AUDIT REPORT
OF THE
EDUCATIONAL SERVICE UNIT NO. 17

JULY 1, 2013 THROUGH JUNE 30, 2014

Issued on December 18, 2014

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EXIT CONFERENCE

An exit conference was held November 13, 2014, via teleconference, with Educational Service Unit No. 17 (ESU No. 17) to discuss the results of our examination. Those in attendance for ESU No. 17 were:

NAME	TITLE
Dennis Radford	Administrator
Jan Foster	Business Manager

SUMMARY OF COMMENTS

During our audit of Educational Service Unit No. 17 (ESU No. 17), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Cash Reserve Balance***: ESU No. 17's cash reserve balance for the fiscal year ended June 30, 2014, was $1,142,822 higher than allowed by State statute.

2. ***Pay in Advance***: We noted one ESU No. 17 employee was paid in advance of providing services. The employee was paid on the 15th of each month for the entire month's payroll.

3. ***Federal Payroll Charges***: ESU No. 17 did not have adequate documentation to support the payroll charged to Federal grants for three employees who split their time between Federal and non-Federal programs during the year.

4. ***Unallowable Use of Funds***: ESU No. 17 paid $41 to purchase a plant for the funeral of a Board member's mother. This purchase is not in compliance with the Local Government Miscellaneous Act.

5. ***Internal Controls Over Receipts and Billings***: ESU No. 17 did not have procedures to ensure all receipts were accounted for and properly deposited into the bank account. Additionally, ESU No. 17 did not have procedures for a second review of billings or to ensure checks received were immediately endorsed.

6. ***Internal Controls Over Payroll***: ESU No. 17 did not have adequate controls over payroll, as there was no independent review to ensure no unauthorized changes were made.

7. ***Internal Controls Over Capital Assets***: We noted one individual was able to perform all functions of capital asset processing; there was no independent review of the capital asset listing for accuracy; inventory checks were not performed; and ESU No. 17 did not have Board-approved policies on capital assets processes.

8. ***Adjustments to the Financials and Other Errors***: As a result of testing, several adjustments were made to the financial statements. The adjustments ranged from $3,845 to $1,541,613. We also noted that ESU No. 17 had a PayPal account during the year. Activity in the PayPal account was not in the accounting system, nor was there documentation that the Board approved disbursements from this account.

9. ***Contract Amounts***: ESU No. 17 reduced the contracted amounts owed for services provided for two contracts during the fiscal year ended June 30, 2014. The original contracts were not amended, nor was there any indication that the Board approved the reduction in charges.

SUMMARY OF COMMENTS
(Concluded)

10. ***Incorrect Payroll Tax Withholdings***: We noted two employees tested did not have the proper Federal and State taxes withheld from their payroll. Federal taxes of $2,413 and $162 and State taxes of $823 and $48 were not appropriately withheld.

11. ***Warrant Signatures***: ESU No. 17's checks were signed by the Administrator and Business Manager during the year rather than the Board president and secretary, as required by State statute. Additionally, there was no documentation showing the Board approved ESU No. 17's 125 cafeteria plan service provider as an authorized signer on the cafeteria plan bank account.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to ESU No. 17 to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Where no response has been included, ESU No. 17 declined to respond. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

COMMENTS AND RECOMMENDATIONS

1. Cash Reserve Balance

The Nebraska Budget Act is set out at Neb. Rev. Stat. §§ 13-501 through 13-513 (Reissue 2012, Supp. 2013). As defined in § 13-503, governing body includes educational service units.

§ 13-504(1) states in relevant part,

> *Each governing body shall annually or biennially prepare a proposed budget statement. . . . A proposed budget statement shall contain the following information . . . the cash reserve for each fiscal year or biennial period. . . . The cash reserve shall not exceed fifty percent of the total budget adopted exclusive of capital outlay items[.]*

The budget approved by ESU No. 17's Board for the time period July 1, 2013, to June 30, 2014, had operating expenses, excluding capital outlays, of $4,287,635 and a total cash reserve of $3,286,640. Fifty percent of operating expenses would be $2,143,818. Thus, ESU No. 17's cash reserve was $1,142,822 higher than the amount allowed by State statute.

When ESU No. 17 has more cash reserve than allowed in State statute, the tax levy imposed may be higher than necessary.

> We recommend ESU No. 17 ensure compliance with statutory cash reserve requirements.

ESU No. 17 Response: ESU 17 is working to reduce the cash reserve by providing needed services to our member schools at no or reduced costs.

2. Pay in Advance

Article III, section 19, of the Nebraska Constitution prohibits the payment of "any extra compensation to any public officer, agent, or servant after the services have been rendered . . . ."

According to the Nebraska Supreme Court, "A payment of compensation to a public servant constitutes extra compensation whenever there is no legal obligation to pay such compensation." *Myers v. Nebraska Equal Opportunity Comm'n*, 255 Neb. 156, 163, 582 N.W.2d 362, 367 (1998) (quoting *Matter of Mullane v. McKenzie*, 269 N.Y. 369, 377, 199 N.E. 624, 627 (1936)).

Additionally, the Nebraska Supreme Court has held that the constitutional prohibition against gratuitous payments to public servants applies "to the state and to all political subdivisions thereof." *Retired City Civilian Employees Club v. Omaha Employees' Retirement System*, 199 Neb. 507, 512, 260 N.W.2d 472, 475 (1977).

If an employee has not worked half a pay period, there is no legal obligation to pay him or her for that time. In fact, under certain circumstances, doing so could constitute, according to the Nebraska Supreme Court's analysis, an improper payment of extra compensation.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Pay in Advance (Concluded)

Moreover, given the Attorney General's conclusion, in Op. Att'y Gen. 96 (June 3, 1985), that educational service units are "subdivisions of the government of the State of Nebraska," the constitutional prohibition against gratuities is applicable to ESU No. 17.

Section 1(c), "Payment of Salary and Adjustments," of ESU No. 17's contract for Administrator services, which covered the period July 1, 2013, to June 30, 2014, provided:

> *The annual salary shall be paid in equal installments in accordance with the policy of the Board governing payment of other staff employees of the Unit.*

ESU No. 17 employees are paid on the 15th of the month for the time period including the 15th of the previous month to the 14th of the current month.

