Educational Service Unit No. 19
Omaha, Nebraska

Financial Statements
and Supplementary Information
August 31, 2015

Together with Independent Auditor's Report

Educational Service Unit No. 19

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SEIM JOHNSON

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 No. 19), a component unit of Douglas County School District #0001 (the District), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the ESU No. 19'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 No. 19 as of August 31, 2015, 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 No. 19 and do not purport to, and do not, present fairly the financial position of the District as of August 31, 2015 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.

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As discussed in Note 14 to the financial statements, in 2015 the District adopted a new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting Pensions – an Amendment of GASB Statement No. 27.*

Our opinions are not modified with respect to these matters.

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, the budgetary comparison information on pages 25 through 26, the Schedule of ESU No. 19's Proportionate Share of the Net Pension Liability on page 27, and the Schedule of ESU No. 19's Contributions on pages 28 through 30 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 5, 2015 on our consideration of the ESU No. 19'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 No. 19's internal control over financial reporting and compliance.

SEIM JOHNSON, LLP

Omaha, Nebraska,
November 5, 2015.

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 Accounting Standards Board (GASB). This section will provide readers of this report with an introduction to the basic financial statements and an analytical overview of 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 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 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. The Schedule of ESU No. 19's Proportionate Share of Net Pension Liability and Schedule of ESU No. 19 Contributions provide additional information about ESU No. 19's net pension liability. These reports are 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*

- 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 55% 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 2014-15 budget for this fund was $20,115,765.

LOCAL SOURCES OF ESU No. 19 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 No. 19 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 No. 19 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.

- **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 No. 19 could find itself in a cash short position with bills that need to be paid. By having cash on hand, an ESU No. 19 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)		
RECEIPTS	**2014**	**2015**	**Change**
Local	$ 2,830	2,832	2
State	2,234	2,412	178
Federal receipts	1,949	2,242	293
Other non revenue	226	485	259
Total revenue	7,239	7,971	732
DISBURSEMENTS			
Support services	19,098	20,116	1,018
Disbursements in excess of receipts	(11,859)	(12,145)	(286)
Transfers in	11,859	12,145	286
Net change in fund balance	--	--	--
Fund balance, beginning of year	3,686	4,910	1,224
Fund balance, end of year	$ 3,686	4,910	1,224

Annual budgets are prepared in accordance with State statutes on the cash basis of accounting which is a regulatory basis of accounting and is not consistent with generally accepted accounting principles in the United States. The budget is prepared by fund, department/building, and account. The only transfers allowed for in the General fund are those between departmental budgets. Any number of transfers can occur throughout each fiscal year as long as the original budgeted amount does not change. In 2014-2015, there were no budget amendments.

		Government-Wide Statement of Net Position (in thousands)		
ASSETS		**2014 (Not restated)**	**2015**	**Change**
Cash and cash equivalents	$	4,772	5,344	572
Property tax receivable		236	152	(84)
Other current assets		1,078	1,002	(76)
Capital assets, net of depreciation		2,539	2,951	412
Total assets		8,625	9,449	824
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows		--	733	733
LIABILITIES				
Accounts payable		136	225	89
Payroll liabilities		1,474	1,486	12
Net pension liability		--	7,855	7,855
Other liabilities		167	1,025	858
Total liabilities		1,777	10,591	8,814
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows		--	920	920
NET POSITION				
Net investment in capital assets		2,457	2,092	(365)
Unrestricted		4,391	(3,421)	(7,812)
Total net position	$	6,848	(1,329)	(8,177)

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 No. 19's, and technical community colleges and other political subdivisions organized under Nebraska laws. Cash and cash equivalents held at the end of fiscal year 2015 were 12% higher than in fiscal year 2014. The reason for this increase is primarily due to actual receipts exceeding budgeted amounts.

Net capital assets of ESU No. 19 include capitalized furniture, fixtures, equipment and software, net of depreciation, totaling approximately $2.9 million at August 31, 2015. These capital assets are depreciated over various useful lives, depending on their asset category, and are depreciated using the straight-line depreciation method. Capital assets increased mainly due to new leased equipment for Printing and Publications. The capitalized amount for financial statement purposes is a unit cost of greater than or equal to $5,000.

