

Educational Service Unit No. 19
Omaha, Nebraska

Financial Statements and Supplementary Information
August 31, 2019

Together with Independent Auditor's Report

Educational Service Unit No. 19

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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, 2019, 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 qualified 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, 2019, 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, 2019 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.

As discussed in Note 12 to the financial statements, in 2019, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB).

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 11, the budgetary comparison information on pages 32 through 33, the Schedule of ESU No. 19's Proportionate Share of the Net Pension Liability on page 34, the Schedule of Employer Contributions on pages 35 through 37, and the schedule of changes in total OPEB liability on page 38 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 18, 2019 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.

SEEM JOHNSON, LLP

Omaha, Nebraska,
November 18, 2019.

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2019



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 the Educational Service Unit No. 19's (ESU No. 19) activities with primary emphasis on the ESU No. 19 as a whole. The basic financial statements are comprised of three components: Government-wide financial statements, fund financial statements, and notes to the financial statements. It also provides additional information that supplements the financial statements and the notes to the financial statements. Our discussion and analysis of financial performance of the ESU No. 19 is for the fiscal year ended August 31, 2019, and it is presented on the accrual basis, in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized 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.

GOVERNANCE, ORGANIZATION AND RESPONSIBILITIES

The District is governed by the Board of Education (Board). The nine-members of the Board represent nine sub-districts and are elected to four-year terms by the citizens of the District. The terms of the members of the Board overlap with elections occurring every two years. The 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 Board, as a governing body, is to prepare and approve an annual budget in accordance with the Nebraska Budget Act.

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2019

EDUCATIONAL MISSION

The mission of ESU No. 19 is to partner with Omaha Public Schools to provide innovative and quality educational services to enhance the educational opportunities which enable all students to achieve their highest potential. Contracted and core services in the area of professional development, media technology, special education, and information technology, support the diverse needs of Omaha Public School District (the District). ESU No. 19 is structured to provide core services to the District and, on a cost reimbursable basis, to other school districts throughout the State of Nebraska. 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*

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 41% 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 2018-19 budget for this fund was \$22,140,710.

LOCAL SOURCES OF ESU REVENUES

- **Property Tax:** The property tax has been a traditional local source for the support of local political subdivisions. In Nebraska, property taxes are determined by a rate per \$100 of assessed property value.
- **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.
- **Property Tax Relief:** This amount is determined by the State of Nebraska to assist with property tax reductions.
- **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.

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Management's Discussion and Analysis August 31, 2019

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 can 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.
- **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			Percentage
	2018	2019	Change	Change
RECEIPTS				
Local	\$ 3,193,191	3,366,505	173,314	5.43%
State	3,046,377	3,002,000	(44,377)	-1.46%
Interlocal Agreement	16,355,144	12,841,155	(3,513,989)	-21.49%
Reimb for employee services	2,123,663	2,156,470	32,807	1.54%
Other non revenue	300,000	275,000	(25,000)	-8.33%
Total receipts	<u>25,018,375</u>	<u>21,641,130</u>	<u>(3,377,245)</u>	-13.50%
DISBURSEMENTS				
Salaries and benefits	10,559,751	9,993,708	(566,043)	-5.36%
Purchase services	5,796,581	6,072,681	276,100	4.76%
Supplies and materials	11,227,782	5,043,350	(6,184,432)	-55.08%
Capital outlay	1,333,000	983,341	(349,659)	-26.23%
Dues and fees	3,700	3,600	(100)	-2.70%
Conference and travel	111,824	19,030	(92,794)	-82.98%
Property tax recapture	25,000	25,000	--	0.00%
Total disbursements	<u>29,057,638</u>	<u>22,140,710</u>	<u>(6,916,928)</u>	-23.80%
Net change in fund balance	\$ <u>(4,039,263)</u>	<u>(499,580)</u>	<u>3,539,683</u>	87.63%

Educational Service Unit No. 19

Management's Discussion and Analysis August 31, 2019

BUDGETARY ANALYSIS

In reviewing the fiscal year 2019 revenue budget, ESU No. 19 budgeted a decrease of \$44,797 or 1.47 percent in State Receipts revenue based upon a revised State formula, which is changed yearly, as well as a State of Nebraska budget deficit that decreased state aid. Interlocal Agreement decreased \$3,513,989 due to the completion PeopleSoft software upgrade. Capital Outlay decreases of \$349,659 or 26.23 percent due to fewer purchases of computers.

	Government-Wide Statement of Net Position			Percentage Change
	2018	2019	Change	
ASSETS				
Cash and cash equivalents	\$ 4,074,747	2,344,296	(1,730,451)	-42.47%
Property tax receivable	326,502	339,930	13,428	4.11%
Inventories	244,877	256,774	11,897	4.86%
Prepaid expenses	870,972	908,178	37,206	4.27%
Capital assets, net	11,446,306	9,959,392	(1,486,914)	-12.99%
Total assets	<u>16,963,404</u>	<u>13,808,570</u>	<u>(3,154,834)</u>	-18.60%
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	6,331,809	4,717,909	(1,613,900)	-25.49%
LIABILITIES				
Accounts payable	1,810,660	160,168	(1,650,492)	-91.15%
Payroll liabilities	1,435,572	1,333,631	(101,941)	-7.10%
Lease obligation	193,375	185,974	(7,401)	-3.83%
Special termination benefits	71,222	50,331	(20,891)	-29.33%
Capital lease obligations, net of current portion	772,923	587,105	(185,818)	-24.04%
Net pension liability	15,162,382	14,460,597	(701,785)	-4.63%
Total liabilities	<u>19,446,134</u>	<u>16,777,806</u>	<u>(2,668,328)</u>	-13.72%
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	1,226,352	1,672,670	446,318	36.39%
NET POSITION				
Net investment in capital assets	10,480,008	9,186,313	(1,293,695)	-12.34%
Unrestricted	(7,857,281)	(9,110,310)	(1,253,029)	15.95%
Total net position	<u>\$ 2,622,727</u>	<u>76,003</u>	<u>(2,546,724)</u>	-97.10%

Cash and cash equivalents held at the end of fiscal year 2019 decreased by 42.47% or \$1,730,451 lower than in fiscal year 2018. The primary reason is the reduction of Interlocal Agreement revenues.

