

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

JULY 1, 2008 THROUGH AUGUST 31, 2009

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Issued on June 1, 2010

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

BACKGROUND

The Nebraska Educational Service Unit Coordinating Council (ESUCC) was created in statute to coordinate statewide activities of Nebraska's 17 Educational Service Units (ESUs). The governing body for the ESUCC consists of one administrator from each ESU. The ESUCC came into existence per Neb. Rev. Stat. § 79-1245 (Reissue 2008) on July 1, 2008. Therefore, fiscal year September 1, 2008, through August 31, 2009, was the first full year of operation for the ESUCC; however, the financial statement audit period includes the additional two months since creation (July 1, 2008 through August 31, 2009). The statutory description and duties of the ESUCC can be found in Neb. Rev. Stat. §§ 79-1245 through 79-1249 (Reissue 2008). According to Neb. Rev. Stat. § 79-1246 (Reissue 2008):

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

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

Based on the above statutory authority, the administrators for the ESUs determined that all statewide projects already offered in partnership by various ESUs would be placed under the umbrella of ESUCC. The ESU previously hosting the statewide project became known as the "fiscal agent" for that project, now under ESUCC. In order to transition to the new structure, ESUCC established agreements with each fiscal agent to continue to provide the services of the project and also established a master services agreement with each ESU enabling them to choose which statewide projects they wanted to participate in. The following is a brief description of each statewide project:

- **ESU Professional Development Organization (ESUPDO)** – Accounting: ESU 9 (Hastings)
ESUPDO serves as a collaborative effort to provide training for ESU employees statewide. Professional development is among the core services identified by State statute for ESUs. There is no fiscal agent for ESUPDO, instead the accounting is performed by a separately contracted employee and the records are maintained at ESU 9 (Hastings). In addition, the general administrative costs of ESUCC overall are accounted for by the same employee at ESU 9 along with this project. ESUPDO consists of five affiliate groups comprised of ESU employees across the 17 ESUs. These groups are:
 - **Staff Development Affiliate (SDA):** Members are generally responsible for providing staff development for their school districts and have assisted the Nebraska Department of Education efforts on statewide and local assessment as well as school improvement for Nebraska's school districts.
 - **Technology Assistance Group (TAG):** Members provide assistance to school districts in the dissemination and integration of new educational technologies deployed by school districts. Recently, this has included initiatives including learning management systems, one-to-one laptop initiatives, as well as classroom technologies

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

BACKGROUND

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- including whiteboards, clickers, and other educational technologies. Additionally, the TAG members may assist districts in the use of new software and computer applications including statewide assessment.
- **Network Operations Committee (NOC):** NOC supports the extensive communications network within and among the ESUs and school districts. NOC provides network security and protocols for their districts and ESUs and ensures the communications network for distance education, internet, email, and internet protocol phones are functioning and secure. Statewide this group establishes common frameworks and capacities for assisting one another to ensure the education network functions well.
 - **Instructional Materials Affiliate (I-Mat):** I-Mat consists of media professionals from across the State. It serves the dual role of providing for and assisting school districts to make use of the statewide I-Mat media as well as the integration of media materials in school districts. Originally, I-Mat served to ensure that school districts had access to educational films, videos, and DVDs. Currently, I-Mat is developing plans for digital delivery of library and media materials. This service is among the core services identified by State statute.
 - **ESU Special Populations Directors (ESPD):** This affiliate group consists of the Special Education Directors and staff from across the State. This affiliate group was included in ESUPDO as the need for special education professional development is developed in the age of standards and assessment and the need to develop and share professional development efforts for special education teachers and classroom teachers alike. ESPD is also involved with the Nebraska Department of Education in providing leadership for special education training and support as well as programs such as Response To Intervention (RTI).
 - **Distance Education Council (DEC)** – Fiscal Agent: ESU 10 (Kearney)
Originating with the Distance Education Council formed by legislation in 2006 (LB 1208), distance education is now a responsibility of ESUCC. Neb. Rev. Stat. § 79-1248 (Reissue 2008) describes the following as part of the effort to build, improve, and maintain the State's distance education network:
 - a) Providing public access to lists of qualified distance education courses;
 - b) Collecting and providing school schedules for participating educational entities;
 - c) Facilitation of scheduling for qualified distance education courses;
 - d) Brokering of qualified distance education courses to be purchased by educational entities;
 - e) Assessment of distance education needs and evaluation of distance education services;
 - f) Compliance with technical standards as set forth by the Nebraska Information Technology Commission (NITC) and academic standards as set forth by the Nebraska Department of Education related to distance education;

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

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- g) Establishment of a system for prioritizing courses if the demand for Network Nebraska exceeds the capacity available for distance education and for choosing receiving educational entities when the demand for a course exceeds the capacity as determined by either the technology available or the course provider;
 - h) Scheduling and prioritization for access to Network Nebraska by educational entities in cooperation with the Chief Information Officer and using scheduling software or scheduling services which meet any applicable standards established by NITC;
 - i) Administration of learning management systems that are in compliance with any applicable standards of NITC either through the staff of ESUCC or by delegation to an appropriate educational entity with the funding for such systems provided by participating educational entities; and
 - j) Coordination with ESUs and postsecondary educational institutions to provide assistance for instructional design for both two-way interactive video distance education courses and the offering of graduate credit courses in distance education.
- **Nebraska ESU Cooperative Purchasing (Coop)** – Fiscal Agent: ESU 17 (Ainsworth)
Nebraska ESU Cooperative Purchasing provides cooperating purchasing services to Educational Service Unit member schools throughout the State of Nebraska. Beginning in 1990, Nebraska ESU Cooperative Purchasing operations were directed and supervised via a Board of Control. The Board of Control consisted of eight representatives. Representatives include three ESU Administrators appointed by the Educational Service Unit Administrator’s Association (ESUAA), three ESU Board Members appointed by Nebraska ESU Board Association (NESUBA), and two ESU staff members appointed by the Cooperative Board of Control. Effective with the July 2008 creation of ESUCC, the same representation is maintained on a Cooperative Purchasing Advisory Committee with ESU 17 serving as the fiscal agent and ESUCC replacing the role of the ESUAA.
 - **Instructional Materials (I-Mat)** – Fiscal Agent: ESU 5 (Beatrice)
I-Mat also has a long history in providing services statewide for school districts through Nebraska’s network of ESUs. For approximately 30 years, the ESUs have worked together to purchase rights to media materials and made those available through local ESUs in a variety of formats. Annually, the I-Mat membership gathers to select titles to propose for purchase at a statewide level. ESUs contribute to the project for the “spring buy” and “special projects” each year. As technology moves forward so does the I-Mat project. Currently, videos are available in physical formats including VHS, DVD, and CD. Additionally, media materials are being digitized and made available as “media on demand” through Discovery Education’s “Power Media Plus.” This digital format is opening up media materials, once difficult to obtain, to schools across the State. Additionally, the project works to match media to specific standards and is making media searchable for the most appropriate classroom use.

