>2,801,371</u>	<u>2,871,233</u>	<u>2,905,513</u>
Assessed Valuation	\$	<u>19,156,900,563</u>	<u>19,232,921,295</u>	<u>19,224,790,998</u>	<u>19,141,556,063</u>	<u>19,370,086,656</u>

STUDENT POPULATION SERVED

ESU covers approximately 134 square miles and serves approximately 50,000 students. Since 2003-04 the district has seen a 10.9% growth in student enrollment. For the fiscal year 2013-14, the student enrollment totaled 51,070. Student enrollment in pre-kindergarten was 2,546, grades K-6 totaled 28,234, grades 7-8 totaled 6,934 and grades 9-12 were 13,356. The average elementary class size is 20.49 students for every teacher.

The district serves a large and diverse group of students. Based upon the 2013 fall enrollment, the District served:

* 16.6% of the pre-kindergarten through grade 12 students attending public schools in the entire state of Nebraska.

* Over 17.1% of the District's students meet some form of special education disability classification.

* Approximately 73.6% of the District's students qualified for the Free or Reduced Lunch Program.

* 7,000 students who are English language learners (ELL). This number has grown from fewer than 500 students at the end of the 1992 fiscal year. The ELL program currently serves students who represent over 96 languages.

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2014

STAFFING

The ESU consists of 82 school sites and 12 alternative programs. The Omaha Public School District employs 3,997 teachers, 276 administrators, 1,527 classroom support personnel and 2,238 support staff.

EDUCATIONAL SERVICE UNIT NO. 19 CONTACT INFORMATION

Any questions or comments relative to this report may be directed to the Educational Unit No. 19 Service Hub, 4514 S. 67th Street, Omaha, NE 68117-1088, Attention Dr. Dennis L. Pool. The phone number for this office is 402-596-0340, the fax number is 402-596-0379, and the ESU No. 19's web address is <www.esu19.org>.

Respectfully submitted by:

Dr. Dennis L. Pool
Administrator
Educational Service Unit No. 19
Dennis.Pool@esu19.org

Ibrahima A. Diop
Director
Finance, Accounting & Budget
General Finance & Administrative Services
Educational Service Unit No. 19
ibrahima.diop@esu19.org

Educational Service Unit No. 19

Governmental Fund Balance Sheet / Statement of Net Position August 31, 2014 (Thousands of Dollars)

	General Fund	Adjustments (Note 1)	Statement of Net Position
ASSETS			
Cash and cash equivalents	\$ 4,772	--	4,772
Property taxes receivable	236	--	236
Inventories	219	--	219
Prepaid expenses	859	--	859
Total current assets	<u>6,086</u>	<u>--</u>	<u>6,086</u>
Capital assets			
Buildings and improvements	--	1,128	1,128
Equipment	--	3,376	3,376
Computers	--	2,255	2,255
Software	--	23,814	23,814
Textbooks	--	29	29
	<u>--</u>	<u>30,602</u>	<u>30,602</u>
Less accumulated depreciation	--	(28,063)	(28,063)
Total capital assets, net	<u>--</u>	<u>2,539</u>	<u>2,539</u>
Total assets	<u>\$ 6,086</u>	<u>2,539</u>	<u>8,625</u>
LIABILITIES			
Accounts payable	\$ 136	--	136
Accrued payroll liabilities	982	492	1,474
Current portion of capital lease obligations	--	82	82
Total current liabilities	<u>1,118</u>	<u>574</u>	<u>1,692</u>
Special termination benefits	--	85	85
Total liabilities	<u>1,118</u>	<u>659</u>	<u>1,777</u>
FUND BALANCES/NET POSITION			
Fund balances			
Nonspendable	1,078	(1,078)	--
Unassigned	3,890	(3,890)	--
Total fund balances	<u>4,968</u>	<u>(4,968)</u>	<u>--</u>
Total liabilities and fund balances	<u>\$ 6,086</u>		
Net position			
Net investment in capital assets		2,457	2,457
Unrestricted		<u>4,391</u>	<u>4,391</u>
Total net position		<u>\$ 6,848</u>	<u>6,848</u>