During testing, it was determined that the Administrator was paid the entire month's wages on the 15th of each month – thus receiving advance pay for the last half of every month. The Administrator was paid approximately $5,875 in advance each month during the fiscal year ended June 30, 2014.

When salaries and benefits are paid before actually being earned, there is a potential for overpayment if, after the payroll, an employee who receives such early payment should leave his or her position unexpectedly or not work the required number of days. This could give rise to concerns regarding an unintentional payment of extra compensation.

Interestingly, the constitutional prohibition against gratuities applies to payments made after services have been rendered, which is the inverse of the early ESU No. 17 employee payments addressed herein. However, discussing Article III, section 19, in Op. Att'y Gen. 95071 (Sept. 13, 1995), the Attorney General observed, "Nebraska law generally requires work be performed in order for payment to be received."

When payments are made prior to work being performed, there is an increased risk for the loss of public funds due to a failure to complete the work for which compensation has already been provided. Even if not unconstitutional gratuities prohibited by Article III, section 19, such overpayments should be avoided on the grounds that, at the very least, they run afoul of sound business practices.

> We recommend that ESU No. 17 ensure no employees are paid in advance for work not yet performed.

ESU No. 17 Response: The contract for this employee was approved on July 1, 2004 for payment to begin on July 15, 2004 and has renewed annually. ESU 17 Board will review this.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Federal Payroll Charges

OMB Circular A-87, Attachment B, §§ 8(h)(4) & (5), states, in relevant part:

> *(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:*
>
> *(a) More than one Federal award,*
> *(b) A Federal award and a non Federal award,*
> *(c) An indirect cost activity and a direct cost activity,*
> *(d) Two or more indirect activities which are allocated using different allocation bases, or*
> *(e) An unallowable activity and a direct or indirect cost activity.*
>
> *(5) Personnel activity reports or equivalent documentation must meet the following standards:*
> *(a) They must reflect an after the fact distribution of the actual activity of each employee,*
> *(b) They must account for the total activity for which each employee is compensated,*
> *(c) They must be prepared at least monthly and must coincide with one or more pay periods, and*
> *(d) They must be signed by the employee.*
> *(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards . . . .*

A good internal control plan requires procedures to ensure ESU No. 17's payroll records are in compliance with Federal regulations.

ESU No. 17 received several Federal grants from the Nebraska Department of Education (NDE) during the fiscal year ended June 30, 2014. Upon inquiry with ESU No. 17, it was determined that three staff members charged time to both a Federal award from NDE and ESU No. 17 general funds during the fiscal year ended June 30, 2014. The three staff members did not have timesheets or other documentation to support the time charged to the Federal grants. The following table summarizes the payroll amounts charged to each grant for the fiscal year ended 2014:

Grant Award	Amount
Special Education Collaborative Grant	$ 31,846
Assistive Technology Partnership Education Grant	55,394
Total	**$ 87,240**

Without proper documentation on file to support payroll charged to Federal grants, there is an increased risk for loss or misuse of grant funds.

> We recommend ESU No. 17 implement procedures to ensure proper documentation for all staff paid with Federal grants is on file in accordance with Federal regulations.

ESU No. 17 Response: The time sheets we are now using have been amended to include hours for each grant task.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Unallowable Use of Funds

The Local Government Miscellaneous Expenditure Act (Act), which is set out at Neb. Rev. Stat. §§ 13-2201 through 13-2204 (Reissue 2012), specifies various expenditures, aside from those otherwise authorized by law, that constitute allowable uses of public funds by designated political subdivisions. The provisions of the Act are made applicable to educational service units, among numerous other entities, by both subsections (2) and (3) of § 13-2202.

On September 17, 1993, the Nebraska Accountability and Disclosure Commission issued "A Guideline to the Use of Public Funds by Cities and Villages" (Guideline). This document attempts to answer some commonly asked questions regarding the appropriate use of public funds. Though written principally for the benefit of cities and villages, the advice provided in the Guideline is equally applicable to educational service units – which, as pointed out already, are also covered under the Act.

One of the issues addressed in the Guideline is the purchase of flowers, as follows:

> *Question #6 – May municipal funds be expended for flowers and memorials for deceased elected officials, employees or their families?*
> *Response – No.*

The above conclusion is based upon the fact that § 13-2203 enumerates specifically all allowable disbursements of public funds under the Act. Buying flowers for deceased officials or their relatives is not included among such statutorily approved purchases.

During testing, we noted that one disbursement tested was not allowable per State statute. ESU No. 17 paid $41 to purchase a plant for the funeral of a Board member's mother.

The purchase of a plant for a decreased relative is a misuse of funds.

> We recommend that ESU No. 17 ensure compliance with the Local Government Miscellaneous Expenditure Act.

ESU No. 17 Response: After being made aware of the violation of the Local Government Miscellaneous Act, ESU 17 will refrain from making such purchases.

5. Internal Controls Over Receipts and Billings

A good internal control plan requires an adequate segregation of duties or compensating controls to ensure no one individual is able both to perpetrate and/or to conceal errors or irregularities. A good internal control plan also requires documented procedures to ensure billings are accurate, all receipts are accounted for, and checks received are endorsed immediately.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Internal Controls Over Receipts and Billings (Concluded)

During review of ESU No. 17's receipt and billing processes, the following was noted:

- The initial listing of monies received, which was created by ESU No. 17 when opening the mail, was not signed by the individual(s) who created the listing.
- The Business Manager had the ability to perform all aspects of the billing and receipting process, including creating invoices, recording the invoices in the accounting system, receiving cash/checks, making the deposits, and reconciling the bank statements. The initial listing created when opening the mail was not compared to the receipts deposited in the bank or recorded in the accounting system.
- There was no review of the invoices by a second individual to ensure the amounts billed to other entities were accurate.
- Checks were not endorsed immediately upon opening the mail, increasing the risk of misappropriation.

When controls over receipts and billings are not adequate, there is an increased risk that receipts could be lost or stolen and that billings will be incorrect.

> We recommend ESU No. 17 implement procedures to segregate adequately the various aspects involved in the receipting process. If a segregation of duties is not possible due to limited staff, we recommend ESU No. 17 implement controls to compensate for the lack of segregation of duties. We also recommend checks be endorsed immediately upon opening the mail and that billing invoices be reviewed to ensure accuracy.