Net capital assets of ESU No. 19 include capitalized furniture, fixtures, equipment and software, net of depreciation, totaling \$9,959,392 at August 31, 2019. These capital assets are depreciated over various useful lives, depending on their asset category, and are depreciated using the straight-line depreciation method. The decrease is due to the reduced number of computers added during the year.

The decrease of \$1,650,492 in Accounts Payable is a direct result of the completion of the District ERP system in the prior year, a majority of which was due to Accenture.

The decrease in Other Liabilities is primarily related to the continuation of GASB Statement No. 68, and the recognition of ESU No. 19's proportionate share of the District's net pension liability. The current year liability decreased by \$701,785.

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Management's Discussion and Analysis August 31, 2019

REVENUE	Government-Wide Statement of Activities			Percentage Change
	2018	2019	Change	
Taxes	\$ 2,940,726	3,079,501	138,775	4.72%
State funding	3,485,885	3,502,158	16,273	0.47%
Interest income	23,576	2,650	(20,926)	-88.76%
Interlocal agreement	12,889,551	11,721,572	(1,167,979)	-9.06%
Other non-revenue	4,956,302	2,121,035	(2,835,267)	-57.21%
Total revenues	<u>24,296,040</u>	<u>20,426,916</u>	<u>(3,869,124)</u>	-15.92%
EXPENSES				
Regular instruction	\$ 324,714	24,562	(300,152)	-92.44%
Student non-instructional support services	3,346,797	3,281,683	(65,114)	-1.95%
Support services	735,250	555,217	(180,033)	-24.49%
Government and general administration	12,375	31,062	18,687	151.01%
Materials and equipment to schools	1,495,464	1,527,059	31,595	2.11%
Core services & technology infrastructure	15,158,430	17,178,857	2,020,427	13.33%
Debt service				
Debt service interest	8,007	38,257	30,250	377.79%
Property tax recapture	16,364	22,100	5,736	35.05%
Total expenses	<u>21,097,401</u>	<u>22,658,797</u>	<u>1,561,396</u>	7.40%
Change in net position	3,198,639	(2,231,881)	(5,430,520)	-169.78%
Net position, beginning of year	(575,912)	2,622,727	3,198,639	-555.40%
Prior period adjustment (Note 12)	--	(314,843)	--	
Net position, end of year	<u>\$ 2,622,727</u>	<u>76,003</u>	<u>(2,231,881)</u>	-97.10%

State Aid for Core Services increase by \$16,273. This amount changes yearly due to the amendments to the state formula that dealt with a projected state budget shortfall.

Regular instruction went down \$300,152 or 92.44% because of termination of the after-hours tutoring program.

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.

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Management's Discussion and Analysis August 31, 2019

The balance sheet and statement of revenue, expenditures, and changes in fund balance represent 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			Percentage
	2018	2019	Change	Change
Cash and cash equivalents	\$ 4,074,747	2,344,296	(1,730,451)	-42.47%
Property taxes	326,502	339,930	13,428	4.11%
Inventories	244,877	256,774	11,897	4.86%
Other current assets	870,972	908,178	37,206	4.27%
Total assets	\$ 5,517,098	3,849,178	(1,667,920)	-30.23%
Accounts payable	\$ 1,810,660	160,168	(1,650,492)	-91.15%
Other liabilities	1,012,752	949,679	(63,073)	-6.23%
Total liabilities	2,823,412	1,109,847	(1,713,565)	-60.69%
Nonspendable	1,115,849	1,164,952	49,103	4.40%
Committed	500	--	(500,000)	100.00%
Unassigned	1,077,837	1,574,379	496,542	46.07%
Total fund balance	2,693,686	2,739,331	45,645	1.69%
Total liabilities and fund balance	\$ 5,517,098	3,849,178	(1,667,920)	-30.23%

ESU No. 19 incurred a \$45,645 increase of fund balance as a result of reduced Interlocal Agreement revenues and activities.