See accompanying notes to the financial statements

Educational Service Unit No. 19

**Statement of Governmental Fund Revenue, Expenditures,
and Changes in Fund Balance / Statement of Activities
For the Year Ended August 31, 2014 (Thousands of Dollars)**

	General Fund	Adjustments (Note 1)	Statement of Activities
REVENUE			
Property taxes	\$ 2,801	--	2,801
State funding	2,297	--	2,297
Federal receipts	1,770	--	1,770
Other	2,308	--	2,308
Total revenue	<u>9,176</u>	<u>--</u>	<u>9,176</u>
EXPENDITURES/EXPENSES			
Support services	17,678	(227)	17,451
Property tax recapture	15	--	15
Total expenditures/expenses	<u>17,693</u>	<u>(227)</u>	<u>17,466</u>
EXCESS OF EXPENDITURES/EXPENSES OVER REVENUE	<u>(8,517)</u>	<u>227</u>	<u>(8,290)</u>
OTHER FINANCING SOURCES/USES			
Loss on disposal of capital assets	--	(6)	(6)
Transfers in	9,720	--	9,720
Excess of revenues and other financing sources over expenditures and other financing uses	1,203	(1,203)	--
Change in net position	--	1,424	1,424
FUND BALANCE/NET POSITION			
BEGINNING OF YEAR	<u>3,765</u>	<u>--</u>	<u>5,424</u>
END OF YEAR	<u>\$ 4,968</u>	<u>--</u>	<u>6,848</u>

See accompanying notes to the financial statements

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2014

(1) Summary of Significant Accounting Policies

These financial statements present Educational Service Unit No. 19 (ESU), a component unit of Douglas County School District #0001 (District). As defined by Governmental Accounting Standards Board (GASB) No. 34, as amended by GASB No. 61, component units are legally separate entities that are included in the District's reporting entity because of the significance of their operating or financial relationships with the District. The financial statements present only ESU and do not purport to, and do not, present fairly the financial position of the District as of August 31, 2014 and the changes in its financial position for the year then ended in conformity with the basis of accounting discussed below.

The following is a summary of the significant accounting policies of Educational Service Unit No. 19 (ESU):

A. *Organization*

On June 19, 1972, the Board of Education (the Board) of the District, through official resolution and under powers from LB 928 passed by the Nebraska State Legislature, established ESU. ESU was originally designed to provide educational data processing to the District and, on a cost reimbursable basis, to other districts throughout the State of Nebraska. Currently, its core services include, but are not limited to: staff development, technology, and audiovisual services.

The governing board of ESU maintains a posture of cooperation with other school districts. However, ESU's first responsibility is to the students and patrons of the District.

B. *Basis of Presentation*

A combined Government-wide and fund basis financial statement has been presented, with eliminations and adjustments included as part of the statements. The Government-wide financial statements include the financial activities of the overall government, whereas, the fund financial statements provide information about specific funds, with the emphasis on major governmental funds. ESU has elected to present a combined Government-wide and fund basis financial statement because it has only one all-purpose governmental fund.

The financial transactions of ESU are blended into the governmental funds of the District. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues, and expenditures.

C. *Measurement Focus and Basis of Accounting*

Government-Wide Financial Statements - The Government-wide financial statements for ESU are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property tax revenue is recognized in the year for which they are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements - Governmental funds for ESU are reported using the current financial resources focus and the modified accrual basis of accounting. Under this method revenue is recognized when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes and grants associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by ESU.

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

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2014

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

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

D. Cash and Cash Equivalents

ESU's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

E. Property Taxes Receivable

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

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

F. Inventories and Prepaid Expenses

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

G. Capital Assets and Depreciation

Capital assets purchased or acquired by ESU, with a value over \$5,000, are recorded at cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

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

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2014

H. *Compensated Absences*

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

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

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

Total obligations as of August 31, 2014 for compensated absences amounted to \$764,567 and are included in accrued payroll liabilities in the statement of net position.

I. *Net Position/Fund Balances*

Net position of ESU is classified in three components for Government-wide presentation:

- Net investment in capital assets consist of capital assets, net of accumulated depreciation/amortization, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At August 31, 2014, ESU has no restricted net position items.
- Unrestricted net position is remaining net position that do not meet the definition of net investment in capital assets or restricted.