At August 31, 2015, ESU No. 19 reported an overall negative net position of approximately $1.3 million as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*. Approximately $2.1 million of the ESU No. 19's net position represents investment in capital assets, net of related debt. The remaining balance of unrestricted net position, $3.4 million, is a result implementing GASB Statement No. 68, which requires the recognition of ESU No. 19's proportionate share of the net pension liability of the District's retirement plan.

The increase in other liabilities is primarily related to the implementation of GASB Statement No. 68, and the recording of ESU No. 19's proportionate share of the District's net pension liability. In addition, ESU No. 19 entered into a capital lease for certain equipment.

Payroll liabilities consist of time worked in August but paid in September. In addition, ESU No. 19 has accrued approximately $276,000 and $451,000 for accrued vacation and sick leave respectively.

Government-Wide Statement of Activities (in thousands)

		2014 (Not restated)	2015	Change
REVENUE				
Local	$	2,801	2,793	(8)
State		2,297	2,480	183
Federal		1,770	2,149	379
Other non-revenue		2,308	2,271	(37)
Total revenues		9,176	9,693	517
EXPENSES				
Support services		17,451	18,721	1,270
Debt service interest		--	46	46
Property tax recapture		15	27	12
Total expenses		17,466	18,794	1,328
Deficiency of revenue over expenses		(8,290)	(9,101)	(811)
Other financing sources		9,714	9,150	(564)
Change in net position		1,424	49	(1,375)
Net position, beginning of year		5,424	6,848	1,424
Change in accounting principle		--	(8,226)	(8,226)
Net position, beginning of year, as restated		5,424	(1,378)	(6,802)
Net assets end of year	$	6,848	(1,329)	(8,177)

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 ESU No. 19 statement of revenue, expenditures and changes in fund balance.

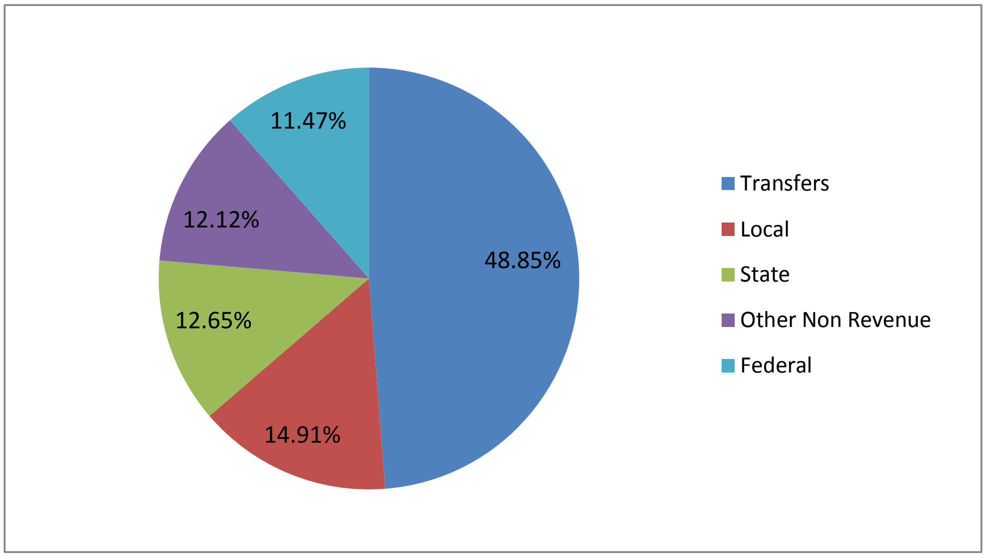
During the current fiscal year ESU No. 19 realized approximately $379,000 more in Federal revenue from the SES program than in the previous year due to the increase in number of students served.

Fund balances have no restrictions defined in State statutes. However, the Governing Board of ESU No. 19 historically has desired to maintain a cash reserve of approximately 6% of the total budgeted expenditures. The current reserve for the governmental fund statement for ESU No. 19 is approximately 26% of the total budgeted expenditures.