Educational Service Unit No. 19

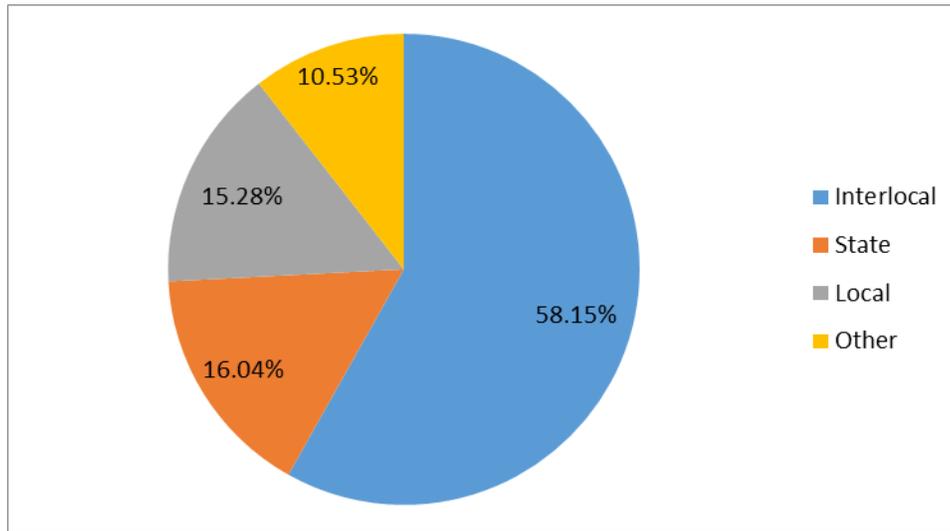
Management's Discussion and Analysis August 31, 2019

Statement of Revenues Expenditures and Changes in Fund Balance				
General Fund				
	2018	2019	Change	Percentage Change
Property taxes	\$ 2,940,726	3,079,501	138,775	4.72%
State funding	3,217,344	3,233,390	16,046	0.50%
Interlocal agreement	12,889,551	11,721,572	(1,167,979)	-9.06%
Interest income	23,576	2,650	(20,926)	-88.76%
Other revenue	4,974,983	2,124,437	(2,850,546)	-57.30%
Total revenue	<u>24,046,180</u>	<u>20,161,550</u>	<u>(3,884,630)</u>	-16.15%
Regular instruction	32,093	23,738	(8,355)	-26.03%
Student non-instructional support services	3,200,347	3,035,581	(164,766)	-5.15%
Support services - staff	436,127	531,373	95,246	21.84%
Governance and general administration	12,375	12,375	--	0.00%
Material and equipment services	1,353,448	1,371,034	17,586	1.30%
Core services & technology infrastructure	22,165,155	14,888,228	(7,276,927)	-32.83%
Debt service				
Debt service principal	194,811	193,219	(1,592)	-0.82%
Debt service interest	8,007	38,257	30,250	377.79%
Property tax recapture	16,364	22,100	5,736	35.05%
Total expenditures	<u>27,418,727</u>	<u>20,115,905</u>	<u>(7,302,822)</u>	-26.63%
Deficiency of revenue over expenditures	(3,372,547)	45,645	3,418,192	-101.35%
Other financing sources				
Capital lease obligation	<u>966,298</u>	<u>--</u>	<u>--</u>	0.00%
Change in fund balance	(2,406,249)	45,645	3,418,192	-101.90%
Fund balance, beginning of year	<u>5,099,935</u>	<u>2,693,686</u>	<u>(2,406,249)</u>	-47.18%
Fund balance, end of year	<u>\$ 2,693,686</u>	<u>2,739,331</u>	<u>45,645</u>	1.69%

Core services & technology infrastructure expenditures incurred a \$7,276,927, or 32.83%, reduction due to the completion of the PeopleSoft upgrade in the prior year.

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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 2018-19 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	2015-16 Actual	2016-17 Actual	2017-18 Actual	2018-2019 Actual	2019-2020 Budget
General Fund ESU No. 19	\$ 2,744,434	\$ 3,031,285	\$ 2,969,453	\$ 3,075,163	\$ 3,562,597
Assessed Valuation	\$ 19,954,698,480	\$ 20,208,566,050	\$ 21,028,142,224	\$ 22,180,983,314	\$ 23,750,647,812

STUDENT POPULATION SERVED

ESU covers approximately 134 square miles and serves approximately 53,598 students. Student enrollment in pre-kindergarten was 2,759, grades K-6 totaled 28,016, grades 7-9 totaled 11,228 and grades 10-12 were 11,595.

The district serves a large and diverse group of students. Based upon the 2018-19 Nebraska Education Profile, the District had the following program participation levels:

* Students in grades PK-12 who are limited English proficient from Fall Membership was 18% of the total student population.

* Students eligible for free/reduced price meals or eligible for free special milk was 72% of the total student population.

* Students in grades PK-12 who are identified as gifted or high ability learners was 10% of the total student population.

* Student(s) receiving special education services was 18% of the total student population.

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Management's Discussion and Analysis August 31, 2019

STAFFING

The ESU 19 FTE were 102 as of August 31, 2019. They were composed of following classifications: Professional/Technical 61, maintenance 13, office personnel 20, administrative 3, and other 5.

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:

Shane Rhian
Controller
Accounting & Finance
Department of General Finance
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Educational Service Unit No. 19

Statement of Net Position August 31, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,344,296
Property taxes receivable	339,930
Inventories	256,774
Prepaid expenses	908,178
Capital assets, net	<u>9,959,392</u>
Total assets	13,808,570
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows	<u>4,717,909</u>
Total assets and deferred outflows of resources	<u>\$ 18,526,479</u>
LIABILITIES	
Accounts payable	\$ 160,168
Accrued payroll liabilities	1,333,631
Long-term liabilities:	
Due within one year	185,974
Due in more than one year	<u>15,098,033</u>
Total liabilities	<u>16,777,806</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows	<u>1,672,670</u>
NET POSITION	
Net investment in capital assets	9,186,313
Unrestricted	<u>(9,110,310)</u>
Total net position	<u>76,003</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 18,526,479</u>