ESU first applies restricted resources when an expense incurred for purposes for which both restricted and unrestricted resources are available.

Fund balance of ESU is classified in the governmental fund financial statements as follows:

- Nonspendable fund balance consists of amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be kept intact. At August 31, 2014, ESU had nonspendable fund balance for prepaid expenses and inventories in the amount of \$1,077,646.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2014

- Restricted fund balance consists of amounts that are restricted for specific purposes. These restrictions are either imposed by 1) externally imposed by creditors, grantors contributors, or laws or regulations of other governments or 2) imposed through constitutional provisions or enabling legislation. At August 31, 2014, ESU had no restricted fund balance.
- Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal actions of the government's highest level of decision making authority. These amounts cannot be used for any other purpose unless District removes or changes the specific use by taking the same type of action it used to commit those amounts. The Board of Education is the District's highest level of authority. All actions concerning approving, eliminating, or modifying of minimal fund balances will be accomplished through resolution. At August 31, 2014, ESU had no committed fund balance.
- Assigned fund balance consists of amounts that are constrained by ESU intended to be used for specific purposes, but are neither restricted nor committed. The authority for making an assignment is not required to be the District's highest decision making authority. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regards to committed fund balances. The District management staff will have the overall responsibilities for monitoring these balances. At August 31, 2014, ESU had no assigned fund balance.
- Unassigned fund balance is the residual classification for the general fund. The general fund is the only fund to report a positive unassigned fund balance.

J. *Budget Process*

ESU prepares its operating budget using the cash basis of accounting, which is different from that used for financial reporting purposes. The operating budget includes disbursements and the means of financing them. Public hearings are conducted to obtain taxpayer comments. The budget is legally adopted by the governing board through passage of a resolution in accordance with state statutes. Total disbursements cannot legally exceed the adopted budget. Any revisions to the adopted budget must be approved by the governing board.

K. *Use of Estimates*

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

L. *Change in Accounting Principle*

During 2014, ESU adopted the provisions of GASB Statement No. 65. GASB Statement No. 65 required reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources on the statement of net position.

M. *Subsequent Events*

ESU has considered events occurring through November 10, 2014 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2014

(2) Deposits and Investments

Nebraska Revised Statute §79-1043 provides that ESU may, by and with the consent of the Board of Education of ESU, invest the funds of ESU in securities, including repurchase agreements, the nature of which individuals of prudence, discretion and intelligence acquire or retain in dealing with the property of another.

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

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

ESU's bank accounts and investments are held by the District's agents in the District's name in accordance with state statutes. As of August 31, 2014, the carrying amount of ESU's cash was \$3,519,607. ESU's deposits are included with other District deposits at a bank. The deposits were entirely insured by the FDIC or collateralized with securities in the name of the District.

Cash equivalents consist of investments in the Nebraska Liquid Asset Fund (NLAF). NLAF is similar in nature to a mutual fund. Its portfolio consists solely of instruments in which school entities are permitted to invest under Nebraska law. The value of the investment as of August 31, 2014 is \$1,253,192.

(3) Capital Assets

The changes in capital assets of ESU are as follows:

	<u>Balance</u> <u>August 31, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2014</u>
Depreciable assets:				
Buildings and improvements	\$ 1,127,954	--	--	1,127,954
Equipment and furniture	3,258,064	750,624	(632,224)	3,376,464
Computers	2,059,497	270,029	(74,996)	2,254,530
Software	23,771,642	42,475	--	23,814,117
Textbooks	--	29,027	--	29,027
	<u>30,217,157</u>	<u>1,092,155</u>	<u>(707,220)</u>	<u>30,602,092</u>
Total	30,217,157	1,092,155	(707,220)	30,602,092
Less accumulated depreciation and amortization	<u>27,721,271</u>	<u>1,043,110</u>	<u>(701,518)</u>	<u>28,062,863</u>
Net capital assets	<u>\$ 2,495,886</u>	<u>49,045</u>	<u>(5,702)</u>	<u>2,539,229</u>