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.

		Balance Sheet - General Fund (in thousands)	
		2014	**2015**
Cash and cash equivalents	$	4,772	5,344
Other current assets		1,314	1,154
Total assets	$	6,086	6,498
Accounts payable	$	136	225
Other liabilities		982	1,035
Total liabilities		1,118	1,260
Nonspendable		1,078	999
Committed		--	2,500
Unassigned		3,890	1,739
Total fund balance		4,968	5,238
Total liabilities and fund balance	$	6,086	6,498

		Statement of Revenues Expenditures and Changes in Fund Balance General Fund (in thousands)	
		2014	**2015**
Revenue	$	9,176	9,583
Other financing sources		9,720	9,150
Program expenditures		(17,693)	(18,463)
Excess of revenue and other financing sources over expenditures		1,203	270
Fund balance, beginning of year		3,765	4,968
Fund balance, end of year	$	4,968	5,238



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 2014-15 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

Property Taxes Collected	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Budget
General Fund ESU No. 19	$ 2,745,067	$ 2,801,371	$ 2,871,233	$ 2,905,513	$ 2,993,205
Assessed Valuation	$ 19,232,921,295	$ 19,224,790,998	$ 19,141,556,063	$ 19,370,086,656	$ 19,954,698,480

STUDENT POPULATION SERVED

ESU No. 19 covers approximately 134 square miles and serves approximately 50,000 students. Since 2001-02 the district has seen a 13% growth in student enrollment. For the fiscal year 2014-15, the student enrollment totaled 51,928. Student enrollment in pre-kindergarten was 2,598, grades K-6 totaled 28,553, grades 7-8 totaled 7,140 and grades 9-12 were 13,734. The average elementary class size is 20.12 students for every teacher.

The district serves a large and diverse group of students. Based upon the 2014 fall enrollment, the District served:

* 16.7% of the pre-kindergarten through grade 12 students attending public schools in the entire state of Nebraska.

* Over 16.95% of the District's students meet some form of special education disability classification.

* Approximately 73.26% of the District's students qualified for the Free or Reduced Lunch Program.

* 7,534 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 114 languages.

STAFFING

ESU No. 19 consists of 82 school sites and 12 alternative programs. The Omaha Public School District employs 4,016 teachers, 275 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, 3215 Cuming Street, Omaha, NE 68131, Attention: Constance Knoche. The phone number for this office is 402-557-2002, the fax number is 402-557-2019.

Respectfully submitted by:

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Chief Financial Officer
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Educational Service Unit No. 19

Governmental Fund Balance Sheet / Statement of Net Position
August 31, 2015 (Thousands of Dollars)

	General Fund	Adjustments (Note 1)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	$ 5,344	--	5,344
Property taxes receivable	152	--	152
Accounts receivable	3	--	3
Inventories	177	--	177
Prepaid expenses	822	--	822
Total current assets	6,498	--	6,498
Capital assets			
Buildings and improvements	--	1,128	1,128
Equipment	--	3,749	3,749
Computers	--	2,074	2,074
Software	--	23,843	23,843
Textbooks and library books	--	29	29
	--	30,823	30,823
Less accumulated depreciation	--	(27,872)	(27,872)
Total capital assets, net	--	2,951	2,951
Total assets	6,498	2,951	9,449
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	--	733	733
Total assets and deferred outflows of resources	$ 6,498	3,684	10,182
LIABILITIES			
Accounts payable	$ 225	--	225
Accrued payroll liabilities	1,035	451	1,486
Current portion of capital lease obligations	--	203	203
Total current liabilities	1,260	654	1,914
Special termination benefits	--	166	166
Capital lease obligations, net of current portion	--	656	656
Net pension liability	--	7,855	7,855
Total liabilities	1,260	9,331	10,591
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	--	920	920
FUND BALANCES/NET POSITION			
Fund balances			
Nonspendable	999	(999)	--
Committed	2,500	(2,500)	--
Unassigned	1,739	(1,739)	--
Total fund balances	5,238	(5,238)	--
Total liabilities, deferred inflows of resources and fund balances	$ 6,498		
Net position			
Net investment in capital assets		2,092	2,092
Unrestricted		(3,421)	(3,421)
Total net position		(1,329)	(1,329)
Total liabilities, deferred inflows of resources and net position		$ 3,684	10,182