See accompanying notes to the financial statements

Educational Service Unit No. 19

Statement of Activities For the Year Ended August 31, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Regular instruction	\$ 24,562	--	--	(24,562)
Student non-instructional support services and programs to schools	3,281,683	--	--	(3,281,683)
Support services - staff	555,217	--	--	(555,217)
Governance and general administration	31,062	--	--	(31,062)
Materials and equipment services to schools	1,527,059	--	--	(1,527,059)
Core services and technology infrastructure	17,178,857	11,721,572	--	(5,457,285)
Debt service -				
Debt service interest	38,257	--	--	(38,257)
Property tax recapture	22,100	--	--	(22,100)
Total governmental activities	<u>\$ 22,658,797</u>	<u>11,721,572</u>	<u>--</u>	<u>(10,937,225)</u>
General revenues				
Taxes				3,079,501
State funding				3,502,158
Interest income				2,650
Other revenue				<u>2,121,035</u>
Total general revenues				<u>8,705,344</u>
Change in net position				<u>(2,231,881)</u>
Net position, beginning of year				2,622,727
Prior period adjustment (Note 12)				<u>(314,843)</u>
Net position, beginning of year, as restated				<u>2,307,884</u>
Net position, end of year				<u>\$ 76,003</u>

See accompanying notes to the financial statements

Educational Service Unit No. 19

Balance Sheet – Governmental Funds August 31, 2019

	General Fund
ASSETS	
Cash and cash equivalents	\$ 2,344,296
Property taxes receivable	339,930
Inventories	256,774
Prepaid expenses	908,178
	<u>3,849,178</u>
Total assets	<u>\$ 3,849,178</u>
LIABILITIES	
Accounts payable	\$ 160,168
Accrued payroll liabilities	949,679
	<u>1,109,847</u>
Total liabilities	<u>1,109,847</u>
FUND BALANCES	
Nonspendable	1,164,952
Unassigned	1,574,379
	<u>2,739,331</u>
Total fund balances	<u>2,739,331</u>
Total liabilities and fund balances	<u>\$ 3,849,178</u>
RECONCILIATION	
Total fund balance - governmental fund	\$ 2,739,331
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	9,959,392
Deferred outflows of resources represent consumption of net position in future periods and therefore are not reported in the funds	4,717,909
Long-term liabilities, including pension and other postemployment benefit obligations, are not due and payable in the current period and therefore are not reported in the funds	(15,667,959)
Deferred inflows of resources represent the acquisition of net position in future periods and therefore are not reported in the funds	<u>(1,672,670)</u>
Net position, governmental activities	<u>\$ 76,003</u>

See accompanying notes to the financial statements

Educational Service Unit No. 19

Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Fund For the Year Ended August 31, 2019

	General Fund
REVENUES	
Property taxes	\$ 3,079,501
State funding	3,233,390
Interlocal agreement	11,721,572
Interest income	2,650
Other revenue	2,124,437
Total revenues	<u>20,161,550</u>
EXPENDITURES	
Regular instruction	23,738
Student non-instructional support services and programs to schools	3,035,581
Support services - staff	531,373
Governance and general administration	12,375
Materials and equipment services to schools	1,371,034
Core services and technology infrastructure	14,888,228
Debt service -	
Debt service principal	193,219
Debt service interest	38,257
Property tax recapture	22,100
Total expenditures	<u>20,115,905</u>
CHANGE IN FUND BALANCE	45,645
FUND BALANCE, BEGINNING OF YEAR	<u>2,693,686</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,739,331</u>
RECONCILIATION	
Net change in fund balance - governmental fund	\$ 45,645
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	(1,486,914)
Payment of lease obligations is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position	193,219
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds	268,768
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	<u>(1,252,599)</u>
Change in net position - governmental activities	<u>\$ (2,231,881)</u>

See accompanying notes to the financial statements

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

(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, 2019 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 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.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

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 recognized when earned and expenses are recognized 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 recognized 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 lease obligations 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 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.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

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 reported at cost. Contributed assets are reported 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
Textbooks	7 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 7). 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, 2019 for compensated absences amounted to \$683,444 and are included in accrued payroll liabilities in the statement of net position.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

J. 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.

K. Total Other Postemployment Benefit (OPEB) Liability

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and OPEB expense, information has been determined based on the District's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

L. 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 unrecognized items not yet charged to pension expense.

M. 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, 2019, 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, 2019, ESU No. 19 had nonspendable fund balance for prepaid expenses and inventories in the amount of \$1,164,952.
- 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, 2019, ESU No. 19 had no restricted fund balance.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

- 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, 2019, 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, 2019, 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.

N. 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, 2019, the District reimbursed ESU No. 19 \$11,721,572 which is reported as Interlocal Agreement revenue in the accompanying financial statements.

O. 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.

P. 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.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

Q. *Recent Accounting Pronouncements*

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The standard implements a single approach to accounting for leases. Lessees will be required to recognize a lease liability, measured at the present value of expected payments net of incentives, and an intangible right-to-use asset for all leases with terms of greater than 12 months. As payments are made, lessees will reduce the liability and recognize interest expense. Lease terms will include options to extend or terminate leases if it is reasonably certain that those options will be exercised. The standard will be effective for reporting periods beginning after December 15, 2019. ESU No. 19 is currently evaluating the effect the new standard will have on the financial statements.

R. *Subsequent Events*

ESU No. 19 has considered events occurring through November 18, 2019 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, 2019, the carrying amount of ESU No. 19's cash was \$2,343,984. ESU No. 19's deposits are included with other District deposits at a local 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, 2019 is \$312.

