Educational Service Unit No. 19
Omaha, Nebraska

Financial Statements and Supplementary Information
August 31, 2017

Together with Independent Auditor's Report

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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, 2017, and the related notes to the financial statements, which collectively comprise 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, 2017, 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, 2017 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 opinions are not modified with respect to this matter.

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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 11, the budgetary comparison information on pages 30 through 32, the Schedule of ESU No. 19's Proportionate Share of the Net Pension Liability on page 33, and the Schedule of Employer Contributions on pages 34 through 35 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 8, 2017 on our consideration of 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 solely 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 effectiveness of ESU No. 19's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESU No. 19's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
November 8, 2017.

OVERVIEW

Management's Discussion and Analysis (MD&A) is information required to be presented by the Governmental Accounting Standards Board (GASB). This section will provide an introduction to the basic financial statements and an analytical overview of Educational Service Unit No. 19's (ESU No. 19) financial position and activities. Our discussion and analysis of financial performance of ESU No. 19 is for the fiscal year ended August 31, 2017, and it is presented on the accrual basis, in accordance with generally accepted accounting principles (GAAP), which is a comprehensive basis of accounting generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded when earned and expenditures are recorded when they result in a liability for benefits received, even if they occur in an accounting period other than the current fiscal year.

REPORT COMPONENTS

This annual report consists of the following components:

- **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*

- 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 52% 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 2016-17 budget for this fund was approximately $23,469,000.

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.
- **Core State Aid:** Payments are received from the State of Nebraska for core services. This amount is calculated by the State and is subject to change based upon State Appropriations.

INTERLOCAL AGREEMENT REVENUE

- **Interlocal Agreement Revenue from the District:** The District provides additional funding to the ESU No. 19. Revenues are 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.)

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 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.

BUDGETARY ACTIVITIES

	Budgetary Activity (in thousands)			
RECEIPTS	**2016**	**2017**	**Change**	**Percentage Change**
Local	$ 2,959	2,973	14	0.47%
State	2,859	3,042	183	6.40%
Federal receipts	2,298	2,371	73	3.18%
Interlocal Agreement	10,200	12,668	2,468	24.20%
Reimb for employee services	2,098	2,115	17	0.81%
Other non revenue	636	300	(336)	-52.83%
Total receipts	21,050	23,469	2,419	11.49%
DISBURSEMENTS				
Salaries and benefits	12,434	12,209	(225)	-1.81%
Purchase services	6,085	5,238	(847)	-13.92%
Supplies and materials	3,537	3,724	187	5.29%
Capital outlay	1,253	2,054	801	63.93%
Dues and fees	19	13	(6)	-31.58%
Conference and travel	207	217	10	4.83%
Property tax recapture	15	14	(1)	-6.67%
Total disbursements	23,550	23,469	(81)	-0.34%
Net change in fund balance	(2,500)	--	2,500	-100.00%
Fund balance, beginning of year	5,447	3,448	(1,999)	-36.70%
Fund balance, end of year	$ 2,947	3,448	501	17.00%

BUDGETARY ANALYSIS

In reviewing the fiscal year 2017 revenue budget, Educational Service Unit No. 19 budgeted increases of $183 thousand or 6.40 percent in State Receipts revenue based upon a revised State formula which is changed yearly. Other non-revenue went down $337 thousand due to revisions in Print and Publications procedures in fiscal year 2017 in which the District established structure budget enforcement or item purchased from printing and publication. Capital Outlay increases of $801 or 63 percent due to planned purchase of computers.

Government-Wide
Statement of Net Position (in thousands)

ASSETS		2016	2017	Change	Percentage Change
Cash and cash equivalents	$	3,346	5,867	2,521	75.34%
Property tax receivable		276	256	(20)	-7.25%
Other receivable		31	--	(31)	-100.00%
Inventories		176	175	(1)	-0.57%
Prepaid expenses		916	921	5	0.55%
Capital assets, net		4,266	4,177	(89)	-2.09%
Total assets		9,011	11,396	2,385	26.47%
DEFERRED OUTFLOWS OF RESOURCES					
Pension related deferred outflows		3,409	4,408	999	29.30%
LIABILITIES					
Accounts payable		551	758	207	37.57%
Payroll liabilities		1,543	1,536	(7)	-0.45%
Lease obligation		206	216	10	4.85%
Due to other funds		--	204	204	0.00%
Special termination benefits		127	91	(36)	-28.35%
Capital lease obligations, net of current portion		432	216	(216)	-50.00%
Net pension liability		10,977	12,854	1,877	17.10%
Total liabilities		13,836	15,875	2,039	14.74%
DEFERRED INFLOWS OF RESOURCES					
Pension related deferred inflows		744	505	(239)	-32.12%
NET POSITION					
Net investment in capital assets		3,628	3,745	117	3.22%
Unrestricted		(5,788)	(4,321)	1,467	-25.35%
Total net position	$	(2,160)	(576)	1,584	-73.33%