ESU No. 17 Response: We have implemented changes to the procedures used to account for receipts by having the Administrative Assistant receipt the money in a ledger and stamp the checks prior to giving to the Business Manager. Once the deposit is created by the Business Manager, the Administrative Assistant compares it to the ledger and later reconciles it to the bank statement.

6. Internal Controls Over Payroll

A good internal control plan requires a segregation of duties that prevents one individual from processing a transaction from beginning to end.

ESU No. 17 did not have an adequate segregation of duties over the payroll process, as one individual, the Business Manager, had the ability to perform all aspects of the payroll process. The Business Manager was primarily responsible for payroll and initiated direct deposit

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Internal Controls Over Payroll (Concluded)

amounts. A review of the payroll registers by the Administrator was completed; however, there was no review of the actual payroll transferred to employee accounts to ensure nothing was inappropriately changed. ESU No. 17 had payroll disbursements of $3,054,767 during the fiscal year ended June 30, 2014.

A lack of appropriate controls and segregation of duties over the payroll process increases the risk of errors or theft occurring and not being detected.

> We recommend ESU No. 17 develop a proper segregation of duties over the payroll process. If a proper segregation of duties cannot be developed due to a shortage of staff, we recommend compensating controls be developed. These compensating controls could include a detailed review of payroll registers by an individual without payroll access to ensure payroll is appropriate and a comparison of the Administrator-approved payroll register to the amounts paid to employees.

ESU No. 17 Response: The Administrator will now compare the approved payroll register to the ACH bank report and the direct deposit report which are created following completion of the payroll process within Fund Accounting.

7. Internal Controls Over Capital Assets

A good internal control plan requires an adequate segregation of duties or compensating controls to ensure no one individual is able both to perpetrate and/or to conceal errors or irregularities. A good internal control plan also requires procedures to ensure the capital asset listing is accurate and that there are Board-approved policies on capital asset processes.

During review of ESU No. 17's capital asset procedures, we noted the following:

- One individual was able to perform all functions of the capital asset processing. The individual had the ability to add, delete, and maintain the capital assets listing. Furthermore, there was no independent review of the capital asset listing to ensure all items added and deleted were proper.
- ESU No. 17 did not perform an annual inventory of its capital assets to ensure assets were properly accounted for and the capital asset listing was accurate.
- We noted that, when ESU No. 17 no longer needed assets, they were sold to employees or sold on EBay. ESU No. 17 lacked Board-approved policies to govern these disposal processes.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. <u>Internal Controls Over Capital Assets</u> (Concluded)

Without proper controls over capital assets, there is an increased risk items could be lost or stolen. Without documented Board-approved policies governing capital asset disposals, there is an increased risk that prices paid for ESU No. 17 assets will be unreasonable.

> We recommend ESU No. 17 develop a proper segregation of duties over its capital assets. If a proper segregation of duties cannot be developed due to a shortage of staff, we recommend compensating controls be developed. We also recommend ESU No. 17 develop Board-approved policies to govern capital asset disposal procedures, which should include performing an annual inventory.

ESU No. 17 Response: ESU 17 will create procedures for capital asset processes. The Business Manager will compare the inventory listing prepared by the Administrative Assistant against received invoices. The Administrative Assistant will provide a copy of the inventory listing to the Business Manager whenever changes are made.

8. <u>Adjustments to the Financials and Other Errors</u>

The financial statements are the responsibility of ESU No. 17's management. The Auditor of Public Accounts (APA) is responsible for expressing an opinion on the accuracy and reliability of those statements. ESU No. 17's transactions are subject to the direct knowledge and control of management. The APA's knowledge of these matters is limited to that acquired through the audit; thus, the fair presentation of the financial statements is an implicit part of management's responsibility.

A good internal control plan and sound accounting practices require that receipts and disbursements be accurately recorded in the accounting system for proper inclusion in the financial statements. A good internal control plan requires procedures to ensure the Board approves all disbursements.

<u>Adjusted Errors</u>
The following adjustments were made to ESU No. 17's financial statements as a result of the APA's testing:

- Receipts related to the Assistive Technology Partnership Education Federal grant received from NDE were not properly coded as Federal receipts. Additionally, the corresponding disbursements of the Federal grant were not recorded as Federal disbursements in the accounting system. The total amount miscoded as non-Federal receipts and disbursements was $69,871.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. <u>Adjustments to the Financials and Other Errors</u> (Concluded)

- Receipts and disbursements were both overstated by $3,845 due to a bill that was paid by ESU No. 17 but should have been paid by the Northeast Nebraska Networking Consortium that ESU No. 17 belonged to.

- It was determined that some amounts recorded as General Receipts on the Statement of Activities – Cash Basis would be more appropriately recorded under Charges for Services. The receipts were for amounts that ESU No. 17 charged school districts for services performed by ESU No. 17. The following amounts were originally recorded as General Receipts but were moved to Charges for Services:

Line Item	Amount
Special Education	$ 1,541,613
Support Services - Health	26,871
Core Services - Technology	82,169
Total	**$ 1,650,653**

<u>Unadjusted Errors</u>
Testing revealed that ESU No. 17 maintained a PayPal account during the fiscal year ended June 30, 2014. The PayPal account was used to receipt funds received from selling ESU No. 17 assets. Those receipts were then used for ESU No. 17-related purchases of items online. ESU No. 17 did not have documentation showing the Board approved the purchases made through PayPal. Additionally, the activity in the PayPal account was not in ESU No. 17's accounting system and, therefore, was not in the financial statements. The total activity in this account during the fiscal year ended June 30, 2014, was $2,151 in receipts, $248 in related fees, and $793 in disbursements. No adjustment was made to the financials for this PayPal activity.

When amounts are not properly recorded in the accounting system, there is an increased risk that the financial statements will be incorrect.

> We recommend ESU No. 17 improve procedures to ensure accurate and complete financial data is prepared. We also recommend ESU No. 17 ensure all disbursements are approved by the Board.

ESU No. 17 Response: The adjustments mentioned were re-categorized within the financial statements. Requests will be made monthly to withdraw the maximum allowable amount from PayPal to zero its balance. No further activity will occur within this account.

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Contract Amounts

Good business practices and internal control require the enforcement of all contracts. Any change to Board-approved contracts should be approved by the Board.