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

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

(3) Capital Assets

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

	Balance August 31, 2018	Additions	Transfers	Retirements	Balance August 31, 2019
Nondepreciable capital assets:					
Construction in progress	\$ 7,672,834	1,277,127	(8,949,961)	--	--
Depreciable capital assets:					
Buildings and improvements	1,127,954	--	--	--	1,127,954
Equipment and furniture	6,626,720	606,267	--	(14,000)	7,218,987
Computers	2,140,963	137,607	--	(126,672)	2,151,898
Software	24,020,064	--	8,949,961	(18,725)	32,951,300
Textbooks	98,334	--	--	--	98,334
Total depreciable capital assets	34,014,035	743,874	8,949,961	(159,397)	43,548,473
Less accumulated depreciation and amortization	30,240,563	3,504,513	--	(155,995)	33,589,081
Net depreciable capital assets	3,773,472	(2,760,639)	8,949,961	(3,402)	9,959,392
Net capital assets	\$ 11,446,306	(1,483,512)	--	(3,402)	9,959,392

(4) Long-Term Liabilities

Long-term liabilities of ESU No. 19 as of August 31, 2019 are summarized as follows:

	Balance August 31, 2018	Increases	Decreases	Balance August 31, 2019	Due Within One Year
Capital lease obligations	\$ 966,298	--	193,219	773,079	185,974
Special termination benefits	71,222	--	20,891	50,331	--
OPEB liability	--	333,376	--	333,376	--
Net pension liability	15,162,382	--	1,035,161	14,127,221	--
	\$ 16,199,902	333,376	1,249,271	15,284,007	185,974

ESU No. 19 enters into capital lease obligations for printing equipment. The total cost of equipment under capital lease obligations was \$966,298, net of accumulated amortization of \$209,365. 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
2020	\$ 185,974	27,696	213,670
2021	193,725	19,945	213,670
2022	201,618	12,052	213,670
2023	191,762	3,673	195,435
	\$ 773,079	63,366	836,445

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

(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)(d) (Supp. 2018) provides that contributions by the District in any fiscal year shall be the greater of 101% of employee contributions, or 9.8778% of member salaries, or such amounts that may be necessary to maintain the solvency of OSERS. For the year ended August 31, 2019, an additional contribution of \$21,300,000 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, 2019 amounted to \$1,013,380.

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. No state service annuity or medical COLA is provided for members hired on or after July 1, 2016.

Retirement eligibility rules for OSERS members are based on the member's date of hire in accordance with Neb. Rev. Stat. §72-978 (Supp. 2018) through 79-9,118 (Supp. 2016) known and cited as the Class V School Employees Retirement Act.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

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

At August 31, 2019, ESU No. 19 reported a liability of \$14,127,221 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, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of January 1, 2018. 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, 2018, ESU No. 19's proportion was 1.5819%, a decrease of 0.1670% from its proportion measured at August 31, 2017.

By statute, the state of Nebraska contributes 2.0% of members' compensation to fund the benefits provided by OSERS. A 30 year projection of contributions discounted back to the measurement date using the current year measurement period discount rate was utilized to determine the ratio of the present value of future contributions. This was used as the basis for determining the employer proportionate share of the collective pension amount as it represents the long term contribution effort to OSERS. The State's proportionate share of collective net pension liability of ESU No. 19 at August 31, 2018 amounted to 11.140817%. ESU No. 19 recognized revenue in the amount of \$268,768 from the state of Nebraska for its proportionate share of collective pension expense for the year ended August 31, 2019.

For the year ended August 31, 2019, ESU No. 19 recognized pension expense of \$1,293,825. At August 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings		
on pension plan investments	\$ 1,261,863	--
Changes of assumptions	1,480,555	--
Differences between expected and actual experience	595,598	16,564
Changes in proportion and differences between contributions		
and proportionate share of contributions	366,513	1,656,106
District contributions subsequent to the measurement date	<u>1,013,380</u>	<u>--</u>
	<u>\$ 4,717,909</u>	<u>1,672,670</u>

Deferred outflows of resources related to pensions included \$1,013,380 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended August 31</u>	
2020	\$ 1,079,632
2021	593,932
2022	305,444
2023	186,278
2024	(115,022)
2025	<u>(18,405)</u>
Total	<u>\$ 2,031,859</u>

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

Actuarial Methods and Assumptions

The total pension liability was measured as of August 31, 2018 and was determined by an actuarial valuation performed as of January 1, 2018, using standard actuarial formulae and using the following key actuarial assumptions:

Actuarial Assumptions:

Price Inflation	2.75%
Wage Inflation	3.25%
Long-term Rate of Return	7.50%
Municipal Bond Index Rate	3.96%
Single Equivalent Interest Rate.....	7.50%
Salary Increases	3.75% to 6.25%
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 2014 Combined Mortality Table, female rates set back 1 year and male rates set forward 1 year, projected on a generational basis using Scale MP-2016. Post-retirement mortality rates were based on the same rates as the pre-retirement tables. Post-disability mortality rates were based on the RP-2014 Disabled Retiree Mortality Table, without generational improvement.

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of the most recent actuarial experience study dated April 5, 2017, which covered the five-year period ending August 31, 2016.

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, 2018 was 7.50%. 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. In addition, if the statutory contribution rate is less than the actuarial determined contribution, the District will contribute the difference.
- c. State contribution rate: 2% of the members' compensation.
- d. Administrative expenses in the prior year were projected forward with price inflation as an estimate for administrative expenses in current and future years. The portion of expenses in future years allocated to the current members was based on the proportionate share of covered payroll in each year for the remainder of the existing members to the total covered payroll for all members.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

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 7.50% 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, or 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 April 5, 2017. 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 3.96% on the measurement date.