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- **My E-Learning (MEL or MyE)** – Fiscal Agent: ESU 10 (Kearney)
My E-Learning is a statewide project to make an online learning management system available to school districts, teachers, and students. The mission of MyE is “to implement an asynchronous web-based learning management system to ensure statewide accessibility to: 1) expanded educational opportunities for all K-12 students; and 2) timely delivery of staff development opportunities.” MyE is staffed by a director and two additional staff and also is guided by an advisory board consisting of ESU and school district (users) representatives. Currently, MyE supports the ANGEL Learning Management System and a support system for Moodle is in development. Recent statistics indicate that there are approximately 35,000 user accounts in use by 159 entities (schools or ESUs) across the State. The service is provided with user contracts and fees.

- **Special Education (SPED) Projects** – Fiscal Agent: ESU 1 (Wakefield)
The purpose of the SPED Project is for participating parties to pool their resources in connection with the special education services and for the training of special education teachers and other staff members employed by educational institutions within the State. Each participating ESU contributes a \$5,000 annual fee in general support of the projects and, additionally, each participating school is assessed a fee for services provided under the Student Records System (SRS) fee structure. There are three special education projects:
 - **Improving Learning for Children with Disabilities (ILCD):** ILCD is a State self-assessment Project that gathers information for Federal reporting requirements. The ILCD Project utilizes parent, teacher, and administration survey assessments. The survey results can be accessed via the ILCD website. The ESUs technology role includes purchasing, distributing, and scanning surveys. ESU staff provides technical assistance for the ILCD website and survey design.
 - **Project PARA:** Project PARA is a web-based method for school districts to provide introductory training for their paraeducators. The Project assists schools in meeting the paraeducator training requirements of No Child Left Behind, Rule 11 and IDEA. Project PARA is a collaborative effort between the University of Nebraska, the Nebraska Department of Education, and Nebraska ESUs.
 - **Student Records System (SRS):** SRS is an online special education record keeping system. It creates all special education documents required by Rule 51, including IEP, MDT, IFSP, and all required notices. The SRS is a highly secured system that organizes and stores documents and provides easy access to files from anywhere via the internet. SRS training is provided across the State for district staff and college and university staff.

It is important to consider the above noted background information while reviewing the following Comments and Recommendations as the primary cause of the comments are due to this being a new organization made up of several pre-existing projects and the organizational structure of the entity as described above.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

1. Organizational Structure and Internal Control Systems

The following observations were noted regarding the organizational structure and internal control systems in place during the period audited:

A. Decentralized Organization

Because of the transition process from multiple previous organizations now under one new umbrella organization, there were issues noted related to the decentralization of the ESUCC. Primarily, this decentralization makes it very difficult for the ESUCC Board and Executive Director to be actively involved in the administrative review and approval process. In addition, it was noted that documentation was not readily available as it was maintained at various locations throughout the State. Also, as noted in Comment Number 2 below, there was a lack of segregation of duties which would likely be corrected if all accounting functions were handled at one location rather than by one or two people at each separate project location. Lastly, per discussion with the ESUCC Executive Director, it was noted that there were nine full-time employees working entirely on ESUCC Projects, but not being paid by the ESUCC payroll. Instead, these employees were paid by the individual ESUs acting as fiscal agents for the ESUCC Projects. A good internal control system requires some centralization of administrative responsibilities and accounting functions including a single location for accounting records as well as the ability to adequately segregate duties and pay all payroll expenses appropriately.

B. Accounting Issues

Due to the complex structure of the ESUCC, there were also issues noted which were related to the accounting practices in place during the period. First of all, the majority of the financial information received for each project was not audited. Only the ESUPDO (audited by the APA) and the Coop were audited separately. In addition, there were significant inconsistencies noted in the preparation of the financial information among each project such as different reporting periods used (either 7/1/2008 to 8/31/2009 or 9/1/2008 to 8/31/2009), different basis of accounting used (all cash basis except Coop which was modified accrual), and in general a variety of different information was received in various formats as different accounting systems and different accountants/auditors were used for each project. A good internal control system requires proper accounting of financial information such as obtaining an audit and consistently reporting the information using the same accounting principles for each project.

C. Lack of Policies and Procedures

Due to the nature of beginning a new organization, no written policies and procedures had yet been established for the fiscal year ended August 31, 2009. An example of typical policies and procedures would be Board policies such as ESUCC Organization, Board Operations, Fiscal Management, Personnel Regulations, Services to ESUs,

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COMMENTS AND RECOMMENDATIONS

(Continued)

1. Organizational Structure and Internal Control Systems (Continued)

Records Retention, etc. and administrative policies for areas such as travel, credit cards, procurement, telephone usage, hiring practices, gifts and donations, capital assets, etc. The establishment of these types of policies would help ensure consistency across all projects of the ESUCC and a good internal control system requires adequate written policies and procedures be adopted.

D. Establishment of Entity

Neb. Rev. Stat. § 79-1245 (Reissue 2008) established this organization as stated, “The Educational Service Unit Coordinating Council is created as of July 1, 2008.” However, there is no mention in State statute as to what type of organization ESUCC is. Per discussion with the ESUCC Executive Director, they have been working under the assumption that they are a political subdivision, but they do not know for certain if that is what they should be. ESUCC did indicate that they are in the process of clarifying this oversight by working with the Legislature to change the statute language. Good business practice requires the establishment of the entity as a specific type of organization.

Without good internal control systems that include the elements noted above, there is an increased risk of errors, fraud, waste, and abuse occurring and not being detected. Some specific errors were noted as a result of the current internal control systems in Comment Number 2 of this section.

We recommend ESUCC consider improving their internal control systems by first structuring the organization to allow for some centralization of administrative responsibilities, to have readily available documentation on file, to adequately segregate duties, and to ensure all ESUCC employees are paid by ESUCC funds.

We also recommend ESUCC improve their internal control systems by implementing accounting procedures to ensure financial information is prepared in a consistent manner for each project and an audit is obtained.

In addition, we recommend ESUCC consider adopting written policies and procedures for areas such as receipts, disbursements, payroll, capital assets, and all other significant operational areas.

Lastly, we recommend ESUCC continue working with the Nebraska Legislature to define the type of entity that ESUCC is in State statute.