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 2017 increased by 75.34% or $2.521 million higher than in fiscal year 2016. The primary reason for this increase is due to a transfer of $4,000,000 in cash to cover the beginning costs associated with the District upgrade of its ERP system in 2017.

Net capital assets of ESU No. 19 include capitalized furniture, fixtures, equipment and software, net of depreciation, totaling approximately $4.177 million at August 31, 2017. These capital assets are depreciated over various useful lives, depending on their asset category, and are depreciated using the straight-line depreciation method. The increase is due to starting a planned upgrade to the District ERP system.

The increase of Accounts Payable is a direct result of the timing and received of goods and services at year-end. Of which $357 thousand accrual for milestones that were reached on the upgrade of the District ERP system.

The increase in Other Liabilities is primarily related to the continuation of GASB Statement No. 68, and the recording of ESU No. 19's proportionate share of the District's net pension liability. The current year liability increase was $1.877 million dollars.

	Government-Wide Statement of Activities (in thousands)			
REVENUE	**2016**	**2017**	**Change**	**Percentage Change**
Taxes	$ 2,884	2,778	(106)	-3.68%
State funding	3,147	3,405	258	8.20%
Interest income	2	11	9	450.00%
Federal	2,093	643	(1,450)	-69.28%
Interlocal agreement	9,740	9,103	(637)	-6.54%
Other non-revenue	1,956	2,112	156	7.98%
Total revenues	19,822	18,052	(1,770)	-8.93%
EXPENSES				
Regular instruction	$ 1,638	1,235	(403)	-24.60%
Student non-instructional support services	3,993	3,278	(715)	-17.91%
Support services	626	617	(9)	-1.44%
Government and general administration	12	221	209	1741.67%
Materials and equipment to schools	1,296	1,376	80	6.17%
Core services & technology infrastructure	13,031	13,696	665	5.10%
Debt service				
Debt service interest	39	24	(15)	-38.46%
Property tax recapture	18	21	3	16.67%
Total expenses	20,653	20,468	(185)	-0.90%
Excess of revenue over expenses	(831)	(2,416)	(1,585)	190.73%
Transfers in	--	4,000	4,000	100.00%
Change in net position	(831)	1,584	2,415	-290.61%
Net position, beginning of year	(1,329)	(2,160)	(831)	62.53%
Net position, end of year	$ (2,160)	(576)	1,584	-73.33%

Federal revenues decreases of $1.4 million due to fewer students attending after hours tutoring classes provided by the District. The cost of tutoring these students were reimbursable under Title I program.

State Aid for Core Services increased by $258 thousand. This amount changed yearly due to revised state formula.

Regular instruction went down $403 thousand or 24.60% as a result of fewer students participating in the after-hours tutoring program. The cost tutoring program was down as a result of changes in the Title I requirement.

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.

The below balance sheet and income statement represents the only the general fund of ESU 19 on the modified accrued basis. This modified basis accounting treats acquisition of assets and the payment of debt as current expenditures.

Balance Sheet - General Fund (in thousands)