Periods of projected benefit payments: Projected future benefit payments for all current OSERS members were projected through 2117.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap equity	26.1%	6.3%
Small cap equity	2.9%	6.8%
Global equity	15.0%	7.2%
International developed equity	10.8%	7.2%
Emerging markets	2.7%	7.5%
Core bonds	20.0%	2.9%
High yield investments	3.5%	5.4%
Bank loans	5.0%	4.4%
International bonds	1.5%	2.2%
Real estate	7.5%	5.7%
Private equity	5.0%	8.5%
Total	<u>100%</u>	

Sensitivity analysis: The following presents the net pension liability of ESU No. 19, calculated using the discount rate of 7.5%, as well as ESU No. 19's net pension liability calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net pension liability	<u>18,553,007</u>	<u>14,127,221</u>	<u>10,454,528</u>

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, 2019, ESU No. 19 reported a payable to OSERS of \$51,204 for legally required employer contributions and \$50,728 for legally required employee contributions withheld from employee wages which had not yet been remitted to OSERS.

(6) **Other Postemployment Benefits (OPEB)**

Plan Description

The District is a member of the Educator's Health Alliance, the largest insurance pool in the state of Nebraska. Under the pool, the District participates in a single-employer benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. Each employer in the pool is funded through a separate insurance contract. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits

Individuals who are employed by the District and have participated in the group health plan for at least five years prior to retirement are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the District's established premiums for the elected medical and prescription drug benefits coverage. The District does not provide any rate subsidies for the retirees electing coverage as the premiums for retirees is slightly different than premiums for active employees, however, the health insurance coverage terms are the same as coverage for active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. At September 1, 2018, the following employees were covered by the benefit terms:

Inactive employees or retirees currently participating in the OPEB plan	272
Active employees	<u>6,894</u>
Total	<u>7,166</u>

Total OPEB Liability – ESU No. 19's proportionate share of the total OPEB liability of \$333,376 was measured as of August 31, 2019, and was determined by an actuarial valuation as of September 1, 2018.

Actuarial Assumptions – The total OPEB liability in the September 1, 2018 actuarial valuation was determined using the following actuarial assumptions and the entry age normal level percent of pay cost method, applied to all periods included in the measurement.

Rate of Inflation (effective September 1, 2018)	3.50 percent per annum.
Salary increases (effective September 1, 2018)	2.00 percent, average, including inflation.
Discount rate (effective September 1, 2018)	3.50 percent per annum.
Healthcare cost trend rate (effective September 1, 2018)	4.00 percent per annum.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

Discount Rate – The discount rate used to measure the total OPEB liability was 3.50% is based on the yield for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, which reflects the Bond Buyer 20-Bond GO Index as of the measurement date.

Mortality rates were based on the Death-In-Service and Retired Lives mortality rates from the Wisconsin Retirement System 2015-2017 Experience Study, with the MP-2018 generational improvement scale.

The actuarial assumptions used in the September 1, 2018 valuation were based on the results of an actuarial experience study with dates corresponding to those listed above.

Changes in the Total OPEB Liability

Total OPEB liability, beginning of year, as restated	\$	<u>314,843</u>
Service cost		18,377
Interest cost		11,663
Benefit payments		<u>(11,507)</u>
Net changes		<u>18,533</u>
Total OPEB liability, end of year	\$	<u><u>333,376</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.50%) or 1% higher (4.50%) than the current healthcare cost trend rates.

	<u>1% Decrease</u> <u>(2.50%)</u>	<u>Discount Rate</u> <u>(3.50%)</u>	<u>1% Increase</u> <u>(4.50%)</u>
Total OPEB liability	\$ 368,540	333,376	294,420

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (3.00%) or 1% higher (5.00%) than the current healthcare cost trend rates.

	<u>1% Decrease</u> <u>(3.00%)</u>	<u>Discount Rate</u> <u>(4.00%)</u>	<u>1% Increase</u> <u>(5.00%)</u>
Total OPEB liability	\$ 277,179	333,376	430,333

OPEB Expense and Deferred Inflows of Resources Related to OPEB – For the year ended August 31, 2019, ESU No. 19 recognized OPEB expense of \$30,040. At August 31, 2019, ESU No. 19 there were no deferred inflows or outflows of resources reported related to OPEB.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

(7) 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, 2019 ESU No. 19 has obligations to one participant with a total liability of \$50,331. 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, 2019 totaled \$23,178.

The special termination benefits under the early retirement plan was discontinued for the 2018-2019 school year.

(8) 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 paragraphs 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 coverages ranging from \$50,000 to \$1,000,000 per claim, and \$1,000,000 to \$5,753,565 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, 2019.

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

(9) Deficit Net Position

ESU No. 19 had a deficit unrestricted net position of \$9,110,310 at August 31, 2019 primarily due to its recognition of the proportionate share of the net pension liability.