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, 2015 (Thousands of Dollars)

	General Fund	Adjustments (Note 1)	Statement of Activities
REVENUE			
Property taxes	$ 2,793	--	2,793
State funding	2,370	110	2,480
Federal receipts	2,149	--	2,149
Other	2,271	--	2,271
Total revenue	9,583	110	9,693
EXPENDITURES/EXPENSES			
Support services	18,186	535	18,721
Debt service			
Debt service principal	204	(204)	--
Debt service interest	46	--	46
Property tax recapture	27	--	27
Total expenditures/expenses	18,463	331	18,794
DEFICIENCY OF REVENUE OVER EXPENDITURES/EXPENSES	(8,880)	(221)	(9,101)
OTHER FINANCING SOURCES			
Transfers in	9,150	--	9,150
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES	270	(270)	--
CHANGE IN NET POSITION	--	49	49
FUND BALANCE/NET POSITION			
BEGINNING OF YEAR	4,968	--	6,848
CHANGE IN ACCOUNTING PRINCIPLE	--	--	(8,226)
BEGINNING OF YEAR, AS RESTATED	4,968	--	(1,378)
END OF YEAR	$ 5,238	--	(1,329)

See accompanying notes to the financial statements

(1) Summary of Significant Accounting Policies

These financial statements present Educational Service Unit No. 19 (ESU No. 19), 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 No. 19 and do not purport to, and do not, present fairly the financial position of the District as of August 31, 2015 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 No. 19):

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 No. 19. ESU No. 19 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 No. 19 maintains a posture of cooperation with other school districts. However, ESU No. 19'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 No. 19 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 No. 19 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures.

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements - The Government-wide financial statements for ESU No. 19 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 No. 19 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 No. 19.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences and pension obligations, 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.

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 and pension obligations 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 and deferred inflows and outflows of resources on the Statement of Net Position, and the change in liability and deferred inflows and outflows of resources 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 No. 19'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 No. 19, 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

H. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date, but before the end of the employer's reporting period.

I. 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, 2015 for compensated absences amounted to $727,181 and are included in accrued payroll liabilities in the statement of net position.

J. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the statement of net position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

K. Net Position/Fund Balances

Net position of ESU No. 19 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, 2015, ESU No. 19 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 No. 19 first applies restricted resources when an expense incurred for purposes for which both restricted and unrestricted resources are available.

Fund balance of ESU No. 19 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, 2015, ESU No. 19 had nonspendable fund balance for prepaid expenses and inventories in the amount of $999,364.
- *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, 2015, ESU No. 19 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, 2015, ESU No. 19 has $2,500,000 committed fund balance to cover anticipated budgetary shortfall for fiscal year 2015/16.
- *Assigned fund balance* consists of amounts that are constrained by ESU No. 19 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, 2015, ESU No. 19 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.

L. Budget Process

ESU No. 19 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.

M. 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, deferred outflows of resources, liabilities, deferred inflows of resources 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.

N. Pension

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Omaha School Employees' Retirement System (OSERS) and additions to/deductions from OSERS' fiduciary net position have been determined on the same basis as they are reported by OSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Subsequent Events

ESU No. 19 has considered events occurring through November 5, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Deposits and Investments

Nebraska Revised Statute §79-1043 provides that ESU No. 19 may, by and with the consent of the Board of Education of ESU No. 19, invest the funds of ESU No. 19 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 No. 19'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, 2015, the carrying amount of ESU No. 19's cash was $2,090,444. ESU No. 19'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, 2015 is $3,253,417.