ESU No. 17 provided services to schools located within ESU No. 17's geographical area. Those services were agreed upon through Board-approved contracts. We tested Board-approved contracts with Rock County Public School and Keya Paha County Public School. In these contracts, ESU No. 17 agreed to provide a Technology Integration Specialist, and the schools agreed to pay a set amount for the services. After the contract was signed, ESU No. 17 decided that it would not require the schools to pay the entire amount of the contract, as ESU No. 17 had funds available to cover the costs. The original contracts were not amended, nor was there any indication that the Board approved the reduction in charges. The table below shows the contracted amounts and amounts billed by and paid to ESU No. 17 for the two contracts tested:

	Rock	**Keya Paha**
Contracted Amount	$ 77,386	$ 45,467
Amount Paid by the School	64,490	22,734
Total Contracted Amount Not Paid by the School	**$ 12,896**	**$ 22,733**

When changes in contract amounts are not approved by the Board, there is an increased risk that ESU No. 17 could provide unequal benefits to the schools, and these changes would not be in accordance with Board intent.

> We recommend ESU No. 17 ensure changes to contracts are approved by the Board to ensure schools are receiving similar assistance from ESU No. 17.

ESU No. 17 Response: We will implement changes to our procedures to amend original contracts when needed and will follow up with Board approval.

10. Incorrect Payroll Tax Withholdings

Sound business practices require ESU No. 17 to withhold the proper amount of its employees' taxes.

Internal Revenue Service (IRS) Publication 15 (Circular E), 2014, Employer's Tax Guide, outlines an employer's responsibility to withhold Federal income tax based on each employee's specific circumstances.

During testing, we noted that ESU No. 17 did not have procedures in place to ensure proper tax amounts were withheld from employees' paychecks. We noted two employees did not have appropriate State and Federal taxes deductions for one pay period.

COMMENTS AND RECOMMENDATIONS
(Continued)

10. Incorrect Payroll Tax Withholdings (Concluded)

- One employee, who started employment with ESU No. 17 during the middle of the year, did not have Federal taxes of $162 and State taxes of $48 appropriately withheld for the pay period tested.
- The other employee terminated employment with ESU No. 17 during the year. According to the settlement agreement between ESU No. 17 and the employee, dated March 31, 2014, Section 4, the payment sum "shall be reduced by legally required deductions including, but not limited to, state and federal income tax withholdings . . . ." However, $2,413 in Federal taxes and $823 in State taxes were not appropriately withheld from the employee's final pay.

Per discussion with ESU No. 17, some of the fields in the payroll system were not properly completed, causing the errors in tax withholdings.

When payroll deductions are not correctly calculated, there is an increased risk of additional liability. Additionally, if State income taxes are not withheld in the proper amount, as required under the Nebraska Revenue Act, penalties could be imposed.

> We recommend ESU No. 17 implement procedures to ensure the correct Federal and State tax withholdings are withheld from employees' paychecks.

ESU No. 17 Response: The Business Manager is now aware of the correct way to enter payroll information when contracts are for less than a 12 month period therefore, avoiding this problem.

11. Warrant Signatures

Neb. Rev. Stat. § 79-1221 (Reissue 2008) states, in relevant part:

> *The treasurer shall be the custodian of all funds of the board of the educational service unit. He or she shall attend meetings of the board, shall prepare and submit in writing a monthly report of the state of its finances, and shall pay out money of the board only upon a warrant signed by the president, or in his or her absence by the vice president, and countersigned by the secretary.*

During fiscal year ended June 30, 2014, ESU No. 17 had two checking accounts: one account was for disbursements and receipts of ESU No. 17's general operations, and the other account was to hold participant contributions and make related payments to participants for the 125 cafeteria plan.

General Operations
During testing, it was noted that ESU No. 17's Administrator and Treasurer/Business Manager both signed the warrants for general operations during the fiscal year ended June 30, 2014, which was not in compliance with State statute. Total disbursements of the General Fund during fiscal year ended June 30, 2014, was $3,629,996.

COMMENTS AND RECOMMENDATIONS
(Concluded)

11. Warrant Signatures (Concluded)

Cafeteria Plan
ESU No. 17 utilized the service organization, WageWorks, Inc., to approve eligible disbursements to participants in the 125 cafeteria plan. In return, the service organization charged ESU No. 17 a service fee of $7 per participant. The following was noted in relation to the 125 cafeteria plan:

- The only authorized signers on the 125 cafeteria plan bank account were employees of WageWorks, Inc., which does not appear to be in compliance with Neb. Rev. Stat. § 79-1221. The total amount disbursed to participants from the 125 cafeteria plan bank account during fiscal year ended June 30, 2014, was $42,585.

- Additionally, since WageWorks, Inc., was authorizing disbursements from the bank account as the authorized signer, it essentially paid itself the service fees. The total fees paid to WageWorks, Inc., during fiscal year ended June 30, 2014, was $1,694.

> We recommend ESU No. 17's Board president and secretary sign all warrants to ensure compliance with State statute.

ESU No. 17 Response: The Administrator will bring the issue of the president and secretary signing the checks for Board review. The Board will make a decision on how checks are to be signed in the future. The Board will explore options of how to manage the 125 cafeteria plan bank account.

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EDUCATIONAL SERVICE UNIT NO. 17

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Service Unit No. 17
Ainsworth, NE

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Unit No. 17 (ESU No. 17), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise ESU No. 17'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 the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 an opinion 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. Those 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 ESU No. 17's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of ESU No. 17, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

Other Matters

Other Information

The Schedule of County Treasurer Accounts on page 32 and the General Fund and Fiduciary Fund budgetary comparisons on pages 33 and 34 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014, on our consideration of ESU No. 17's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on 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. 17's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Pat Reding

December 16, 2014

Pat Reding, CPA, CFE
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT NO. 17

STATEMENT OF NET POSITION - CASH BASIS

JUNE 30, 2014

		Governmental Activities
ASSETS		
Cash and Cash Equivalents	$	3,379,529
Funds Held by County Treasurers		4,936
TOTAL ASSETS	$	3,384,465
NET POSITION		
Unrestricted (General)	$	3,384,465
TOTAL LIABILITIES AND NET POSITION	$	3,384,465