(10) 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, 2019 under agreements entered into by the following entities:

<u>Entity</u>	<u>Tax Abatement Program</u>	<u>Amount of Tax Abated</u>
City of Omaha	Tax Increment Financing	\$ 216,523
City of Bellevue	Tax Increment Financing	1,265

(11) 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	\$ 2,739,331
Capital assets, net	9,959,392
Pension related deferred outflows of resources	4,717,909
Accumulated sick leave	(383,952)
Special termination benefits	(50,331)
Capital lease obligations	(773,079)
Net pension liability	(14,127,221)
OPEB Liability	(333,376)
Pension related deferred inflows of resources	<u>(1,672,670)</u>
Net position – Government-wide	<u>\$ 76,003</u>

Educational Service Unit No. 19

Notes to Financial Statements August 31, 2019

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

Change in fund balance – General fund	\$ 45,645
Depreciation expense	(3,504,513)
Assets acquired	2,021,001
Loss on disposal of capital assets	(3,402)
Payments on capital lease obligations	193,219
Special termination benefits	20,891
Accumulated sick leave	38,868
Pension related	(1,025,057)
OPEB related	<u>(18,533)</u>
Change in net position – Government-wide	<u>\$ (2,231,881)</u>

(12) **Implementation of New Accounting Principle**

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented during fiscal year 2019. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

	<u>Net Position</u>
Net position, beginning of year, as previously reported	\$ 2,622,727
Cumulative effect of applying GASB Statement No. 75	<u>(314,843)</u>
Net position, beginning of year, as restated	<u>\$ 2,307,884</u>

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, 2019

Function	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original	Final		
Fund balance, beginning of year	\$ 4,233,910	4,233,910	4,233,910	--
RECEIPTS				
1000 Local receipts	16,207,660	16,207,660	14,789,375	(1,418,285)
3000 State receipts	3,001,580	3,002,000	3,233,390	231,390
5000 Nonrevenue receipts	2,431,470	2,431,470	2,124,437	(307,033)
Total receipts	<u>21,640,710</u>	<u>21,641,130</u>	<u>20,147,202</u>	<u>(1,493,928)</u>
DISBURSEMENTS				
1100 General education instructional	23,178	23,178	23,178	--
2100 Student non-instructional support services	3,231,476	3,231,476	3,009,134	222,342
2200 Support services - staff	663,309	663,309	527,845	135,464
2300 Board of control and general administration	12,100	12,100	11,600	500
2900 Materials and equipment services	1,439,586	1,439,586	1,401,266	38,320
3550 Core services & technology infrastructure	16,746,061	16,746,061	16,884,437	(138,376)
5000 Debt services	25,000	25,000	21,739	3,261
Total disbursements	<u>22,140,710</u>	<u>22,140,710</u>	<u>21,879,199</u>	<u>261,511</u>
DEFICIENCY OF RECEIPTS OVER DISBURSEMENTS				
	<u>(500,000)</u>	<u>(499,580)</u>	<u>(1,731,997)</u>	<u>(1,232,417)</u>
Fund balance, end of year	\$ <u>3,733,910</u>	<u>3,734,330</u>	<u>2,501,913</u>	<u>(1,232,417)</u>

See accompanying independent auditor's report

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, 2019

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 1O.) 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 (GAAP), a reconciliation of resultant basis, timing, perspective, and entity deficiencies in the change in fund balance for the year ended August 31, 2019 is presented below:

	<u>General Fund</u>
Deficiency of receipts over disbursements (budgetary basis)	\$ (1,731,997)
Adjustments:	
Change in property taxes receivable	13,428
Change in prepaid expenses	37,206
Change in inventories	13,443
Change in payables and accrued liabilities	<u>1,713,565</u>
Change in fund balance (GAAP basis)	<u>\$ 45,645</u>

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 Five Fiscal Years

Omaha School Employees' Retirement System
Last Five Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
ESU No. 19's proportion of net pension liability	1.7802%	1.7489%	1.8960%	1.8893%	1.8184%
ESU No. 19's proportionate share of the net pension liability	\$ 14,127,221	15,162,382	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	<u>1,771,216</u>	<u>1,898,299</u>	<u>2,602,670</u>	<u>2,222,646</u>	<u>1,590,490</u>
Total	<u>\$ 15,898,437</u>	<u>17,060,681</u>	<u>15,456,997</u>	<u>13,200,070</u>	<u>9,445,760</u>
ESU No. 19's covered payroll	\$ 7,176,497	8,306,882	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 payroll	196.85%	182.53%	164.35%	147.97%	110.74%
Plan fiduciary net position as a percentage of the total pension liability	59.16%	58.72%	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

Omaha School Employees' Retirement System
Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 1,013,380	1,093,987	1,093,921	772,594	732,783	700,691	630,821	623,701	535,368	538,764
Contributions in relation to the actuarially determined contribution	<u>1,013,380</u>	<u>1,093,987</u>	<u>1,093,921</u>	<u>772,594</u>	<u>732,783</u>	<u>700,691</u>	<u>630,821</u>	<u>623,701</u>	<u>535,368</u>	<u>538,764</u>
Contribution deficiency (excess)	\$ <u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
ESU No. 19's covered payroll	\$ 6,221,811	7,176,497	8,306,882	7,821,519	7,418,484	7,093,594	6,715,863	6,640,062	6,386,353	6,426,864
Contributions as a percentage of covered payroll	16.288%	15.244%	13.169%	9.878%	9.878%	9.878%	9.393%	9.393%	8.383%	8.383%

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

See accompanying independent auditor's report

Educational Service Unit No. 19

Notes to Required Supplementary Information – Pension Liability August 31, 2019

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 (January 1 starting in 2017) listed below:

- 2019: The Unfunded Actuarial Accrued Liability (UAAL) legacy amortization base was reset to 30 years. New layers of UAAL that occur in the future will be amortized over new 30-year periods.
- 2018: The 2017 session of the Nebraska Legislature enacted Legislative Bill 415 (LB415), which changed the retirement provisions for members hired on or after July 1, 2018 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2018 is set at age 60 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced at age 60 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, 2018.
- The 2018 session of the Nebraska Legislature enacted Legislative Bill 1005 (LB 1005), which states that the School District must contribute an amount equal to or greater than the actuarially required contribution rate provided in the most recent valuation report.
- 2017: 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 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 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 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 8.3% to 9.3%, effective September 1, 2011. Since the employer contributes 101% of the member contribution rate, the 1% increase in the member contribution rate resulted in an increase of 1.01% in the District's contribution rate.