(3) Capital Assets

The changes in capital assets of ESU No. 19 are as follows:

	Balance August 31, 2014	Additions	Retirements	Balance August 31, 2015
Depreciable assets:				
Buildings and improvements	$ 1,127,954	--	--	1,127,954
Equipment and furniture	3,376,464	1,205,438	(832,595)	3,749,307
Computers	2,254,530	360,216	(540,570)	2,074,176
Software	23,814,117	29,000	--	23,843,117
Textbooks	29,027	--	--	29,027
Total	30,602,092	1,594,654	(1,373,165)	30,823,581
Less accumulated depreciation and amortization	28,062,863	1,101,528	(1,291,974)	27,872,417
Net capital assets	$ 2,539,229	493,126	(81,191)	2,951,164

(4) Capital Lease Obligations

ESU No. 19 has various capital leases for printing equipment. The total cost of the equipment was $1,188,889, net of accumulated amortization of $249,470. The activity of the lease obligations included in governmental activities for the year ending August 31, 2015 is as follows:

	August 31, 2014	Additions	Payments	August 31, 2015	Due Within One Year
Capital lease obligations	$ 81,586	981,269	203,722	859,133	203,276

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

Years Ending August 31	Leasing Obligations	Interest Obligations	Total
2016	$ 203,276	34,502	237,778
2017	212,614	25,164	237,778
2018	222,381	15,397	237,778
2019	220,862	5,224	226,086
	$ 859,133	80,287	939,420

(5) Retirement System

Plan Description

The employees of ESU No. 19 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 Omaha School Employees' Retirement System by e-mail at osers@ops.org, by phone at 402-557-2102, or by mail at 3215 Cuming Street, Omaha, NE 68131-2024.

Contributions

ESU No. 19 employees are required to contribute 9.78% of their annual salary to OSERS. ESU No. 19 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 contributions for ESU No. 19 for the year ending August 31, 2015 amounted to $732,783.

Benefits Provided

Each employee who has completed five or more years of creditable service is eligible to elect a deferred vested service annuity in lieu of a refund of accumulated contributions. OSERS provides for various benefits including normal retirement benefits, early retirement benefits, disability benefits, and pre-retirement and post-retirement survivor benefits. These benefits are paid monthly from OSERS. For members hired prior to July 1, 2013, the benefits under OSERS are based on an average of the highest three years of salary earned by employees during their employment with the District, up to their normal retirement dates. For members hired on or after July 1, 2013, the benefits under OSERS are based on an average of the highest five years of salary earned by employees during their employment with the District, up to their normal retirement dates. Employees who terminate employment with fewer than five years of creditable service can elect to receive a refund or a rollover of the employee's contributions, plus accrued interest. For members hired prior to July 1, 2013, retirement benefits are increased by an annual, automatic cost of living adjustment of 1.5% or the increase in the consumer price index (CPI), whichever is lower. For members hired on or after July 1, 2013, retirement benefits are increased by an annual, automatic cost of living adjustment of 1.0% or the increase in the CPI, whichever is lower. Following 10 full years of retirement, a medical cost of living supplement is paid. This supplement equals $10 per month for each year retired and increases by $10 each year to a maximum of $250 per month. For retirees with less than twenty years of service, the benefit is reduced proportionately.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2015, ESU No. 19 reported a liability of $7,855,270 for its proportionate share of the net pension liability that reflected a reduction for the state of Nebraska support provided to the District. ESU No. 19's net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. ESU No. 19's proportion of the net pension liability was based on ESU No. 19's share of contributions to OSERS relative to the contributions of all District contributions to OSERS. At August 31, 2014, ESU No. 19's proportion was 1.8184 percent.

By statute, the state of Nebraska contributes 2.0% of members' compensation to fund the benefits provided by OSERS. Therefore, the State's proportionate share of collective net pension liability of ESU No. 19 at August 31, 2014 is 0.3742 percent. ESU No. 19 recognized revenue in the amount of $110,240 from the state of Nebraska for its proportionate share of collective pension expense for the year ended August 31, 2015.