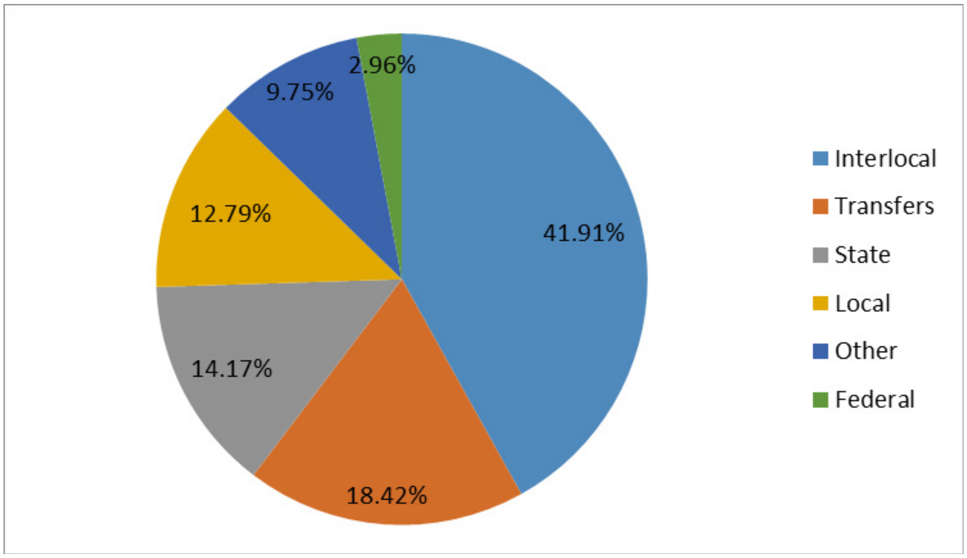
	2016	2017	Change	Percentage Change
Cash and cash equivalents	$ 3,346	5,866	2,520	75.31%
Property taxes	276	256	(20)	-7.25%
Due from other funds	31	--	(31)	-100.00%
Inventories	176	175	(1)	-0.57%
Other current assets	916	921	5	0.55%
Total assets	$ 4,745	7,218	2,473	52.12%
Accounts payable	$ 551	757	206	37.39%
Other liabilities	1,104	1,361	257	23.28%
Total liabilities	1,655	2,118	463	27.98%
Nonspendable	1,092	1,096	4	0.37%
Assigned	--	3,106	3,106	100.00%
Unassigned	1,998	898	(1,100)	-55.06%
Total fund balance	3,090	5,100	2,010	65.05%
Total liabilities and fund balance	$ 4,745	7,218	2,473	52.12%

The Primary reason for this increase in fund balance was a transfer of cash into ESU 19 of $4 million for the upgrade of the District ERP system.

	Statement of Revenues Expenditures and Changes in Fund Balance General Fund (in thousands)			
	2016	**2017**	**Change**	**Percentage Change**
Property taxes	$ 2,884	2,778	(106)	-3.68%
State funding	2,933	3,077	144	4.91%
Federal funding	2,093	643	(1,450)	-69.28%
Interlocal agreement	9,740	9,103	(637)	-6.54%
Interest income	2	12	10	500.00%
Other revenue	1,956	2,117	161	8.23%
Total revenue	19,608	17,730	(1,878)	-9.58%
Regular instruction	1,619	1,268	(351)	-21.68%
Student non-instructional support services	3,627	2,918	(709)	-19.55%
Support services - staff	394	378	(16)	-4.06%
Governance and general administration	12	129	117	975.00%
Material and equipment services	1,250	1,307	57	4.56%
Core services & technology infrastructure	14,581	13,468	(1,113)	-7.63%
Debt service				
Debt service principal	221	207	(14)	-6.33%
Debt service interest	34	24	(10)	-29.41%
Property tax recapture	18	21	3	16.67%
Total expenditures	21,756	19,720	(2,036)	-9.36%
Deficiency of revenue over expenditures	(2,148)	(1,990)	158	-7.36%
Transfers in	--	4,000	4,000	100.00%
Change in fund balance	(2,148)	2,010	4,158	-193.58%
Fund balance, beginning of year	5,238	3,090	(2,148)	-41.01%
Fund balance, end of year	$ 3,090	5,100	2,010	65.05%

Federal funding was down $1.450 million as a result of change to funding requirements in the Title I program.

Student non-instructional cost are down as a result of transferring cost back to the District general fund. This transfer was necessary because of the revenue short fall.



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	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-2018 Budget
General Fund ESU No. 19	$ 2,790,026	$ 2,805,974	$ 2,744,434	$ 3,031,285	$ 3,154,221
Assessed Valuation	$ 19,141,556,063	$ 19,370,086,656	$ 19,954,698,480	$ 20,208,566,050	$ 21,028,142,224

STUDENT POPULATION SERVED

ESU covers approximately 134 square miles and serves approximately 52,000 students. Since 2001-02 the district has seen a 14.8% growth in student enrollment. For the fiscal year 2016-17, the student enrollment totaled 52,975. Student enrollment in pre-kindergarten was 2,628, grades K-6 totaled 25,363, grades 7-8 totaled 10,299 and grades 9-12 were 14,685.The average elementary class size is 20.36 students for every teacher.