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2014

(4) Capital Lease Obligations

ESU has various capital leases for printing equipment. The total cost of the equipment was \$1,045,637, net of accumulated amortization of \$959,061. The activity of the lease obligations included in governmental activities for the year ending August 31, 2014 is as follows:

	<u>August 31,</u> <u>2013</u>	<u>Payments</u>	<u>August 31,</u> <u>2014</u>	<u>Due Within</u> <u>One Year</u>
Capital lease obligations	\$ 275,846	194,260	81,586	81,586

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

<u>Years Ending</u> <u>August 31</u>	<u>Leasing</u> <u>Obligations</u>	<u>Interest</u> <u>Obligations</u>	<u>Total</u>
2015	\$ 81,586	1,278	82,864

(5) Retirement System

A. Plan Description

The employees of ESU are covered by Omaha School Employees' Retirement System (OSERS). OSERS is a single-employer defined benefit retirement plan.

In accordance with Nebraska statutes, OSERS is governed by the Board of Education, which is advised by a Board of Trustees composed of three employees, one annuitant, three Board of Education members, two business people, and the Superintendent of the District. OSERS is administered by the Executive Director of OSERS. The State of Nebraska has the authority under which plan provisions and obligations may be amended or established.

OSERS issues a publicly available financial report that includes financial statements and required supplementary information for OSERS. That report may be obtained by contacting the Executive Director of OSERS.

B. Contributions

ESU employees are required to contribute 9.78% of their annual salary to OSERS. ESU contributes 9.878% of member salaries or such amount above 9.878% necessary to maintain the solvency of OSERS. For fiscal years beginning after July 1, 2009, until July 1, 2014, the State of Nebraska contributes 1% of the employees' compensation in accordance with State Statute 79-988.01. For the fiscal years following July 1, 2014, the State of Nebraska will contribute 2% of employees' compensation. Total retirement expense for ESU for the year ending August 31, 2014 amounted to \$700,691.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2014

(6) Termination Benefits

Accumulated Sick Leave

ESU is under the umbrella of the Douglas County School District #0001 and is included as “the District” in the paragraph below:

In January 2006, the Board of Education approved a mandatory plan for conversion of accumulated sick leave benefits into a supplemental retirement income benefit and/or post-retirement medical expense reimbursement program upon an employee’s retirement from the District. These benefits will be funded by the District on a pay-as-you-go basis at the time of each employee’s retirement. The amount of this benefit is equal to one-half of the employee’s unused accumulated sick leave at the time of his/her retirement and is solely funded by the District. The District will make a determination based upon an interview with each employee prior to their retirement date as to which benefit will be most beneficial for the employee – (1) a tax sheltered annuity 403(b) or (2) health reimbursement account.

The District is the Plan Administrator for this program and may choose to contract with a third party administrator to manage the day-to-day activities associated with these benefits. At August 31, 2014, the total obligation of the District for the termination benefits amounted to \$2,704,444, of which \$492,439 was applicable to ESU employees.

Special Termination Benefits

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

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

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

At August 31, 2014 ESU has obligations to three participants with a total liability of \$84,720. This amount represents the discounted present value of the gross benefits due to participants each year until they reach age 62. The discount rate used by the District is 5%. Actual early retirement expenditures paid for the year ended August 31, 2014 totaled \$46,019.

(7) Commitments and Contingencies

ESU is under the umbrella of the Douglas County School District #0001 and is included as “The District” in the paragraph below:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risks of loss including workers’ compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District contracts with reputable carriers and utilizes deductibles ranging from \$10,000 to \$1,000,000 per claim, and \$1,000,000 to \$5,120,849 in the aggregate, depending on the type of insurance. The District has established four separate funds to address the payment of claims that are less than the deductible amounts. Actual claims paid from these funds did not exceed the District’s expectations during the fiscal year ended August 31, 2014. Also, the District has a line of credit up to \$500,000 with a financial institution for purposes of payment of premiums for general liability and automobile liability.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2014

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

ESU recognizes certain transactions on the Government-wide financial statements that are treated differently on the governmental fund financial statements. The following is a reconciliation of the fund balances/net position and changes in fund balances/net position from the governmental fund financial statements to the Government-wide financial statements.