For the year ended August 31, 2015, ESU No. 19 recognized pension expense of $549,279. At August 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ --	919,570
Contributions subsequent to the measurement date	732,783	--
	$ 732,783	919,570

Deferred outflows of resources related to pensions included $732,783 resulting from District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended August 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31:	
2016	$ 229,893
2017	229,893
2018	229,893
2019	229,891
Total	$ 919,570

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation performed as of September 1, 2013, using standard actuarial formulae and using the following key actuarial assumptions:

Actuarial Assumptions:

Inflation Rate	3.00%
General Wage Growth	4.00%
Long-term Rate of Return	8.00%
Municipal Bond Index Rate	4.23%
Single Equivalent Interest Rate	8.00%
Salary Increases	4.00% to 5.60%
Post-retirement Increases	1.5% members hired before July 1, 2013 1.0% members hired after July 1, 2013
Mortality	Pre-retirement mortality rates were based on the RP 2000 Combined Mortality Table, female rates set back 1 year and male rates with no set back, projected on a generational basis using Scale AA. Post-retirement mortality rates were based on the same rates as the pre-retirement tables. Post-disability mortality rates were based on the same tables as the post-retirement tables, with ages set forward 10 years.

The actuarial assumptions used in the September 1, 2013 valuation were based on the results of the most recent actuarial experience study, which covered the five-year period ending August 31, 2012.

Information relating to the discount rate used in the actuarial valuations is as follows:

Discount rate: The discount rate used to measure the total pension liability at August 31, 2014 was 8.00%. There was no change in the discount rate since the prior measurement date.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed that plan contributions from members, the District and the state of Nebraska will be made at the current contribution rates as set out in state statute:

a. Employee contribution rate: 9.78% of compensation.
b. District contribution rate: 101% of the employee contribution rate.
c. State contribution rate: 2% of the members' compensation.

Based on those assumptions, OSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current OSERS' members. Therefore, the long-term expected rate of return on OSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term rate of return: The long-term expected rate of return on plan assets was determined using a log-normal distribution analysis, in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) were developed for each asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

Municipal bond rate: A municipal bond rate was not used in determining the discount rate. If it were required, the rate would be 4.23%

Periods of projected benefit payments: Projected future benefit payments for all current OSERS members were projected through 2112.

Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Small Cap Equity	12%	7.1%
Global Equity	15%	7.6%
Specialty Funds	15%	11.0%
Alternatives	25%	7.6%
Fixed Income	5%	3.4%
High Yield Investments	16%	5.9%
Real Estate	12%	7.0%
Total	100%	

Sensitivity analysis: The following presents the net pension liability of ESU No. 19, calculated using the discount rate of 8%, as well as ESU No. 19's net pension liability calculated using a discount rate that is 1 percentage-point lower (7%) or 1 percentage-point higher (9%) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Net pension liability	$11,659,110	$7,855,270	$4,676,415

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Omaha School Employees' Retirement System financial report.

Payable to the Pension Plan

At August 31, 2015, ESU No. 19 reported a payable of $53,397 for the outstanding amount of contributions to the pension plan required for the year ended August 31, 2015.

(6) Termination Benefits

Accumulated Sick Leave

ESU No. 19 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. The total obligation for the accumulated sick leave benefit is recognized in the District's financial statements.

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, 2015 ESU No. 19 has obligations to two participants with a total liability of $166,325. 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, 2015 totaled $46,452.

(7) Commitments and Contingencies

ESU No. 19 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 $2,500 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, 2015. 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.

(8) Net Position

ESU No. 19 had a deficit net position of $1,329,000 at August 31, 2015 primarily due to the recognition of the proportionate share of the net pension liability.

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

ESU No. 19 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.

<u>Governmental Fund Balance Sheet/Statement of Net Position</u>

Fund balance – General fund	$	5,238
Capital assets, net		2,951
Accumulated sick leave		(451)
Pension related deferred outflows of resources		733
Special termination benefits		(166)
Capital lease obligations		(859)
Net pension liability		(7,855)
Pension related deferred inflows of resources		(920)
Net position – Government-wide	$	(1,329)

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

Change in fund balance – General fund	$	270
Depreciation expense		(1,102)
Assets acquired		533
Payments on capital lease obligations		204
Special termination benefits		(82)
Accumulated sick leave		41
Pension related		185
Change in net position – Government-wide	$	49

(10) Change in Accounting Principle

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

		Net Position
Net position, August 31, 2014, as previously reported	$	6,848,296
Net pension liability at August 31, 2014		(8,926,252)
Deferred outflows of resources related to contributions made after the September 1, 2014 measurement date		700,691
Net position, September 1, 2014, as restated	$	1,377,265