The district serves a large and diverse group of students. Based upon the 2015 fall enrollment, the District served:

* 16.5% of the pre-kindergarten through grade 12 students attending public schools in the entire state of Nebraska.

* Over 17.9% of the District's students meet some form of special education disability classification.

* Approximately 74.3% of the District's students qualified for the Free or Reduced Lunch Program.

*7,284 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 120 languages.

STAFFING

The ESU 19 FTE were 108 as of August 31, 2017. They were composed of following classifications. Professional/Technical 64, maintenance 12, office personnel 21, administrative 3, and other 8.

EDUCATIONAL SERVICE UNIT NO. 19 CONTACT INFORMATION

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the Educational Service Unit No.19 accountability for the money it receives. Additional details, questions or comments can be requested from the following individuals.

Respectfully submitted by:

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Educational Service Unit No. 19

Statement of Net Position
August 31, 2017

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	5,866,538
Property taxes receivable		255,862
Inventories		174,768
Prepaid expenses		921,096
Capital assets, net		4,177,263
Total assets		11,395,527
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows		4,408,772
Total assets and deferred outflows of resources	$	15,804,299
LIABILITIES		
Accounts payable	$	757,543
Accrued payroll liabilities		1,536,348
Current portion of capital lease obligations		215,949
Due to other funds		204,323
Special termination benefits		91,352
Capital lease obligations, net of current portion		215,845
Net pension liability		12,854,327
Total liabilities		15,875,687
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows		504,524
NET POSITION		
Net investment in capital assets		3,745,469
Unrestricted		(4,321,381)
Total net position		(575,912)
Total liabilities, deferred inflows of resources and net position	$	15,804,299

See accompanying notes to the financial statements

Educational Service Unit No. 19

Statement of Activities
For the Year Ended August 31, 2017

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position
Functions/Programs				
Governmental activities				
Regular instruction	$ 1,234,656	--	642,849	(591,807)
Student non-instructional support services and programs to schools	3,277,752	--	--	(3,277,752)
Support services - staff	617,467	--	--	(617,467)
Governance and general administration	220,742	--	--	(220,742)
Materials and equipment services to schools	1,376,536	--	--	(1,376,536)
Core services & technology infrastructure	13,695,944	9,102,748	--	(4,593,196)
Debt service -				
Debt service interest	24,498	--	--	(24,498)
Property tax recapture	20,841	--	--	(20,841)
Total governmental activities	$ 20,468,436	9,102,748	642,849	(10,722,839)
General revenues				
Taxes				2,777,975
State funding				3,405,426
Interest income				11,618
Other revenue				2,112,679
Total general revenues				8,307,698
Transfers in				4,000,000
Change in net position				1,584,859
Net position, beginning of year				(2,160,771)
Net position, end of year				$ (575,912)

See accompanying notes to the financial statements

Educational Service Unit No. 19

Balance Sheet – Governmental Funds
August 31, 2017

		General Fund
ASSETS		
Cash and cash equivalents	$	5,866,538
Property taxes receivable		255,862
Inventories		174,768
Prepaid expenses		921,096
Total assets	$	7,218,264
LIABILITIES		
Accounts payable	$	757,543
Accrued payroll liabilities		1,156,463
Due to other funds		204,323
Total liabilities		2,118,329
FUND BALANCES		
Nonspendable		1,095,864
Assigned		3,105,790
Unassigned		898,281
Total fund balances		5,099,935
Total liabilities and fund balances	$	7,218,264

RECONCILIATION		
Total fund balance - governmental fund	$	5,099,935
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		4,177,263
Deferred outflows of resources represent consumption of net position in future periods and therefore are not reported in the funds		4,408,772
Long-term liabilities, including pension obligations, and related deferred inflows and outflows of resources, are not due and payable in the current period and therefore are not reported in the funds		(13,757,358)
Deferred inflows of resources represent the acquisition of net position in future periods and therefore are not reported in the funds		(504,524)
Net position, governmental activities	$	(575,912)