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COMMENTS AND RECOMMENDATIONS

(Continued)

1. Organizational Structure and Internal Control Systems (Concluded)

ESUCC's Response:

- A. Regarding the decentralized nature of the organization, the ESUCC has adopted a new organizational chart and is working to centralize administrative functions. This major reform has been in the planning process for several months and is expected to be in place for the beginning of the 2010-11 fiscal year.*
- B. Regarding the accounting system, the ESUCC is centralizing the accounting system of the various projects and this process will coincide with the centralized administrative functions to be in place by the beginning of the 2010-11 fiscal year.*
- C. Regarding the policies and procedures, the ESUCC is also in the process of writing and adopting new policies and procedures under the centralized system effective at the beginning of the 2010-11 fiscal year.*
- D. Regarding the establishment of entity, the ESUCC requested legislation clarifying the legal status of the ESUCC. LB 1069 (2010) was introduced and portions amended and passed in 2010 Neb. Laws LB 1071 § 29 which clearly establishes the ESUCC as a political subdivision.*

2. ESUPDO and Administrative Issues Noted

The Auditor of Public Accounts (APA) only performed specific audit procedures over the financial information for the ESUPDO Project and ESUCC general administration (which does not fall under a specific ESUCC Project). The accounting for these functions is performed by a separately contracted employee and the records are maintained at ESU9 in Hastings, NE. During our review of these functions, specific issues were noted in disbursements, receipts, payroll, and capital assets as follows:

A. Disbursements

There was a lack of segregation of duties over disbursements/expenditures for the ESUPDO. One person had the ability to approve claims, write checks, and record disbursements/expenditures in the accounting system without sufficient administrative review. A good internal control plan involves adequate segregation of duties over disbursements/expenditures to ensure no one person is in a position to perpetrate and conceal errors or irregularities.

For 3 of 30 claims tested, no documentation was on file with the record-keeper. The total amount of these 3 claims was \$7,350. The APA was able to obtain some alternate documentation for these claims from the individual affiliate group contacts; however, good business practice requires adequate supporting documentation be readily available with the record-keeper for all disbursement claims.

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COMMENTS AND RECOMMENDATIONS

(Continued)

2. ESUPDO and Administrative Issues Noted (Continued)

For 15 of 30 claims tested, the claim form was not signed by the claimant, affiliate group chair (if applicable), and the appropriate administrative personnel. Three claims were not signed at all, two claims were not signed by the claimant, three claims were not signed by an administrator with knowledge as to whether the claim would be appropriate or not, and seven claims were not signed by both the claimant and an appropriate administrator. The total amount of these 15 claims was \$108,297. In addition, the APA noted that the ESUCC Executive Director was not involved in the claim approval process at all for ESUPDO and ESUCC Administrative expenses. Good business practice requires claim forms be properly signed by those with knowledge as to whether the claim is appropriate or not.

Two signatures are required on all checks; however, for 14 of 30 claims tested, the check was signed with a signature stamp which other employees have access to. The total amount of these 14 claims was \$132,585. The ESUCC accountant and the ESUCC Board President typically sign all checks; however, the ESUCC accountant indicated that he has access to the signature stamp for the ESUCC Board President and would use it for him at times. Good business practice requires live signatures be placed on all checks or access be restricted for any signature stamps used.

For 2 of 6 contracts tested, a contract was not on file as no contract was obtained for these vendors. The first vendor was for legal services at a rate that was not documented. The ESUCC Board did approve the vendor to provide legal services, but a contract should have been established indicating the terms of the agreement, including a set rate for a specific time period. The total paid for these legal services during the period tested was \$99,822. The second vendor was for website development and maintenance services during the 2007-2008 school year at a rate of \$1,500 per year. A contract for these same services for the 2008-2009 school year was available; however, there should be a separate contract for each period. The APA tested a total of 12 claims paid to these two vendors during the period for \$101,322. In addition, it was noted that the ESUCC Board was not involved in the approval of all contracts entered into by the various ESUPDO affiliate groups. Good business practice requires contracts be obtained and approved by the Board for all applicable service providers.

For 14 of 15 vendors tested, the process for selecting the vendor providing the goods/services was not documented. The APA tested a total of 26 claims paid to these 14 vendors for \$138,466 which included vendors for services such as IT security training, access to IT software programs, legal counsel, staff development consultants, lodging, and website maintenance. Good business practice requires the process for selection of a vendor be documented to ensure consideration of quality and cost options has been made and the best option selected.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. ESUPDO and Administrative Issues Noted (Continued)

For 14 of 27 claims tested, there was no documentation to ensure that the goods/services purchased were actually received. The total amount of these 14 claims was \$38,342. Good business practice requires some kind of documentation be available such as a signature by the person receiving the item or service on the invoice or attaching a packing slip in order to ensure goods/services purchased were actually received.

For 5 of 9 claims tested, adequate travel-related documentation was not available such as conference agendas with corresponding dates and locations of travel. The total amount of these five claims was \$13,753. Good business practice requires adequate documentation be available for travel-related disbursements/expenditures in order to ensure travel costs paid were reasonable and proper for the purpose of the entity.

B. Receipts

There was a lack of adequate segregation of duties over receipts for the ESUPDO. One person had the ability to receive checks, deposit funds, and record receipts in the accounting system without sufficient administrative review. There were few receipts and the ESUCC Board does review a summary of these receipts; however, a good internal control plan involves adequate segregation of duties over receipts to ensure no one person is in a position to both perpetrate and conceal errors or irregularities.

The checking account was not properly protected against bank failure as additional pledged collateral was not held for cash balances exceeding the Federal Deposit Insurance Corporation (FDIC) \$250,000 limit. The balance exceeded this limit for approximately three months by amounts ranging from \$3,327 to \$638,335. Neb. Rev. Stat. § 77-2395(1) (Reissue 2009) requires deposits with banks in excess of the FDIC limit be secured by pledged collateral to cover at least 102% of the deposit amount. In addition, good business practice requires bank accounts be properly protected against bank failure.

One check could not be traced to either a physical voided check or to a scanned copy per the bank statement. It appears this check was voided, but the voided check was not kept on file. Good business practice requires the ability to track all checks written in order to maintain control over the checks and thus the disbursement of funds.

Two claims were recorded to the wrong fiscal year. The check for these claims was not written until October 2009; however, it was recorded in the fiscal year ended August 31, 2009. The total amount of these claims was \$1,545. This also caused the bank reconciliation to be inaccurate for the year end. Good business practice requires claims be recorded in the year in which they were paid when on the cash basis of accounting.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **ESUPDO and Administrative Issues Noted** (Continued)

C. Payroll

There was a lack of segregation of duties over payroll for ESUPDO. One person had the ability to add employees, record payroll in the accounting system, and distribute checks without sufficient administrative review. A good internal control plan involves adequate segregation of duties over payroll to ensure no one person is in a position to both perpetrate and conceal errors or irregularities. This risk is significantly reduced as there is only one employee for ESUCC; however, as noted above, there may be a need to add several employees to the ESUCC payroll in the near future, at which time segregation of duties would play a more significant role in this area.