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

EDUCATIONAL SERVICE UNIT NO. 17

STATEMENT OF ACTIVITIES - CASH BASIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Cash Disbursements	Program Cash Receipts: Charges for Services	Program Cash Receipts: Operating Grants and Contributions	Net Receipts (Disbursements) and Changes in Net Position Government Activities
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental Activities:				
Special Education	$ 1,472,782	$ 1,541,613	$ -	$ 68,831
Support Services:				
Health	28,668	26,871	-	(1,797)
Media/Technology	43,759	-	-	(43,759)
Business	115,114	-	-	(115,114)
General Administration	72,534	-	-	(72,534)
Operation of Plant	15,971	-	-	(15,971)
Maintenance of Plant	11,077	-	-	(11,077)
Core Services:				
Staff Development	147,959	-	-	(147,959)
Technology	246,096	82,169	-	(163,927)
Instructional Materials & Media	112,970	-	-	(112,970)
Internet Support	148,523	-	-	(148,523)
Cooperative Purchasing	1,070,785	1,068,659	-	(2,126)
Federal Programs	143,758	-	177,168	33,410
Total Governmental Activities	$ 3,629,996	$ 2,719,312	$ 177,168	(733,516)
General Receipts:				
Local Receipts				315,721
State Receipts				447,950
Investment Income				26,853
Other Local Sources				31,979
Other Receipts				1,920
Total General Receipts				824,423
Change in Net Position				90,907
Net Position - Beginning				3,293,558
Net Position - Ending				$ 3,384,465

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

EDUCATIONAL SERVICE UNIT NO. 17

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE

GOVERNMENTAL FUND

JUNE 30, 2014

		General Fund
ASSETS		
Cash and Cash Equivalents	$	3,379,529
Funds Held by County Treasurers		4,936
TOTAL ASSETS	$	3,384,465
FUND BALANCE		
Unassigned	$	3,384,465
TOTAL FUND BALANCE	$	3,384,465

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

EDUCATIONAL SERVICE UNIT NO. 17

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCE

GOVERNMENTAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

		General Fund
RECEIPTS		
Special Education	$	1,541,613
Support Services - Health		26,871
Core Services - Technology		82,169
Cooperative Purchasing		1,068,659
Federal Programs		177,168
Local Receipts		315,721
State Receipts		447,950
Investment Income		26,853
Other Local Sources		31,979
Other Receipts		1,920
TOTAL RECEIPTS	$	3,720,903
DISBURSEMENTS		
Current:		
Special Education	$	1,472,782
Support Services - Health		28,668
Support Services - Media/Technology		43,759
Support Service - Business		115,114
General Administration		72,534
Operation of Plant		15,971
Maintenance of Plant		11,077
Core Services - Staff Development		147,959
Core Services - Technology		246,096
Core Services - Instructional Materials/Media		112,970
Core Services - Internet Support		148,523
Cooperative Purchasing		1,070,785
Federal Programs		143,758
TOTAL DISBURSEMENTS	$	3,629,996
Excess of Receipts Over Disbursements		90,907
CASH BASIS FUND BALANCE - BEGINNING OF YEAR		3,293,558
CASH BASIS FUND BALANCE - END OF YEAR	$	3,384,465

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

EDUCATIONAL SERVICE UNIT NO. 17
STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
JUNE 30, 2014

	Cafeteria Plan Fund
ASSETS	
Cash and Cash Equivalents	$ 7,616
TOTAL ASSETS	$ 7,616
NET POSITION	
Held in Trust for Participants	$ 7,616
TOTAL NET POSITION	$ 7,616

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

EDUCATIONAL SERVICE UNIT NO. 17

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS

FIDUCIARY FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Cafeteria Plan Fund
ADDITIONS	
Participant Contributions	$ 43,202
TOTAL ADDITIONS	43,202
DEDUCTIONS	
Payments to Participants	42,585
TOTAL DEDUCTIONS	42,585
Change in Net Position Held in Trust for Participants	617
CASH BASIS NET POSITION - BEGINNING	6,999
CASH BASIS NET POSITION - ENDING	$ 7,616

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

1. Summary of Significant Accounting Policies

A. Basis of Presentation

Educational Service Unit No. 17 (ESU No. 17) adopted the provisions of Statement No. 34 (Statement 34) of the Government Accounting Standards Board (GASB), "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 position into three components – (a) net investment in capital assets; (b) restricted; and (c) unrestricted. The ESU No. 17 reported only unrestricted net position.

B. Basis of Accounting

ESU No. 17's policy is to prepare its financial statements on the cash basis, which is consistent with the requirements of both the Commissioner of Education and the Nebraska Department of Education. Under the cash basis of accounting, receipts are recognized when collected rather than when earned, and disbursements are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial information in accordance with generally accepted accounting principles. Property taxes collected by the County Treasurers are recognized as receipts upon receipt by the County Treasurers.

The basic financial statements have been prepared primarily from accounts maintained by ESU No. 17's accounting system.

C. Reporting Entity

ESU No. 17 is a governmental entity that provides supplies, equipment, materials, and services to school districts in a five-county region. ESU No. 17 was established under and is governed by the laws of the State of Nebraska. The financial statements include all funds of ESU No. 17. ESU No. 17 has also considered all potential component units for which it is financially accountable and other organizations that are fiscally dependent on ESU No. 17 or whose relationship with ESU No. 17 is so significant that exclusion would 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. 17 to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 17. ESU No. 17 is also considered financially accountable if an organization is fiscally dependent on and there is potential for the

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 17 regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board. No component units were identified.

These financial statements present ESU No. 17 and its funds. ESU No. 17 is not considered a component unit of any other governmental entity.

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements. The Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis display information about the activities of ESU No. 17 and are in the format of government-wide statements, as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of ESU No. 17, except for fiduciary activities. The effect of interfund activity has been removed from these statements. Governmental activities generally are financed through taxes and intergovernmental receipts. ESU No. 17 does not have any business-type activities.

The Statement of Net Position – Cash Basis presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. ESU No. 17's net position is reported as unrestricted which can have constraints on resources that are imposed by management (rather than external constraints), but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct disbursements of a given function or segment is offset by receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include: 1) 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. General receipts include all other receipts properly not included as program receipts. ESU No. 17 reported the following general receipts: Local Receipts, State Receipts, Investment Income, Other Local Sources, and Other Receipts.

Fund Financial Statements. The fund financial statements provide information about ESU No. 17's funds, including its Governmental Fund and Fiduciary Fund.