See accompanying notes to the financial statements

Educational Service Unit No. 19

Statement of Revenue, Expenditures and Change in Fund Balance – Governmental Fund
For the Year Ended August 31, 2017

		General Fund
REVENUES		
Property taxes	$	2,777,975
State funding		3,077,336
Federal funding		642,849
Interlocal agreement		9,102,748
Interest income		11,618
Other revenue		2,117,562
Total revenues		17,730,088
EXPENDITURES		
Regular instruction		1,268,191
Student non-instructional support services and programs to schools		2,918,196
Support services - staff		378,010
Governance and general administration		129,390
Materials and equipment services to schools		1,306,399
Core services & technology infrastructure		13,467,690
Debt service		
Debt service principal		206,464
Debt service interest		24,498
Property tax recapture		20,841
Total expenditures		19,719,679
DEFICIENCY OF REVENUE OVER EXPENDITURES		(1,989,591)
OTHER FINANCING SOURCES		
Transfers In		4,000,000
CHANGE IN FUND BALANCE		2,010,409
FUND BALANCE, BEGINNING OF YEAR		3,089,526
FUND BALANCE, END OF YEAR	$	5,099,935

RECONCILIATION		
Net change in fund balance - governmental fund	$	2,010,409
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their useful lives and reported as depreciation expense		(88,528)
Payment of lease obligations is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position		206,464
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds		
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds		(543,486)
Change in net position - governmental activities	$	1,584,859

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). The accompanying financial statements present only ESU No. 19 and do not intend to, and do not, present fairly the financial position of the District as of August 31, 2017 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The following is a summary of the significant accounting policies of Educational Service Unit No. 19 (ESU No. 19). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. Reporting Entity

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.

For financial reporting purposes, ESU No. 19 has included all funds, organizations, agencies, boards, commissions and authorities. ESU No. 19 has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with ESU No. 19 are such that exclusion would cause the financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of ESU No. 19 to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on ESU No 19. ESU No. 19 has no component units which meet the GASB criteria.

B. Basis of Presentation

Government-Wide Financial Statements

ESU No 19's basic financial statements include both government-wide (reporting the ESU as a whole) and fund financial statements (reporting ESU No. 19's major funds). The government-wide financial statements categorize activities as governmental or business-type and exclude any fiduciary activities.

For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charges for service.

ESU No. 19 does not report any business-type or fiduciary activities.

Governmental Fund Financial Statements

The emphasis in fund financial statements is on the major funds in either the governmental, proprietary or fiduciary activity categories. Major individual funds are reported as separate columns in the fund financial statements. All remaining governmental funds by category are summarized into a single column as nonmajor governmental funds.

The financial transactions of ESU No. 19 are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. ESU No. 19 reports the following major governmental funds:

General Fund – This is the primary operating fund of ESU No. 19. It is used to account for all financial resources except those that are required to be accounted for elsewhere.

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.

D. Cash and Cash Equivalents and Pooled Investments

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. A significant portion of ESU No 19’s cash balances are pooled and invested in the Nebraska Liquid Asset Fund (NLAF). Investments are stated at fair value, except for the investment in NLAF which is valued at amortized cost.

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/Amortization

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. Equipment under capital leases is amortized over the estimated useful life of the equipment. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation and amortization 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 five 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 twelve-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 the same as above.

Total obligations as of August 31, 2017 for compensated absences amounted to $685,116 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 statement of net position consist of the unamortized portion of the net differences between projected and actual earnings in the total pension liability and projected and actual experience 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* consists 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, 2017, ESU No. 19 has no restricted net position items.
- *Unrestricted net position* is remaining net position that does 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, 2017, ESU No. 19 had nonspendable fund balance for prepaid expenses and inventories in the amount of $1,095,864.
- *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, 2017, 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 the 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, 2017, ESU No. 19 had no committed fund balance.

- *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, 2017, ESU No. 19 had fund balance assigned for the ERP replacement project in the amount of $3,105,790.
- *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. Interlocal Agreement

The District and ESU No. 19 have entered into an agreement whereby ESU No. 19 provides educational data processing services for the benefit of the District. During the fiscal year ended August 31, 2017, the District reimbursed ESU No. 19, $9,102,748, which is reported as Interlocal Agreement revenue in the accompanying financial statements.