The one employee of ESUCC did not have required personnel documentation on file as personnel files had not been established. There was no I-9, W-4, or health insurance enrollment form available for the Director of ESUCC. Good business practice requires appropriate personnel documentation be on file, particularly those required by Federal regulations.

There were also no procedures to approve vacation and sick leave used by the ESUCC employee. A log of leave earned and used is maintained by the employee and submitted to the Board quarterly; however, there was no approval prior to or immediately following the leave used. Good business practice requires approval of leave used in order to ensure discrepancies do not arise in remaining leave balances in the future.

D. Capital Assets

There was no system in place to track capital assets of ESUCC. Per discussion with the Executive Director, there were very few capital assets of the ESUCC; however, a good internal control plan requires a system be in place to track capital assets in order to decrease the risk that assets of ESUCC will be lost or stolen.

Without the above noted elements of a good internal control plan and good business practices in place, there is an increased risk fraud, waste, and abuse will occur.

We recommend the ESUCC Board consider implementing a strong internal control plan which would require an adequate segregation of duties over receipts, disbursements/expenditures, and payroll, as well as obtaining a system to track capital assets.

We also recommend the Board consider implementing the following procedures:

- a. Adequate documentation be on file for all disbursement claims.

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COMMENTS AND RECOMMENDATIONS

(Continued)

2. ESUPDO and Administrative Issues Noted (Concluded)

- b. Claim forms be properly signed by those with knowledge as to whether the claim is appropriate or not.
- c. Live signatures be placed on checks or access restricted for signature stamps.
- d. Contracts be obtained and approved by the Board for all applicable service providers.
- e. The process for selection of a vendor be documented.
- f. Documentation be on file to ensure goods/services purchased were actually received.
- g. Adequate documentation be available for travel-related disbursements/expenditures.
- h. Bank accounts be properly protected against bank failure.
- i. Documentation be retained to ensure all checks can be traced to either a physical check or cleared check.
- j. Claims be recorded in the year in which they were paid when on the cash basis of accounting.
- k. Appropriate personnel documentation be on file in accordance with Federal regulations.
- l. Vacation and sick leave used be approved by the ESUCC Board President in advance of or immediately following the use of this leave.

ESUCC's Response: Regarding the notes and findings related to disbursements, receipts, payroll, and capital assets, the ESUCC will address all noted issues in the development of policies and procedures as the organizational structure and internal control systems are developed. The specific recommendations will be included in discussions leading up to the adoption of policies and procedures in the 2010-11 fiscal year.



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EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Service Unit Coordinating Council
Lincoln, Nebraska:

We were engaged to audit the accompanying financial statements of the Educational Service Unit Coordinating Council (ESUCC), as of August 31, 2009, and for the period July 1, 2008, through August 31, 2009, which collectively comprise the Educational Service Unit Coordinating Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Unit Coordinating Council's management.

Our engagement was based on the understanding that Educational Service Unit Coordinating Council would obtain audited financial statements for certain projects which comprise the general fund. However, the Educational Service Unit Coordinating Council did not provide audited financial statements and related footnote disclosures for Distance Education Council, Instructional Materials, My E-Learning, and Special Education Projects, which are general fund components of Educational Service Unit Coordinating Council's general fund. These projects represent 8 percent, 20 percent, and 23 percent of the assets, receipts, and disbursements respectively, of the Educational Service Unit Coordinating Council's financial statements.

Since Educational Service Unit Coordinating Council did not provide audited financial statements and related footnote disclosures for Distance Education Council, Instructional Materials, My E-Learning, and Special Education Projects, which are general fund components of Educational Service Unit Coordinating Council's general fund, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2010, on our consideration of the Educational Service Unit Coordinating Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report should be considered in assessing the results of our procedures.

Management's Discussion and Analysis and Budgetary Comparison information on pages 13 through 15 and 25 through 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required and supplementary information. However, we did not audit the information and express no opinion on it.

Signed Original on File

May 27, 2010

Don Dunlap, CPA
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Educational Service Unit Coordinating Council's (ESUCC) audit report presents our discussion and analysis of ESUCC's financial performance during the 14-month period ended on August 31, 2009. This is the first audit of ESUCC as it was created by the Nebraska Legislature with the passage of 2007 Neb. Laws LB 603 and officially came into existence according to statute on July 1, 2008. Please read it in conjunction with ESUCC's basic financial statements, which follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The report consists of four parts: (1) *Management's Discussion and Analysis* (this section); (2) *Basic Financial Statements – Cash Basis*; (3) *Required Supplementary Information*; and (4) *Supplementary Information*.

The accompanying basic financial statements have been prepared on the cash basis of accounting except the Nebraska ESU Cooperative Purchasing Unit which was prepared using the modified accrual basis of accounting. Under the cash basis, receipts are not recorded until received, inventories are not recorded as disbursements until they are consumed, and accounts payable and accrued expenses (primarily payroll withholdings) have not been recognized as liabilities. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., are both measurable and available, and expenditures are recorded when the liability is incurred. Accordingly, the financial statements and supplemental schedules are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

As this is the first year of ESUCC, the six projects that make up the general fund have different reporting periods, but the same ending period of August 31, 2009. ESU Professional Development Organization (ESUPDO) and Nebraska ESU Cooperative Purchasing Unit (Coop) activity is for the 14-month period July 1, 2008, through August 31, 2009, while the activity for the Distance Education Council (DEC), Instructional Materials (I-Mat), My E-Learning (MyE), and Special Education Projects (SPED) is reported for September 1, 2008, through August 31, 2009.

The statement of activities demonstrates the degree to which the direct disbursements/expenditures of a given function or segment are offset by program receipts/revenues. Direct disbursements/expenditures are those that are clearly identifiable with a specific function or segment. Program receipts/revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Appropriations and other items not properly included among program receipts/revenues are reported, instead, as general receipts/revenues.

ESUCC has only one governmental fund – the General Fund.

The financial statements also include notes which provide additional information about the financial statements and ESUCC's commitments and contingencies, as well as other information not provided in the cash basis financial statements. The statements are followed by a section of *Required Supplementary Information* (which consists of the Budgetary Comparison Schedule) and *Supplementary Information* that further explains and supports the information in the financial statements.

FINANCIAL HIGHLIGHTS

Since this audit covers the first 14 months of existence of ESUCC, there is no previous data and thus no comparative data to be shown.

- As noted above, the 14-month period began July 1, 2008, and ended August 31, 2009, was the first reporting period of ESUCC; however, most activities and programs predate July 1, 2008. Thus beginning balances of the activities were carried over to the ESUCC. The beginning balance for ESUCC and all of its governmental activities as of July 1, 2008, was \$1,579,600.
- The budget for the first reporting period for ESUCC was also for the 14-month period which began July 1, 2008, and ended August 31, 2009. The budgeted expenditures for ESUCC's governmental activities for this period were \$10,653,654.
- ESUCC's ending fund balance for governmental activities was \$942,204.