1. Summary of Significant Accounting Policies (Continued)

E. Fund Types

The accounts of ESU No. 17 are organized on the basis of funds, which are grouped into the following governmental and fiduciary fund types:

General Fund – The General Fund is the general operating fund of ESU No. 17. It is used to account for all financial resources except those required to be accounted for in another fund. All property tax receipts and other receipts that are not allocated by law, budgetary requirement, or contractual agreement to some other fund are account for in this fund. General operating disbursements and new and replacement capital outlay costs are paid from the General Fund. This is a Governmental Fund.

Cafeteria Plan Fund – The contributions and disbursements related to certain employee benefits, including medical and dependent care reimbursements, are accounted for in the cafeteria plan fund. This is a fiduciary fund. Fiduciary funds report assets held in a trustee or agency capacity for others and, therefore, cannot be used to support ESU No. 17's own programs.

F. Cash and Cash Equivalents

In addition to bank accounts, this classification includes all short-term investments, such as certificates of deposit and investments in the Nebraska Public Agency Investment Trust (NPAIT) having original maturities of less than two years. The NPAIT deposits and investments include certificate of deposits, demand deposit accounts, repurchase agreements, and government agency securities. These investments are valued at amortized cost, which approximates fair value due to the short-term nature of the investments.

G. Inventory

Inventories of expendable supplies held for consumption are recorded as disbursements at the time of purchase.

H. Capital Assets

Capital assets are recorded as disbursements at the time of purchase. This differs from generally accepted accounting principles, which require capital assets to be capitalized and depreciated over the life of the asset.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

I. Compensated Absences

ESU No. 17 has entered into negotiated agreements with certified and non-certified personnel. In those agreements, ESU No. 17 has agreed to provide benefits for personal and sick leave. In accordance with the cash basis of accounting, these benefits are recorded as a disbursement when paid.

J. Property Taxes and Funds Held by County Treasurers

The tax levied for all political subdivisions in each county is certified by the County Board on or before October 15. Real estate and personal property taxes are due and become an enforceable lien on property on January 1. The first half of real estate and personal property taxes becomes delinquent on May 1, and the second half becomes delinquent on September 1 following the levy date. The tax levy for ESU No. 17 was $0.015000 on each $100 of the actual valuation of all taxable property within its geographic region for calendar year 2013, which is the maximum allowed by State statute.

Property taxes are collected on behalf of ESU No. 17 by Boyd County, Brown County, Cherry County, Keya Paha County, and Rock County, which then remit the funds collected monthly to ESU No. 17. Taxes are recognized as Local Receipts by ESU No. 17 when collected by the counties. Cash available for ESU No. 17 at various county treasurers' offices has been included in the beginning and ending fund balances of the governmental funds.

K. Restricted Assets

When both restricted and unrestricted resources are available for use, it is ESU No. 17's policy to use restricted resources first and then unrestricted resources as needed.

L. Fund Balance

GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement No. 54 defines the different types of governmental fund balances that a governmental entity must use for financial reporting purposes.

Non-spendable – Fund balance amounts are considered non-spendable if they cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

1. <u>Summary of Significant Accounting Policies</u> (Concluded)

Restricted – Fund balance amounts are considered restricted if they are constrained for specific purposes which are externally imposed by providers, such as creditors, or constrained due to constitutional provisions or enabling legislation.

Committed – Fund balances are considered committed if they are constrained for specific purposes that are internally imposed by the government through formal action of the Board, and the constraints do not lapse at year-end.

Assigned – Fund balance amounts are considered assigned if they are intended to be used for specific purposes that are considered neither restricted nor committed. Fund balances may be assigned by management.

Unassigned – Fund balance amount is the residual classification for ESU No. 17's general fund and includes all spendable amounts not contained in the other classifications.

Order of Fund Balance Spending

ESU No. 17's policy is to apply disbursements against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries. First, non-spendable fund balances are determined. Then, restricted fund balances for specific purposes are determined (not including non-spendable amounts).

The General Fund balance at June 30, 2014, was classified as unassigned.

2. <u>Deposits and Investments</u>

Listed below is a summary of the deposit and investment portfolio that comprises the Cash and Cash Equivalents on ESU No. 17's June 30, 2014, basic financial statements.

Deposits – Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. At June 30, 2014, ESU No. 17 held bank deposits and also held funds in certificates of deposits, demand deposits, and money market accounts with the Nebraska Public Agency Investment Trust (NPAIT).

The NPAIT was established in June 1996 through the Interlocal Cooperation Act and commenced operations July 25, 1996. The NPAIT was established to assist public bodies throughout the State of Nebraska with the investment of their available cash reserves. Participation in the investment trust is voluntary for its members. The objective of the

2. Deposits and Investments (Continued)

NPAIT is to provide its own members with a conservative and effective investment alternative tailored to the needs of its members. The NPAIT currently consists of and operates one portfolio and a fixed term account. The NPAIT portfolio management generally follows established investment criteria developed by the Securities and Exchange Commission (SEC) for money market funds designed to offer acceptable yield while maintaining liquidity. The NPAIT is not registered with the SEC as an investment company. For a copy of the most recent audit report for the NPAIT, contact Dennis Radford, Administrator, Educational Service Unit No. 17, 207 North Main St, Ainsworth, Nebraska, 69210-1353. The telephone number is (402) 387-1420, and the email address is dradford@esu17.org.

ESU No. 17's bank balance and carrying amount of deposits at June 30, 2014, are below:

	Bank Balance	Carrying Amount
Bank Deposits	$ 2,258,668	$ 2,213,545
NPAIT Deposits	477,186	477,186
Total	**$ 2,735,854**	**$ 2,690,731**

Bank Deposits: ESU No. 17 does not have a policy for custodial credit risk associated with deposits.

ESU No. 17 is required by State statute to collateralize bank deposits in excess of Federally insured amounts. During the fiscal year ended June 30, 2014, ESU No. 17's deposits were not adequately collateralized by the balance in the Cafeteria Plan Fund. At June 30, 2014, the total amount not collateralized was $7,926.

NPAIT Deposits: The NPAIT's deposit policy for custodial credit risk required compliance with the provisions of State law.

State law requires collateralization of deposits with Federal depository insurance or with U.S. Treasury and U.S. Agency securities having an aggregate value at least equal to the amount of the deposits. At June 30, 2014, all of the NPAIT's deposits were insured and collateralized by securities held by the pledging financial institution in other than the NPAIT's name.