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information
Budgetary Comparison Schedule (Unaudited)
For the Year Ended August 31, 2015 (Thousands of Dollars)

		Budgeted Amounts		Amounts (Budgetary Basis)	Final Budget Favorable (Unfavorable)
		Original	Final		
RECEIPTS					
Local	$	2,832	2,832	2,806	(26)
State receipts		2,412	2,412	2,443	32
Federal receipts		2,242	2,242	2,149	(93)
Other non-revenue		485	485	278	(207)
Reimbursement for employee services		--	--	1,992	1,992
Total receipts		7,971	7,971	9,669	1,698
DISBURSEMENTS AND ENCUMBRANCES					
Salaries		8,293	8,043	7,584	459
Employee benefits		2,998	2,916	2,380	536
Purchased services		5,463	5,493	4,856	637
Supplies and materials		2,622	2,893	3,209	(316)
Capital outlay		514	514	101	413
Dues and fees		13	13	17	(4)
Conference and travel		196	228	109	119
Property tax recapture		15	15	26	(11)
Total disbursements and encumbrances		20,116	20,116	18,282	1,834
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS AND ENCUMBRANCES		(12,145)	(12,145)	(8,614)	3,531
OTHER FINANCING SOURCES					
Transfers in		12,145	12,145	9,150	(2,995)
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND ENCUMBRANCES		--	--	537	537
FUND BALANCE, BEGINNING OF YEAR		4,910	4,910	4,910	--
FUND BALANCE, END OF YEAR	$	4,910	4,910	5,447	537

See accompanying independent auditor's report

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 1L.) 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 accounting principles generally accepted in the United States of America, a reconciliation of resultant basis, timing, perspective, and entity deficiencies in the revenue under expenditures for the year ended August 31, 2015 is presented below:

		General Fund
Receipts under disbursements and encumbrances (budgetary basis)	$	(8,614)
Adjustments:		
Record change in property taxes receivable		(84)
Record change in accounts receivable		3
Record change in prepaid expenses		(37)
Record change in inventories		(6)
Record change in payables and accrued liabilities		(142)
Revenue under expenditures (GAAP basis)	$	(8,880)

Required Supplementary Information and Notes to Required Supplementary Information
Schedule of ESU No. 19’s Proportionate Share of the Net Pension Liability
For the Year Ended August 31, 2015 (Thousands of Dollars)

Omaha School Employees' Retirement System
Last Fiscal Year*

	2015
ESU No. 19's proportion of net pension liability	1.8184%
ESU No. 19's proportionate share of the net pension liability	$ 7,855,270
State of Nebraska's proportionate share of the net pension liability associated with ESU No. 19	110,240
Total	$ 7,965,510
ESU No. 19's covered-employee payroll	$ 7,418,484
ESU No. 19's proportionate share of the net pension liability as a percentage of its covered-employee payroll	105.89%
Plan fiduciary net position as a percentage of the total pension liability	74.98%

* The amounts presented for each fiscal year were determined as of August 31.

See accompanying independent auditor's report

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, ESU No. 19 will present information for those years for which information is available.

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information
Schedule of ESU No. 19's Contributions
For the Year Ended August 31, 2015 (Thousands of Dollars)

Omaha School Employees' Retirement System
Last 10 Fiscal Years*

		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contributions	$	732,783	700,691	630,821	623,701	535,368	538,764	466,765	474,687	384,460	382,157
Contributions in relation to the statutorily required contribution		732,783	700,691	630,821	623,701	535,368	538,764	466,765	474,687	384,460	382,157
Contribution deficiency (excess)	$	--	--	--	--	--	--	--	--	--	--
ESU No. 19's covered employee payroll	$	7,418,484	7,093,594	6,715,863	6,640,062	6,386,353	6,426,864	6,330,734	6,438,180	6,042,118	6,005,925
Contributions as a percentage of covered employee payroll		9.878%	9.878%	9.393%	9.393%	8.383%	8.383%	7.373%	7.373%	6.363%	6.363%

* The amounts presented for each fiscal year were determined as of August 31.