M. Budget Process

ESU No. 19 prepares the operating budget for its general fund. The basis of accounting for budgetary purposes is the same as that used for regulatory reporting purposes permitted by the Nebraska Commissioner of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The operating budget includes disbursements and their financing means. Public hearings are conducted to obtain taxpayer comments. The budget is legally adopted by the Board of Education 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 Board of Education following a hearing to obtain taxpayer comments.

N. 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.

O. 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.

P. Subsequent Events

ESU No. 19 has considered events occurring through November 8, 2017 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 Pooled 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, 2017, the carrying amount of ESU No. 19's cash was $3,599,408. 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, 2017 is $2,267,130.

ESU No. 19 had no investments meeting the disclosure requirements of GASB Statement No. 72.

(3) Capital Assets

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

	Balance August 31, 2016	Additions	Retirements	Balance August 31, 2017
Nondepreciable capital assets:				
Construction in progress	$ --	356,526	--	356,526
Depreciable capital assets:				
Buildings and improvements	1,127,954	--	--	1,127,954
Equipment and furniture	5,948,841	259,059	--	6,207,900
Computers	2,175,300	60,561	(273,383)	1,962,478
Software	23,924,518	582,747	(32,496)	24,474,769
Textbooks	30,205	7,237	--	37,442
Total depreciable capital assets	33,206,818	909,604	(305,879)	33,810,543
Less accumulated depreciation and amortization	28,941,027	1,349,776	(300,997)	29,989,806
Net depreciable capital assets	4,265,791	(440,172)	(4,882)	3,820,737
Net capital assets	$ 4,265,791	(83,646)	(4,882)	4,177,263

(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 $725,025. The activity of the lease obligations included in governmental activities for the year ending August 31, 2017 is as follows:

	August 31, 2016	Additions	Payments	August 31, 2017	Due Within One Year
Capital lease obligations	$ 638,258	--	206,464	431,794	215,949

Under the lease obligations included in governmental activities, ESU No. 19 is required to make the following remaining payments:

Years Ending August 31	Leasing Obligations	Interest Obligations	Total
2018	$ 215,949	15,013	230,962
2019	215,845	5,129	220,974
	$ 431,794	20,142	451,936

(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 revised statutes, OSERS is governed by a Board of Trustees, which is comprised of three members who are active employees of the District, one annuitant member, two business people approved by the District Board of Education, and the Superintendent of the District, or his/her designee. 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 531-299-0329, 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. Neb. Rev. Stat. §79-9,113 (1)(c) (Supp. 2016) provides that contributions by the District in any fiscal year shall be the greater of 101% of employee contributions, or 9.878% of member salaries, or such amounts that may be necessary to maintain the solvency of OSERS. For the year ended August 31, 2017, an additional contribution of $12,750,000 was made by the District as recommended by the actuary, to maintain the solvency of OSERS. The State of Nebraska also contributes 2% of employees' compensation.

Total contributions for ESU No. 19, including is proportionate share of additional amounts to maintain solvency, for the year ending August 31, 2017 amounted to $1,093,921.

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 20 years of service, the benefit is reduced proportionately.

Retirement eligibility for members hired on or after July 1, 2016 is set at 35 years of services, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at age 55 with 85 points. Early retirement eligibility is age 60 with five years of service. No state service annuity or medical COLA is provided for members hired on or after July 1, 2016.

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

At August 31, 2017, ESU No. 19 reported a liability of $12,854,327 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, 2016, 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, 2016, ESU No. 19's proportion was 1.8960%, an increase of 0.0067% from its proportion measured at August 31, 2015.

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, 2016 is 16.8381%. ESU No. 19 recognized revenue in the amount of $328,080 from the state of Nebraska for its proportionate share of collective pension expense for the year ended August 31, 2017.