FINANCIAL ANALYSIS OF ESUCC AS A WHOLE

The largest single source of receipts/revenues for ESUCC is local receipts/revenues. The local receipts/revenues are primarily program receipts/revenues for the various projects. Local program receipts/revenues for the 14-month period which began July 1, 2008, and ended August 31, 2009, were \$7,546,452.

The second largest source of receipts/revenues is generated by State receipts. The State receipts were primarily made up of State appropriations for 1% of core services funding, but also included capital grants. During the 14-month period which began July 1, 2008, and ended August 31, 2009, State receipts were equal to \$724,015.

General Fund Budgetary Highlights

- Over the course of the 14-month period ended August 31, 2009, ESUCC's General Fund Cash Position decreased by approximately \$637,396. The following table provides a detailed picture of the change in cash position.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

- The table below also provides a comparison of budgeted receipts/revenues and disbursements/expenditures to actual receipts/revenues and disbursements/expenditures. While the budget for ESUCC is for the 14-month period, the actual receipts/revenues and disbursements/expenditures for DEC, MyE, SPED, and I-Mat were reported for the fiscal year of September 1, 2008, to August 31, 2009, as noted above. This explains a portion of the variance between the budgeted and actual figures as both the actual receipts/revenues and the actual disbursements/expenditures were lower than the budgeted. For more information see the Notes to Required Supplementary Information on page 26. The remaining variance can be explained primarily by the ESU Coop which typically experiences large fluctuations each year between budgeted and actual figures due to the high volume of purchases that can be made.

	<u>Budget</u>	<u>Year-End Actual</u>	<u>Difference</u>
Actual Beginning Balance		\$ 1,579,600	
Receipts/Revenues:			
Local	\$ 9,359,961	7,546,452	\$ (1,813,509)
State	834,167	724,015	(110,152)
Miscellaneous	-	80,291	80,291
Total Receipts/Revenues	10,194,128	8,350,758	\$ (1,843,370)
Disbursements/Expenditures Including Transfers	10,653,654	8,988,154	\$ (1,665,500)
Net Increase (Decrease)	\$ (459,526)	(637,396)	
August 31, 2009 Ending Balance		\$ 942,204	

CONTACTING ESUCC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers a general overview of ESUCC's finances and to demonstrate ESUCC's accountability for the money with which it is entrusted. If you have questions about this report or need additional financial information, contact Matthew L. Blomstedt, Executive Director, Educational Service Unit Coordinating Council, 455 South 11th Street, Suite C, Lincoln, Nebraska 68508. The telephone number is (402) 499-6756 and email address is mblomstedt2@neb.rr.com.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

STATEMENT OF NET ASSETS

August 31, 2009

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,119,105
Accounts Receivable	1,393,437
Prepaid Items	1,957
Total Assets	<u>4,514,499</u>
LIABILITIES	
	<u>3,572,295</u>
NET ASSETS	
Restricted	568,812
Unrestricted	373,392
Total Net Assets	<u><u>\$ 942,204</u></u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

STATEMENT OF ACTIVITIES

For the Period July 1, 2008 through August 31, 2009

	<u>Program Receipts/Revenues</u>			<u>Net (Disbursements/ Expenditures), Receipts/Revenues, and Changes in Net Assets</u>
	<u>Disbursements/ Expenditures</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
FUNCTIONS/PROGRAMS:				
Primary Government				
ESU Professional Development	\$ 344,143	\$ 85,000	\$ 38,122	\$ (221,021)
Distance Education Council	958,339	29,944	-	(928,395)
My E-Learning	475,488	493,279	-	17,791
Special Education	344,966	309,995	-	(34,971)
Instructional Materials:				
General Administration	39,829	39,829	-	-
I-Mat Spring Buy	100,000	100,000	-	-
I-Mat Special Project	34,200	34,200	-	-
Power Media Plus Services	105,806	105,806	-	-
Nebraska ESU Cooperative Purchasing:				
General Administration	331,077	-	-	(331,077)
Coop Annual Buy	5,215,578	5,433,668	-	218,090
Special Buy	1,037,363	749,785	-	(287,578)
Food Program	84	120,262	-	120,178
Custodial Buy	1,281	44,684	-	43,403
Total Governmental Activities	<u>\$ 8,988,154</u>	<u>\$ 7,546,452</u>	<u>\$ 38,122</u>	<u>(1,403,580)</u>
General Receipts/Revenues:				
State Appropriations				685,893
Sale of Equipment				225
Penalties and Fees				62,193
Interest Income				16,900
Miscellaneous				973
Total General Receipts/Revenues				<u>766,184</u>
Change in Net Assets				(637,396)
Net Assets - Beginning				<u>1,579,600</u>
Net Assets - Ending				<u>\$ 942,204</u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
GOVERNMENTAL FUND
August 31, 2009

	<i>Cash Basis</i>	<i>Modified</i>	
	<i>General</i>	<i>Accrual</i>	<i>Total</i>
	<i>Fund</i>	<i>General</i>	<i>General</i>
	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash and Investments	\$ 381,828	\$ 2,737,277	\$ 3,119,105
Accounts Receivable	-	1,393,437	1,393,437
Prepaid Items	-	1,957	1,957
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 381,828</u>	<u>\$ 4,132,671</u>	<u>\$ 4,514,499</u>
LIABILITIES AND FUND BALANCE:			
Liabilities	<u>\$ -</u>	<u>\$ 3,572,295</u>	<u>\$ 3,572,295</u>
Fund Balance:			
Reserved	-	568,812	568,812
Unreserved	381,828	(8,436)	373,392
	<u>381,828</u>	<u>560,376</u>	<u>942,204</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u>\$ 381,828</u>	<u>\$ 4,132,671</u>	<u>\$ 4,514,499</u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**STATEMENT OF RECEIPTS/REVENUES, DISBURSEMENTS/EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND**