Governmental Fund Balance Sheet/Statement of Net Position

Fund balance – General fund	\$	4,968
Capital assets, net		2,539
Accumulated sick leave		(492)
Capital lease obligations		(82)
Special termination benefits		(85)
		<u> </u>
Net position – Government-wide	\$	<u>6,848</u>

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

Change in fund balance – General fund	\$	1,203
Depreciation expense		(1,043)
Assets acquired		1,092
Loss on disposal of capital assets		(6)
Payments on capital lease obligations		194
Special termination benefits		53
Accumulated sick leave		(69)
		<u> </u>
Change in net position – Government-wide	\$	<u>1,424</u>

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information Budgetary Comparison Schedule (Unaudited) For the Year Ended August 31, 2014 (Thousands of Dollars)

	Budgeted Amounts		Amounts (Budgetary Basis)	Final Budget Favorable (Unfavorable)
	Original	Final		
RECEIPTS				
Local	\$ 2,830	2,830	2,790	(40)
State receipts	2,234	2,234	2,224	(10)
Federal receipts	1,949	1,949	1,770	(179)
Other non-revenue	226	226	266	40
Reimbursement for employee services	--	--	2,042	2,042
Total receipts	<u>7,239</u>	<u>7,239</u>	<u>9,092</u>	<u>1,813</u>
DISBURSEMENTS AND ENCUMBRANCES				
Salaries	7,999	7,953	7,194	759
Employee benefits	2,790	2,782	2,295	487
Purchased services	5,387	5,441	4,787	654
Supplies and materials	1,996	1,996	2,995	(999)
Capital outlay	643	643	228	415
Dues and fees	13	13	8	5
Conference and travel	255	255	65	190
Property tax recapture	15	15	16	(1)
Total disbursements and encumbrances	<u>19,098</u>	<u>19,098</u>	<u>17,588</u>	<u>1,510</u>
RECEIPTS UNDER DISBURSEMENTS AND ENCUMBRANCES	(11,859)	(11,859)	(8,496)	3,363
OTHER FINANCING SOURCES				
Transfers in	<u>11,859</u>	<u>11,859</u>	<u>9,720</u>	<u>(2,139)</u>
RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND ENCUMBRANCES	--	--	1,224	1,224
FUND BALANCE, BEGINNING OF YEAR	<u>3,685</u>	<u>3,685</u>	<u>3,685</u>	--
FUND BALANCE, END OF YEAR	<u>\$ 3,685</u>	<u>3,685</u>	<u>4,909</u>	<u>1,224</u>

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information Budgetary Comparison Schedule (Unaudited) For the Year Ended August 31, 2014 (Thousands of Dollars)

Notes to Required Supplementary Information – Budgetary Comparison Schedule

Budgetary Reporting Reconciliation – Governmental Funds

The preceding Budgetary Comparison Schedule presents comparisons of the legally adopted budget (more fully described in Note 1J.) with actual data on the cash basis. Because accounting principles applied for purposes of developing data on a budgetary basis differs significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resultant basis, timing, perspective, and entity deficiencies in the revenue under expenditures for the year ended August 31, 2014 is presented below:

	<u>General Fund</u>
Receipts under disbursements and encumbrances (budgetary basis)	\$ (8,496)
Adjustments:	
Record change in property taxes receivable	83
Record change in prepaid expenses	(170)
Record change in inventories	8
Record change in payables and accrued liabilities	<u>58</u>
Revenue under expenditures (GAAP basis)	\$ <u><u>(8,517)</u></u>

**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**

Independent Auditor's Report

To the Governing Board
Educational Service Unit No. 19:

We have audited, in accordance with the 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 major fund of Educational Service Unit No. 19 (ESU), a component unit of Douglas County School District #0001 (the District) as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise ESU's basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ESU'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's internal control. Accordingly, we do not express an opinion on the effectiveness of ESU'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ESU'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ESU'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SEIM JOHNSON, LLP

Omaha, Nebraska,
November 10, 2014.