For the year ended August 31, 2017, ESU No. 19 recognized pension expense of $1,948,493. At August 31, 2017, 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	$	2,960,300	466,541
Differences between expected and actual experience		112,689	37,983
Changes in proportion and differences between contributions and proportionate share of contributions		241,862	--
District contributions subsequent to the measurement date		1,093,921	--
	$	4,408,772	504,524

Deferred outflows of resources related to pensions included $1,043,921 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, 2017. 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		
2018	$	721,820
2019		721,820
2020		955,091
2021		372,932
2022		35,380
2023		3,284
Total	$	2,810,327

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation performed as of September 1, 2015, using standard actuarial formulae and using the following key actuarial assumptions:

Actuarial Assumptions:

Price Inflation	3.00%
Wage Inflation	4.00%
Long-term Rate of Return	8.00%
Municipal Bond Index Rate	2.85%
Single Equivalent Interest Rate	8.00%
Salary Increases	4.00% to 5.60%
Cost of Living Adjustments	1.5% members hired before July 1, 2013
	1.0% members hired after July 1, 2013
	Medical COLA of $10/month for each year retired (max $250/month), if hired before July 1, 2016.
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, 2015 valuation were based on the results of the most recent actuarial experience study dated December 23, 2013, 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, 2016 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 of 8.00% was applied to all periods of projected benefit payments to determine the total pension liability.

The fiduciary net position projections are based upon OSERS' financial status on the measurement date, the indicated set of methods and assumptions, and the requirements of GASB Statement No. 68. As such, the fiduciary net position projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing plan basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of OSERS, the OSERS' ability to make benefit payments in future years.

Long-term rate of return: The long-term expected rate of return on plan assets is reviewed as part of regular experience studies prepared periodically. The most recent analysis was performed and results were included in a report dated December 23, 2013. Generally several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by OSERS' investment consultant. 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. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the long-term inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: A municipal bond rate was not used in determining the discount rate. If it were required, the rate would be 2.85%

Periods of projected benefit payments: Projected future benefit payments for all current OSERS members were projected through 2114.

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	$17,117,981	$12,854,327	$9,290,117

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 at www.osers.org.

Payable to the Pension Plan

At August 31, 2017, ESU No. 19 reported a payable to OSERS of $60,587 for legally required employer contributions and $60,003 for legally required employee contributions withheld from employee wages which had not yet been remitted to OSERS.

(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:

The District has 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, 2017 ESU No. 19 has obligations to one participant with a total liability of $91,352. 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 is 9%. Actual early retirement expenditures paid for the year ended August 31, 2017 totaled $21,623.

(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, 2017.

(8) Net Position

ESU No. 19 had a deficit net position of $575,912 at August 31, 2017 primarily due to the recognition of the proportionate share of the net pension liability.

(9) Tax Abatement

GASB Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Property tax revenues of ESU No. 19 were reduced by the following amounts for the year ended August 31, 2017 under agreements entered into by the following entities:

Entity	Tax Abatement Program	Amount of Tax Abated
City of Omaha	Tax Increment Financing	$205,607
City of Bellevue	Tax Increment Financing	$ 977

(10) Government-Wide Financial Statement Reconciliation

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.

Governmental Fund Balance Sheet/Statement of Net Position		
Fund balance – General fund	$	5,099,935
Capital assets, net		4,177,263
Accumulated sick leave		(379,885)
Pension related deferred outflows of resources		4,408,772
Special termination benefits		(91,352)
Capital lease obligations		(431,794)
Net pension liability		(12,854,327)
Pension related deferred inflows of resources		(504,524)
Net position – Government-wide	$	(575,912)

Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balances/Statement of Activities		
Change in fund balance – General fund	$	2,010,409
Depreciation expense		(1,349,776)
Assets acquired		1,266,130
Loss on disposal of capital assets		(4,882)
Payments on capital lease obligations		206,464
Special termination benefits		35,645
Accumulated sick leave		58,966
Pension related		(638,097)
Change in net position – Government-wide	$	1,584,859

(11) New Accounting Pronouncement

ESU No. 19 adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*. The statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The notes to the financial statements include information about tax abatements of other entities which impact ESU No. 19.