For the Period July 1, 2008 through August 31, 2009

	<i>Cash Basis</i> General Fund	<i>Modified Accrual</i> General Fund	Total General Fund
RECEIPTS/REVENUES:			
Local	\$ 1,198,053	\$ 6,348,399	\$ 7,546,452
State	724,015	-	724,015
Penalties and Fees	-	62,193	62,193
Miscellaneous	2,351	15,522	17,873
Total Receipts/Revenues	<u>1,924,419</u>	<u>6,426,114</u>	<u>8,350,533</u>
DISBURSEMENTS/EXPENDITURES:			
Salaries and Benefits	483,732	258,790	742,522
General Administration	181,097	57,217	238,314
Purchased Services	1,177,461	5,371	1,182,832
Supplies and Equipment	18,734	9,549	28,283
Capital Outlay	135,627	-	135,627
Miscellaneous	13,363	150	13,513
I-Mat	9,915	-	9,915
NOC	40,086	-	40,086
SDA	59,053	-	59,053
SPED	27,407	-	27,407
TAG	16,290	-	16,290
I-Mat Spring Buy	100,000	-	100,000
I-Mat Special Project	34,200	-	34,200
Power Media Plus Services	105,806	-	105,806
Coop Annual Buy	-	5,215,578	5,215,578
Coop Special Buy	-	1,037,363	1,037,363
Food Program	-	84	84
Custodial Buy	-	1,281	1,281
Total Disbursements/Expenditures	<u>2,402,771</u>	<u>6,585,383</u>	<u>8,988,154</u>
OTHER FINANCING SOURCES (USES):			
Sale of Equipment	225	-	225
Total Other Financing Sources (Uses)	<u>225</u>	<u>-</u>	<u>225</u>
Excess of Receipts/Revenues Over (Under) Disbursements/Expenditures	(478,127)	(159,269)	(637,396)
Fund Balances - Beginning	<u>859,955</u>	<u>719,645</u>	<u>1,579,600</u>
Fund Balances - Ending	<u>\$ 381,828</u>	<u>\$ 560,376</u>	<u>\$ 942,204</u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Organization

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

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

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

Previous to the creation of ESUCC by the Nebraska Legislature, the 17 ESUs worked in partnership to provide statewide activities. Based on the above statutory authority, ESUCC decided that all statewide activities offered in partnership by the ESUs would be placed under the umbrella of ESUCC. In order to transition to the new structure, ESUCC established a master services agreement with each ESU. Additionally, fiscal agents for each of the projects were continued in the transition to ESUCC. The general administrative costs of ESUCC overall are currently being accounted for along with the ESUPDO project.

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

- **ESU Professional Development Organization (ESUPDO):** The ESUPDO serves as a collaborative effort to provide statewide training for ESU employees statewide. Professional development is among the cores services identified by State statute for ESUs.
- **Distance Education Council (DEC):** Originating with the Distance Education Council formed by legislation in 2006 and evolving to a program under ESUCC. DEC originated as a State project with ESU 10 (Kearney) serving as the fiscal agent for the State project. The State's distance education director is housed at

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

ESU 10. Neb. Rev. Stat. § 79-1248 (Reissue 2008) describes the objectives of the project as an effort to build, improve and maintain the State's distance education network.

- **Nebraska ESU Cooperative Purchasing Unit (Coop):** Nebraska ESU Cooperative Purchasing Unit provides cooperating purchasing services to Educational Service Unit Member schools throughout the State of Nebraska. The Nebraska ESU Cooperative Purchasing Unit's director and operations are housed at ESU 17 (Ainsworth).
- **Instructional Materials (I-Mat):** I-Mat is a statewide project that purchases rights to media materials and makes those available through local ESUs in a variety of formats. ESU 5 (Beatrice) serves as the fiscal agent for this project.
- **My E-Learning (MyE):** My E-Learning is a statewide project to make available an online learning management system to school districts, teachers, and students. ESU 10 (Kearney) serves as the fiscal agent for the project.
- **Special Education (SPED) Projects:** There are three special education projects managed by ESU 1 in Wakefield which serves as fiscal agent. The purpose of the SPED Project is for participating parties to pool their resources in connection with the special education services and for the training of special education teachers and other staff members employed by educational institutions within the State of Nebraska.

B. Reporting Entity

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

C. Basis of Accounting

ESUCC prepares its financial statements on the cash basis except Nebraska ESU Cooperative Purchasing Unit which uses the modified accrual basis of accounting. Under the cash basis, receipts are recognized when collected rather than when earned, and

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

disbursements are recognized when paid rather than when incurred. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., are both measurable and available. Available means collectible with the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the liability is incurred. Consequently, these financial statements are not intended to present financial information in accordance with generally accepted governmental accounting standards.

D. Basis of Presentation

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

E. Reporting Periods

The six projects that make up the general fund of ESUCC have different reporting periods this first year of reporting but have the same ending date of August 31, 2009. ESU Professional Development Organization and Nebraska ESU Cooperative Purchasing Unit activity is for the 14-month period of July 1, 2008, through August 31, 2009. Distance Education, Instructional Materials, My E-Learning, and Special Education Projects activity is for September 1, 2008, through August 31, 2009.

F. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct disbursements/expenditures of a given function or segment are offset by program receipts/revenues. Direct disbursements/expenditures are those that are clearly identifiable with a specific function or segment. Program receipts/revenues include 1)

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Appropriations and other items not properly included among program receipts/revenues are reported instead as general receipts/revenues.

G. Fund Types

The accounts of ESUCC are organized on the basis of funds. ESUCC has only one fund – the General Fund. The General Fund is grouped into the following fund type:

Governmental Fund Type:

- **General Fund** – This fund is the operating fund of ESUCC. It is used to account for all financing resources except those required to be accounted for in other funds.

H. Net Asset Classification

Government-Wide Statements:

Net Assets are displayed in two components:

- 1) Restricted net assets – Consists of net assets with constraints placed on the use either by a) external groups such as creditors, grantors, contributors or laws, and regulations of other governments, or b) law through constitutional provisions or enabling legislation. ESUCC had restricted net assets in the Nebraska ESU Cooperative Purchasing Unit, which consisted of members' equity in the amount of \$568,812. This amount is restricted by an agreement with each member ESU of the Coop project.
- 2) Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is ESUCC's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balances are further classified as reserved or unreserved. Reservations of fund balances are established to identify the existence of assets that are not available for subsequent year appropriations or have been legally segregated for specific purposes. ESUCC had reservations of fund balance in the Nebraska ESU Cooperative Purchasing Unit, in the amount of \$568,812 which is reserved as members' equity.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **Cash and Investments**

Deposits (cash and certificates of deposit) are carried at cost which approximates market value. At August 31, 2009, ESUCC's ESUPDO project's carrying amount of deposits was \$41,139. The bank balance for ESUCC's ESUPDO project totaled \$48,338. ESUCC's ESUPDO project had Federal Deposit Insurance Corporation (FDIC) or pledged collateral held by ESUCC's agent in ESUCC's name; however, at certain times during the year deposits for ESUCC's ESUPDO project's bank account was not fully covered by FDIC or secured by collateral. The Nebraska ESU Coop's deposits at August 31, 2009, were either covered by FDIC insurance or were held in an investment account backed by securities guaranteed by the Federal government.