Changes in actuarial assumptions:

1/1/2017 valuation:

- The investment return assumption was lowered from 8% to 7.5%.
- The inflation assumption was lowered from 3% to 2.75%.
- The assumed interest rate credited on employee contributions was lowered from 3% to 2.75%.
- The general wage increase assumption was lowered from 4% to 3.25%.
- The mortality assumption was changed to the RP-2014 Mortality Table, with a one-year age set forward for males and a one-year age setback from females. Generational mortality improvements are modeled using the MP-2016 scale.
- Retirement rates were modified for both certificated and classified employees.
- The probability of electing a refund at termination was modified for classified employees.
- Termination rates for certificated employees were changed to be the same regardless of gender, and are purely service-based for both certificated and classified employees.

Educational Service Unit No. 19

Notes to Required Supplementary Information – Pension Liability August 31, 2019

- The salary increase assumption was changed to a service-based assumption for both certificated and classified employees.
- The amortization of the UAAL was changed to a “layered” approach with new pieces of UAAL amortized over a 25-year period beginning on the valuation date. The legacy UAAL continues to be amortized on its current schedule.
- The valuation date changed from September 1 to January 1.

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 contributions 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 3.5% to 3%.
- The real rate of return increased from 4.5% to 5%.
- The productivity portion of the general wage increase assumption increased from 0.5% to 1%.

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, 2018 (based on the January 1, 2018 actuarial valuation).

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Layered bases with remaining periods ranging from 24 to 26 years
Asset valuation method	Market related smoothed value
Price inflation	2.75%
Salary increases, including wage inflation	3.75% to 6.25%
Long-term rate of return, net of investment expense, and including inflation	7.50%
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

Educational Service Unit No. 19

**Required Supplementary Information
Schedule of Changes in Total OPEB Liability, Required Ratios and Notes
For the Year Ended August 31, 2019**

	<u>2019</u>
Service cost	\$ 18,377
Interest cost	11,663
Benefit payments	<u>(11,507)</u>
Net changes in total OPEB liability	18,533
Total OPEB liability, beginning of year, as restated	<u>314,843</u>
Total OPEB liability, end of year	<u>\$ 333,376</u>
Covered employee payroll	\$ 5,610,715
Total OPEB liability as a percentage of covered employee payroll	5.94%

**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, 2019, 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 18, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a significant deficiency.

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*.

ESU No. 19's Response to Findings

ESU No. 19's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. ESU's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

18,

2019.

Educational Service Unit No. 19

Schedule of Findings and Responses For the Year Ended August 31, 2019

I. FINANCIAL STATEMENT FINDINGS

2019-001 SIGNIFICANT DEFICIENCY

Criteria:	The design and operation of ESU No. 19's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in ESU No. 19's financial statements on a timely basis.
Condition:	We identified misstatements in the financial statements during the audit related to appropriate recognition of depreciation expense and the capitalization of assets that were not initially identified by the ESU No. 19's internal controls over financial reporting.
Context:	A significant amount of manual processes are involved in the reporting of capital assets. Additionally, a planned software upgrade caused issues within the capital assets ledger of the accounting system. Audit adjusting entries were required to appropriately state the balances of capital assets in the financial statements.
Cause:	Certain capital asset additions from the prior year were not appropriately entered into ESU No. 19's capital assets ledger of the accounting system, and a manual process used to recognize depreciation expense miscalculated the amount of depreciation expense that should have been recognized during the fiscal year.
Effect:	Audit adjusting entries were required to appropriately report capital asset activities and recognize depreciation expense appropriately in the fiscal year.
Recommendation:	We recommend management review and strengthen the internal controls over its financial reporting processes as related to capital assets to ensure that all capital asset activity is being properly recognized in the financial statements.
Views of Responsible Officials and Planned Corrective Action:	Management is aware of this deficiency in internal control over financial reporting. See the attached Corrective Action Plan



Educational Service Unit No. 19

Corrective Action Plan For the Year Ended August 31, 2019

Finding No. 2019-001

Criteria:	The design and operation of ESU No. 19's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in ESU No. 19's financial statements on a timely basis.
Condition:	Misstatements were identified in the financial statements during the audit related to appropriate recognition of depreciation expense and the capitalization of assets that were not initially identified by ESU No. 19's internal controls over financial reporting.
Planned Corrective Action:	Management will continue to work toward implementing the following corrective actions to strengthen internal controls and financial reporting for capital assets: <ul style="list-style-type: none">• Review capital asset management module in PeopleSoft 9.2 implemented in August 2018. A capital asset management consultant was onsite in August 2019 to identify implementation errors and provide direction on best practices in the system. This information has been very valuable in identifying past errors and will be used to modify business practices to better align with system processing.• Recruit capital asset accountant. A new capital asset accountant has been hired with extensive PeopleSoft experience. This individual will work with existing staff to review and update business practices, validate existing system data, and input manual data into the system.

Management expects to have this finding resolved by August 31, 2020.

Respectfully submitted by:

Shane Rhian
Controller
Educational Service Unit No. 19