Investments – The NPAIT may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. Agency and Instrumentalities and in bank repurchase agreements. It may also invest in guaranteed student loans, loans guaranteed by the Small Business Administration, Federal Home Administration, or any other agency of the United States, as well as any other type of investment permitted for public agencies by State law. At June 30, 2014, all of the NPAIT's investments in U.S. agencies and repurchase agreements mature in a period of less than two years.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Deposits and Investments (Concluded)

At June 30, 2014, ESU No. 17 had $696,414 in NPAIT investments. These investments consisted of government agency securities and repurchase agreements which were collateralized by U.S. government securities.

ESU No. 17 is exposed to risks noted below in relation to its investments in the NPAIT. ESU No. 17 does not have a policy for these risks.

Interest Rate Risk – As a means of limiting its members' exposure to fair value losses arising from rising interest rates, all of the NPAIT's investments have maturities of less than two years.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. According to the latest audit report on the NPAIT, as of June 30, 2014, the NPAIT's investments in government agency securities were rated as AA+.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the NPAIT will not be able to recover the value of its investment or collateral securities that are in the possession of the outside party. The NPAIT has no specific policy as to credit risk. All of the underlying securities for the NPAIT investments in repurchase agreements at June 30, 2014, the latest audit report date for the NPAIT, are held by the counterparties in the NPAIT's name.

Concentration of Credit Risk – The NPAIT places no limit on the amount that may be invested in any one issuer.

Reconciliation of deposits and investments for ESU No. 17 to the basic financial statements, as of June 30, 2014, is as follows:

Disclosure Regarding Deposits and Investments:	
Carrying Amount of Bank and NPAIT Deposits	$ 2,690,731
Total NPAIT Investments	696,414
Total	$ 3,387,145
Statement of Net Position - Cash Basis	
Cash and Cash Equivalents	$ 3,379,529
Statement of Fiduciary Net Position - Cash Basis	
Cash and Cash Equivalents	7,616
Total	$ 3,387,145

3. Risk Management

ESU No. 17 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. During the fiscal year, ESU No. 17 carried commercial insurance for automobile liability, business liability, and employer's liability and also carried insurance related to worker's compensation coverage, buildings, business personal property, commercial vehicle coverage, and employee dishonesty coverage. No significant reductions in insurance coverage occurred during the fiscal year ended June 30, 2014. Settled claims resulting from these risks have not exceeded the above coverage in the past three years.

4. School Employees Retirement Plan

Plan Description
ESU No. 17 contributes to the Nebraska School Employees Retirement System, a cost-sharing, multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement System (NPERS). NPERS provides retirement and disability benefits to plan members and beneficiaries. The School Employees Retirement Act establishes benefit provisions. NPERS issues a publicly available financial report that includes financial statements and required supplementary information for NPERS. That report may be obtained by writing NPERS, 1526 K Street, Suite 400, P.O. Box 94816, Lincoln, NE, 68509-4816 or by calling 1-800-245-5712.

Funding Policy
Plan members were required to contribute 9.78% of their annual covered salary from July 1, 2013, to June 30, 2014. ESU No. 17 is required to contribute 101% of the employee contribution. The contribution requirements of plan members and ESU No. 17 are established by the Nebraska statutes. ESU No. 17's contributions to NPERS for the year ended June 30, 2014, was $254,539, equal to the required contributions for the period. ESU No. 17's contributions to NPERS for the years ending June 30, 2012, and June 30, 2013, were $210,403 and $231,205, respectively, equal to the required contributions for each year.

5. Cooperative Purchasing

Amounts shown in Cooperative Purchasing in the government-wide and governmental fund financial statements include two types of receipts and disbursements:

- ESU No. 17 participated in a consolidated statewide program on behalf of its school districts for the purchase of administrative instructional supplies, equipment, and personal property for the 2013-2014 school year. This program was operated and administered by the personnel of the Educational Service Unit Coordinating Council (ESUCC). During the fiscal year ended June 30, 2014, ESU No. 17 paid ESUCC for orders made by ESU No. 17 school districts. The school districts then reimbursed ESU No. 17 for these purchases, along with a 3.5% administrative fee to cover ESU No. 17's costs of the program.

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

5. Cooperative Purchasing (Concluded)

- ESU No. 17 entered into an interlocal agreement with ESUCC, in which ESU No. 17 agreed to provide staff members to administer and operate ESUCC's statewide education services. In this same interlocal agreement, ESUCC agreed to reimburse ESU No. 17 for all salaries, benefits, State and Federal employment taxes, and the employer contribution to NPERS related to these staff members.

6. Cafeteria Plan

ESU No. 17 provides for a qualifying Cafeteria Plan within the meaning of Section 125 of the Internal Revenue Code of 1986 (Code). The benefits that an employee elects to receive under the Cafeteria Plan are includable or excludable from the employee's income to the extent permitted under Section 125(a) and other applicable sections of the Code. During the fiscal year ended June 30, 2014, ESU No. 17 collected $43,202 from employees to be paid out when claims are filed. ESU No. 17 maintains a separate checking account to pay these claims. As of June 30, 2014, that account had a carrying value of $7,616, which is included in the Statement of Fiduciary Net Position – Cash Basis.

7. Accounts Receivable

At June 30, 2014, ESU No. 17 had $234,261 in accounts receivable. In accordance with the cash basis of accounting, receivables are recorded as a receipt when ESU No. 17 receives the funds.

8. Unemployment Compensation Insurance

ESU No. 17 has adopted the reimbursable option of the State's Unemployment Compensation Insurance Program. Under this option, a claimant would receive unemployment compensation from the State. ESU No. 17 is liable to reimburse the State for the actual amount of the claim(s).