3. **Contingencies and Commitments**

Risk Management – ESUCC is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. For the period July 1, 2008, through January 19, 2009, ESUCC, except for the Nebraska ESU Cooperative Purchasing Unit, had no commercial insurance coverage, and thus was self-insured. For the period January 20, 2009, through August 31, 2009, the ESUCC has chosen to purchase commercial insurance for the following:

	Limit	Deductible
Personal Property Coverage	\$ 1,000	\$ 500
General Liability	\$ 2,000,000	\$ -
Employee Benefits Liability (per employee/up to 3)	\$ 1,000,000	\$ 1,000
School Leaders E&O Liability	\$ 1,000,000	\$ 5,000
Automobile (Non-Owned & Hired) Liability	\$ 1,000,000	\$ -
Workers Compensation Insurance	\$ 500,000	\$ -

In addition, the Nebraska ESU Cooperative Purchasing Unit paid premiums to ESU 17 to maintain commercial insurance coverage covering each of the above risk of loss.

For ESUCC, except for the Nebraska ESU Cooperative Purchasing Unit, no insurance claims resulting from these risks were filed during the period July 1, 2008, through August 31, 2009. For the Nebraska ESU Cooperative Purchasing Unit settled claims in the past three years have not exceeded the above coverage.

4. **ESU 17 Reimbursements**

The Nebraska ESU Cooperative Purchasing Unit contracts with ESU 17 for personnel, equipment, and facilities on a reimbursement basis for usage. ESU 17 is responsible for payroll taxes, fringe benefits, and upkeep of equipment.

	<u>2009</u>
Sales and commissions from ESU 17	\$ 660,981
Disbursements Reimbursed to ESU 17	\$ 278,688

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND**

For the Period July 1, 2008 through August 31, 2009

	Budget (Original/Final)	Actual	Variance with Final Budget Positive (Negative)
RECEIPTS/REVENUES:			
Local	\$ 9,359,961	\$ 7,546,452	\$ (1,813,509)
State	834,167	724,015	(110,152)
Penalties and Fees	-	62,193	62,193
Miscellaneous	-	17,873	17,873
Total Receipts/Revenues	<u>10,194,128</u>	<u>8,350,533</u>	<u>(1,843,595)</u>
DISBURSEMENTS/EXPENDITURES:			
Salaries and Benefits	781,318	742,522	38,796
General Administration	561,227	238,314	322,913
Purchased Services	831,946	1,182,832	(350,886)
Supplies and Equipment	70,116	28,283	41,833
Capital Outlay	141,166	135,627	5,539
Miscellaneous	-	13,513	(13,513)
I-Mat	15,225	9,915	5,310
NOC	86,450	40,086	46,364
SDA	93,952	59,053	34,899
SPED	40,833	27,407	13,426
TAG	48,650	16,290	32,360
I-Mat Spring Buy	119,000	100,000	19,000
I-Mat Special Project	49,583	34,200	15,383
Power Media Plus Services	122,939	105,806	17,133
Imat Ancillary Projects	49,583	-	49,583
Coop Annual Buy	6,183,333	5,215,578	967,755
Coop Special Buy	1,458,333	1,037,363	420,970
Food Program	-	84	(84)
Custodial Buy	-	1,281	(1,281)
Total Disbursements/Expenditures	<u>10,653,654</u>	<u>8,988,154</u>	<u>1,665,500</u>
OTHER FINANCING SOURCES (USES):			
Sale of Equipment	-	225	225
Total Other Financing Sources (Uses)	<u>-</u>	<u>225</u>	<u>225</u>
Excess Receipts/Revenues Over (Under) Disbursements/Expenditures	<u>\$ (459,526)</u>	<u>\$ (637,396)</u>	<u>\$ (177,870)</u>

See Independent Auditor's Report.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended August 31, 2009

BUDGETARY COMPARISON SCHEDULES

Budget

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

Public hearings are conducted at a public meeting to obtain taxpayer comments.

Prior to September 20, the budget is legally adopted by the Board through passage of a resolution. Total disbursements/expenditures may not legally exceed total appropriations. Appropriations lapse at year end and any revisions require Board approval.

Budgetary Reporting Period – The budget of ESUCC for this first year of reporting was for the 14-month period from July 1, 2008, through August 31, 2009. However, the actual activity of the general fund of ESUCC has different reporting periods this first year of reporting (but does have the same ending period of August 31, 2009). ESU Professional Development Organization and Nebraska ESU Cooperative Purchasing Unit activity is for the 14-month period July 1, 2008, through August 31, 2009. Distance Education, Instructional Materials, My E-Learning, and Special Education Projects activity is for September 1, 2008, through August 31, 2009. In order to obtain a more accurate comparison of budget to actual figures, 12-month budgeted data for the DEC, I-Mat, MyE, and SPED projects was obtained. This data was used to compile the following comparison using a 12-month budget for projects reporting 12 months of actual figures and a 14-month budget for projects reporting 14 months of actual figures. In addition, a column is shown indicating the original variance from the unadjusted budget in order to indicate the portion of the original variance due to the different reporting periods.

Adjusted Budgetary Comparison

	Adjusted Budget	Actual	Variance Positive (Negative)	Original Variance Positive (Negative)	Variance due to different periods
Receipts/Revenues	\$ 9,930,351	\$ 8,350,533	\$ (1,579,818)	\$ (1,843,595)	\$ (263,777)
Disbursements/Expenditures	\$ (10,340,295)	\$ (8,988,154)	\$ 1,352,141	\$ 1,665,500	\$ 313,359
Other Receipts/Revenues	\$ -	\$ 225	\$ 225	\$ 225	\$ -
Deficiency of Receipts/Revenues Under Disbursements/Expenditures	\$ (409,944)	\$ (637,396)	\$ (227,452)	\$ (177,870)	\$ 49,582

See Independent Auditor’s Report.

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMBINING SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCES
GENERAL FUND**

As of the August 31, 2009

	<i>Cash Basis</i>					<i>Modified Accrual</i>		
	ESUCC Admin and Professional Development Organization	Distance Education Council	Instructional Materials	My E- Learning	Special Education Student Records	Total Cash Basis General Fund	Nebraska ESU Cooperative Purchasing	Total General Fund
ASSETS:								
Cash in bank and on hand	\$ 41,139	\$ (18,237)	\$ -	\$ (12,639)	\$ 371,565	\$ 381,828	\$ 2,737,277	\$ 3,119,105
Accounts Receivable	-	-	-	-	-	-	1,393,437	1,393,437
Prepaid Items	-	-	-	-	-	-	1,957	1,957
TOTAL ASSETS	<u>41,139</u>	<u>(18,237)</u>	<u>-</u>	<u>(12,639)</u>	<u>371,565</u>	<u>381,828</u>	<u>4,132,671</u>	<u>4,514,499</u>
LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,572,295</u>	<u>3,572,295</u>
FUND BALANCES:								
Reserved	-	-	-	-	-	-	568,812	568,812
Unreserved	<u>41,139</u>	<u>(18,237)</u>	<u>-</u>	<u>(12,639)</u>	<u>371,565</u>	<u>381,828</u>	<u>(8,436)</u>	<u>373,392</u>
TOTAL FUND BALANCE	<u>\$ 41,139</u>	<u>\$ (18,237)</u>	<u>\$ -</u>	<u>\$ (12,639)</u>	<u>\$ 371,565</u>	<u>\$ 381,828</u>	<u>\$ 560,376</u>	<u>\$ 942,204</u>