See accompanying independent auditor's report

Notes to the Schedule:

Changes of benefit terms: The following changes to the Plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1, 2013 listed below:

2013: The 2013 session of the Nebraska legislature enacted Legislative Bill 553 (LB 553), which increased the Member's contribution rate from 9.3% of pay to 9.78% of pay. The School District's contribution rate is equal to 101% of the employee contribution rate so the District's contribution rate increased from 9.393% of pay to 9.878% of pay. The State contribution rate also increased permanently from 1% (plus $973,301) to 2% of payroll, effective July 1, 2014. LB 553 also created a new benefit structure for members hired on or after July 1, 2013 with the same benefit structure as pre-July 1, 2013 hires except annual cost of living adjustments are the lesser of 1% or CPI and final average compensation is defined as 1/60 of the total compensation received during the five fiscal years of highest compensation.

2011: The member contribution rate was increased by the 2011 Legislature from 8.30% to 9.30%, effective September 1, 2011. Since the employer contributes 101% of the member contribution rate, the 1.00% increase in the member contribution rate resulted in an increase of 1.01% in the District's contrition rate.

2009: Legislation passed in 2009 increased the employee contribution rate form 7.30% to 8.30% of pay. The School District contributes 101% of the employee rate so the District's contribution increased from 7.373% to 8.383% of pay. The legislation that enacted these changes also provided for a temporary increase in the State's contribution rate from 0.70% to 1.00% of pay for July, 2009 to July, 2014.

2007: Legislation passed in 2007 increased the employee contribution rate from 6.30% to 7.30% of pay and provided for the employer contribution rate of 101% of the employee rate.

Changes in actuarial assumptions:

9/1/2013 valuation:

- The one-year age set forward in mortality rates for active male employees was eliminated.
- Classified members' retirement rates were adjusted.
- Vested Certificated members' assumption to elect a refund of was adjusted at certain ages.
- The assumed interest rate credited on member contribution accounts was lowered from 7% to 3%.

9/1/2010 valuation:

- The inflation assumption was changed from 3.50% to 3.00%
- The real rate of return increased form 4.50% to 5.00%.
- The productivity portion of the general wage increase assumption increased from 0.50% to 1.00%.

9/1/2008 valuation:

- Mortality table was changed to the RP-2000 table with age adjustments (+1 male, -1 female) and generational projections of mortality improvements.
- Retirement rates were adjusted to better fit the observed experience.
- The use of a disability assumption was eliminated.

For the Year Ended August 31, 2015 (Thousands of Dollars)

- Termination rates were modified to better fit the observed experience.
- Small adjustments based on actual experience were made to the election of a refund assumption.

9/1/2007 valuation:

- The actuarial value of assets was reset to the actual market value.
- The funding policy was set equal to the normal cost plus amortization of the unfunded actuarial liability over a closed 30 year period, commencing September 1, 2007.

Method and assumptions used in calculations of Actuarially Determined Contributions:

The System is funded by statutory contribution rates for members, the School District and the state of Nebraska. The Actuarially Determined Contributions in the *Schedule of Employer Contributions* are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported for the most recent Measurement Date, August 31, 2014 (based on the September 1, 2013 actuarial valuation).

Actuarial Cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Market related smoothed value
Price inflation	3.00%
Salary increases, including wage inflation	4.00% to 5.60%
Long-term rate of return, net of investment expense, and including inflation	8.00%
Cost-of-living adjustments	1.50% if hired before July 1, 2013 1.00% if hired on or after July 1, 2013 Medical COLA of $10/month for each year retired (max $250/month)

SEIM JOHNSON

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 No. 19), a component unit of Douglas County School District #0001 (the District), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise ESU No. 19's basic financial statements, and have issued our report thereon dated November 5, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ESU No. 19's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ESU No. 19's internal control. Accordingly, we do not express an opinion on the effectiveness of ESU No. 19'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 No. 19'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 No. 19's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESU No. 19's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seim Johnson, LLP

Omaha, Nebraska,
November 5, 2015.

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