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended August 31, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
RECEIPTS				
Local	$ 2,973,050	2,973,050	2,810,463	(162,587)
State Receipts	3,042,110	3,042,110	3,077,336	35,226
Federal Receipts	2,371,151	2,371,151	745,927	(1,625,224)
Interlocal Agreement	12,667,447	12,667,447	9,307,071	(3,360,376)
Other Non-Revenue	300,000	300,000	309,715	9,715
Reimb for Employee Services	2,115,498	2,115,498	1,824,810	(290,688)
Total receipts	23,469,256	23,469,256	18,075,322	(5,393,934)
DISBURSEMENTS AND ENCUMBRANCES				
Salaries	9,088,494	8,802,572	8,415,442	387,130
Employee Benefits	3,460,734	3,406,580	2,944,620	461,960
Purchased Services	5,202,196	5,237,892	5,271,996	(34,104)
Supplies and Materials	3,419,439	3,724,069	2,587,527	1,136,542
Capital Outlay	2,054,688	2,054,438	7,893	2,046,545
Dues and Fees	13,200	13,200	10,182	3,018
Conference and Travel	216,505	216,505	63,562	152,943
Debt Service Principal	--	--	216,000	(216,000)
Debt Service Interest	--	--	15,000	(15,000)
Property Tax Recapture	14,000	14,000	21,046	(7,046)
Total disbursements and encumbrances	23,469,256	23,469,256	19,553,268	3,915,988
DEFICIENCY OF RECEIPTS OVER DISBURSEMENTS AND ENCUMBRANCES	--	--	(1,477,946)	(1,477,946)
OTHER FINANCING SOURCES				
Transfers in	--	--	4,000,000	4,000,000
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND ENCUMBRANCES	--	--	2,522,054	2,522,054
FUND BALANCE, BEGINNING OF YEAR	3,447,869	3,447,869	3,447,869	--
FUND BALANCE, END OF YEAR	$ 3,447,869	3,447,869	5,969,923	2,522,054

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 1M.) with actual data on the cash basis of accounting. Because accounting principles applied for purposes of developing data on a budgetary basis differ 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 excess of revenue over expenditures for the year ended August 31, 2017 is presented below:

	General Fund
Excess of receipts over disbursements and encumbrances (budgetary basis)	$ 2,522,054
Adjustments:	
Change in property taxes receivable	(20,046)
Change in receivables	(31,238)
Change in prepaid expenses	5,348
Change in inventories	(1,293)
Change in payables and accrued liabilities	(464,416)
Excess of revenue over expenditures (GAAP basis)	$ 2,010,409

Educational Service Unit No. 19

Required Supplementary Information and Notes to Required Supplementary Information
Schedule of ESU No. 19's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years

		2017	2016	2015
ESU No. 19's proportion of net pension liability		1.8960%	1.8893%	1.8184%
ESU No. 19's proportionate share of the net pension liability	$	12,854,327	10,977,424	7,855,270
State of Nebraska's proportionate share of the net pension liability associated with ESU No. 19		2,602,670	2,222,646	1,590,490
Total	$	15,456,997	13,200,070	9,445,760
ESU No. 19's covered-employee payroll	$	7,821,519	7,418,484	7,093,594
ESU No. 19's proportionate share of the net pension liability as a percentage of its covered-employee payroll		164.35%	147.97%	110.74%
Plan fiduciary net position as a percentage of the total pension liability		63.68%	67.58%	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 Employer Contributions
Last 10 Fiscal Years

		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	$	1,093,921	772,594	732,783	700,691	630,821	623,701	535,368	538,764	466,765	474,687
Contributions in relation to the actuarially determined contribution		1,093,921	772,594	732,783	700,691	630,821	623,701	535,368	538,764	466,765	474,687
Contribution deficiency (excess)	$	--	--	--	--	--	--	--	--	--	--
ESU No. 19's covered employee payroll	$	8,306,882	7,821,519	7,418,484	7,093,594	6,715,863	6,640,062	6,386,353	6,426,864	6,330,734	6,438,180
Contributions as a percentage of covered employee payroll		13.169%	9.878%	9.878%	9.878%	9.393%	9.393%	8.383%	8.383%	7.373%	7.373%

* 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 listed below:

2016: The 2016 session of the Nebraska Legislature enacted Legislative Bill 447 (LB 447), which changed the retirement provisions for members hired on or after July 1, 2016 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2016 is set at 35 years of service, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at age 55 with 85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2016.

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.

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.
- 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.

Method and assumptions used in calculations of Actuarially Determined Contributions:

OSERS is funded by statutory contribution rates for members, the School District and the state of Nebraska. If the statutory contribution rate is less than the Actuarially Determined Contributions, the School District will contribute the difference. 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, 2016 (based on the September 1, 2015 actuarial valuation).

Actuarial Cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 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), if hired before July 1, 2016

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, 2017, 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 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of ESU No. 19 as of any for the year ended August 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered ESU No. 19's internal control over financial reporting (internal control) as a basis for determining 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seim Johnson, LLP

Omaha, Nebraska,
November 8, 2017.

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