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

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMBINING SCHEDULE OF RECEIPTS/REVENUES, DISBURSEMENTS/EXPENDITURES,
AND CHANGES IN FUND BALANCES
GENERAL FUND**

For the Period Indicated Below

Period Beginning: 7/1/2008 9/1/2008 9/1/2008 9/1/2008 9/1/2008 7/1/2008
 Period Ending: 8/31/2009 8/31/2009 8/31/2009 8/31/2009 8/31/2009 8/31/2009

	<i>Cash Basis</i>					<i>Modified Accrual</i>		
	ESUCC					Total Cash Basis General Fund	Nebraska ESU Cooperative Purchasing	Total General Fund
	Admin and Professional Development Organization	Distance Education Council	Instructional Materials	My E- Learning	Special Education			
RECEIPTS/REVENUES:								
Local	\$ 85,000	\$ 29,944	\$ 279,835	\$ 493,279	\$ 309,995	\$ 1,198,053	\$ 6,348,399	\$ 7,546,452
State	724,015	-	-	-	-	724,015	-	724,015
Penalties and Fees	-	-	-	-	-	-	62,193	62,193
Miscellaneous	2,351	-	-	-	-	2,351	15,522	17,873
Total Receipts/Revenues	<u>811,366</u>	<u>29,944</u>	<u>279,835</u>	<u>493,279</u>	<u>309,995</u>	<u>1,924,419</u>	<u>6,426,114</u>	<u>8,350,533</u>
DISBURSEMENTS/EXPENDITURES:								
Salaries and Benefits	67,405	96,218	-	220,402	99,707	483,732	258,790	742,522
General Administration	123,987	-	39,829	-	17,281	181,097	57,217	238,314
Purchased Services	-	817,434	-	148,085	211,942	1,177,461	5,371	1,182,832
Supplies and Equipment	-	1,753	-	945	16,036	18,734	9,549	28,283
Capital Outlay	-	34,101	-	101,526	-	135,627	-	135,627
Miscellaneous	-	8,833	-	4,530	-	13,363	150	13,513
I-Mat	9,915	-	-	-	-	9,915	-	9,915
NOC	40,086	-	-	-	-	40,086	-	40,086
SDA	59,053	-	-	-	-	59,053	-	59,053
SPED	27,407	-	-	-	-	27,407	-	27,407
TAG	16,290	-	-	-	-	16,290	-	16,290

(Continued)

EDUCATIONAL SERVICE UNIT COORDINATING COUNCIL

**COMBINING SCHEDULE OF RECEIPTS/REVENUES, DISBURSEMENTS/EXPENDITURES,
AND CHANGES IN FUND BALANCES
GENERAL FUND**

For the Period Indicated Below

Period Beginning: 7/1/2008 9/1/2008 9/1/2008 9/1/2008 9/1/2008 7/1/2008
 Period Ending: 8/31/2009 8/31/2009 8/31/2009 8/31/2009 8/31/2009 8/31/2009

	<i>Cash Basis</i>					<i>Modified Accrual</i>		
	ESUCC					Total Cash Basis General Fund	Nebraska ESU Cooperative Purchasing	Total General Fund
	Admin and Professional Development Organization	Distance Education Council	Instructional Materials	My E- Learning	Special Education			
DISBURSEMENTS/EXPENDITURES, Continued:								
I-Mat Spring Buy	-	-	100,000	-	-	100,000	-	100,000
I-Mat Special Project	-	-	34,200	-	-	34,200	-	34,200
Power Media Plus Services	-	-	105,806	-	-	105,806	-	105,806
Coop Annual Buy	-	-	-	-	-	-	5,215,578	5,215,578
Coop Special Buy	-	-	-	-	-	-	1,037,363	1,037,363
Food Program	-	-	-	-	-	-	84	84
Custodial Buy	-	-	-	-	-	-	1,281	1,281
Total Disbursements/Expenditures	344,143	958,339	279,835	475,488	344,966	2,402,771	6,585,383	8,988,154
OTHER FINANCING SOURCES (USES):								
Interfund Transfers	(528,283)	528,283	-	-	-	-	-	-
Sale of Equipment	-	-	-	-	225	225	-	225
Total Other Financing Sources (Uses)	(528,283)	528,283	-	-	225	225	-	225
Excess of Receipts/Revenues Over (Under) Disbursements/Expenditures	(61,060)	(400,112)	-	17,791	(34,746)	(478,127)	(159,269)	(637,396)
Fund Balances - Beginning	102,199	381,875	-	(30,430)	406,311	859,955	719,645	1,579,600
Fund Balances - Ending	\$ 41,139	\$ (18,237)	\$ -	\$ (12,639)	\$ 371,565	\$ 381,828	\$ 560,376	\$ 942,204

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

(Concluded)



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Educational Service Unit Coordinating Council
Lincoln, Nebraska:

We were engaged to audit the financial statements of the Educational Service Unit Coordinating Council as of August 31, 2009, and for the period July 1, 2008, through August 31, 2009, which collectively comprise Educational Service Unit Coordinating Council's basic financial statements and have issued our report thereon dated May 27, 2010. Our report disclaimed an opinion on the financial statements of Educational Service Unit Coordinating Council due to certain projects of the general fund which were not audited and, as such, the scope of our work was not sufficient to enable us to express an opinion.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Educational Service Unit Coordinating Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Educational Service Unit Coordinating Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit Coordinating Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Educational Service Unit Coordinating Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

basis of accounting that demonstrates compliance with the cash basis of accounting such that there is more than a remote likelihood that a misstatement of Educational Service Unit Coordinating Council's financial statements that is more than inconsequential will not be prevented or detected by Educational Service Unit Coordinating Council's internal control. We consider the following deficiencies described in the Comments Section of this report to be significant deficiencies in internal control over financial reporting: Comment Number 1 (Organizational Structure and Internal Control Systems) and Comment Number 2 (ESUPDO and Administrative Issues Noted).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Educational Service Unit Coordinating Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

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

The Educational Service Unit Coordinating Council's responses to the findings identified in our audit are described in the accompanying Comments Section of this report. We did not audit the Educational Service Unit Coordinating Council's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management, and Federal awarding agencies, pass-through entities and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

May 27, 2010

Don Dunlap, CPA
Assistant Deputy Auditor