EDUCATIONAL SERVICE UNIT NO. 17

OTHER INFORMATION

SCHEDULE OF COUNTY TREASURER ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2014

(Unaudited)

	Boyd	Brown	Cherry	Keya Paha	Rock	Total
Fund Balance July 1, 2013	$ 1	$ 1,057	$ 1,489	$ 484	$ 827	$ 3,858
Receipts:						
Tax Collections	1,039	69,817	130,457	42,278	53,954	297,545
In Lieu	-	-	559	-	-	559
Prorate	2	191	371	-	108	672
Homestead Exemption	-	810	1,617	-	310	2,737
Property Tax Credit	63	2,673	5,891	-	2,372	10,999
Other	-	-	-	3,209	-	3,209
Total Receipts	1,104	73,491	138,895	45,487	56,744	315,721
Total Funds Available	1,105	74,548	140,384	45,971	57,571	319,579
Disbursements:						
Remitted to ESU No. 17	1,105	73,986	137,016	45,633	56,903	314,643
Fund Balance June 30, 2014	$ -	$ 562	$ 3,368	$ 338	$ 668	$ 4,936

EDUCATIONAL SERVICE UNIT NO. 17

OTHER INFORMATION

SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCE COMPARISON TO BUDGET

GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance with Original and Final Budget - Positive (Negative)
RECEIPTS			
Special Education	$ 1,660,251	$ 1,541,613	$ (118,638)
Support Services - Health	26,871	26,871	-
Core Services - Technology	142,409	82,169	(60,240)
Cooperative Purchasing	1,396,544	1,068,659	(327,885)
Federal Programs	208,791	177,168	(31,623)
Local Receipts	320,758	315,721	(5,037)
State Receipts	448,392	447,950	(442)
Contracted Services	14,857	-	(14,857)
Investment Income	25,200	26,853	1,653
Other Local Sources	48,452	31,979	(16,473)
Other Receipts	3,000	1,920	(1,080)
TOTAL RECEIPTS	$ 4,295,525	$ 3,720,903	$ (574,622)
DISBURSEMENTS			
Current:			
Special Education	$ 1,660,250	$ 1,472,782	$ 187,468
Support Services - Health	34,279	28,668	5,611
Support Services - Media/Technology	47,000	43,759	3,241
Support Service - Business	151,820	115,114	36,706
General Administration	81,727	72,534	9,193
Operation of Plant	18,100	15,971	2,129
Maintenance of Plant	14,000	11,077	2,923
Core Services - Staff Development	154,444	147,959	6,485
Core Services - Technology	273,464	246,096	27,368
Core Services - Instructional Materials/Media	111,826	112,970	(1,144)
Core Services - Internet Support	212,995	148,523	64,472
Cooperative Purchasing	1,364,338	1,070,785	293,553
Federal Programs	171,282	143,758	27,524
TOTAL DISBURSEMENTS	$ 4,295,525	$ 3,629,996	$ 665,529
Excess of Receipts Over Disbursements	$ -	90,907	
CASH BASIS FUND BALANCE - BEGINNING OF YEAR		3,293,558	
CASH BASIS FUND BALANCE - END OF YEAR		$ 3,384,465	

EDUCATIONAL SERVICE UNIT NO. 17

OTHER INFORMATION

SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS

COMPARISON TO BUDGET

FIDUCIARY FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance with Original and Final Budget - Positive (Negative)
ADDITIONS			
Participant Contributions	$ 40,000	$ 43,202	$ 3,202
TOTAL ADDITIONS	40,000	43,202	3,202
DEDUCTIONS			
Payments to Participants	40,000	42,585	(2,585)
TOTAL DEDUCTIONS	40,000	42,585	(2,585)
Change in Net Position Held in Trust for Participants	$ -	617	
CASH BASIS NET POSITION - BEGINNING		6,999	
CASH BASIS NET POSITION - ENDING		$ 7,616	

NOTES TO OTHER INFORMATION
For the Fiscal Year Ended June 30, 2014

BUDGETARY COMPARISON SCHEDULES

The budgetary comparisons were completed based on the budget approved by the Board, which is by type of receipt or disbursement.

The budgetary comparison schedules also include both the *original budget* and *final budget* amounts. The *original budget* is the first complete budget approved by the ESU No. 17 Board. The *final budget* is the original budget, along with any changes approved by the Board. There were no changes to the original budgeted amounts approved by the Board for the fiscal year ended June 30, 2014, budget.

Budgetary Process

Educational Service Unit No. 17 (ESU No. 17) is required by State law to adopt an annual budget for the General Fund. ESU No. 17 also established a budget for the Cafeteria Plan Fund. Each budget is presented on the cash basis of accounting, which is consistent with the requirements of the Nebraska Budget Act. State statutes of the Nebraska Budget Act provide the prescribed budget practices and procedures that governing bodies are required to follow. The amounts that may be budgeted for certain specific funds are subject to various disbursement and/or tax levy limitations. ESU No. 17 does not utilize an encumbrance accounting system. All appropriated spending authority lapses at the end of the fiscal year.

ESU No. 17 follows these procedures in establishing the budgetary data reflected in the accompanying other information:

- Annually, the ESU No. 17 Administrator submits to the Board a proposed operating budget for the next fiscal year. The operating budget includes proposed disbursements and the means of financing them.

- 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.

- The property tax requirement resulting from the budget process is utilized by the County Assessors to establish the tax levy, which attaches as an enforceable lien on property within ESU No. 17's jurisdiction as of January 1. The tax levy was $0.015000 on each $100 of the actual valuation of all taxable property within its geographic region for calendar year 2013, which is the maximum allowed by State statute.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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EDUCATIONAL SERVICE UNIT NO. 17

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

Board of Directors
Educational Service Unit No. 17
Ainsworth, Nebraska

We have audited 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, the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Educational Service Unit No. 17 (ESU No. 17) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise ESU No. 17's basic financial statements, and have issued our report thereon dated December 16, 2014. The report notes the financial statements were prepared on the cash basis of accounting.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered ESU No. 17'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ESU No. 17's internal control. Accordingly, we do not express an opinion on the effectiveness of ESU No. 17's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the Comments Section, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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 ESU No. 17's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies described in the Comments Section of the report to be material weaknesses: Comment Number 5 (Internal Controls Over Receipts and Billings) and Comment Number 6 (Internal Controls Over Payroll).

A *significant deficiency* is a deficiency or 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. We consider the following deficiency in ESU 17's internal control described in the Comments Section of the report to be a significant deficiency: Comment Number 3 (Federal Payroll Charges).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ESU No. 17's financial statements are free from 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*.

Additional Items

We also noted certain additional items that we reported to management of ESU No. 17 in the Comments Section of this report as Comment Number 1 (Cash Reserve Balance), Comment Number 2 (Pay In Advance), Comment Number 4 (Unallowable Use of Funds), Comment Number 7 (Internal Controls Over Capital Assets), Comment Number 8 (Adjustments to the Financials and Other Errors), Comment Number 9 (Contract Amounts), Comment Number 10 (Incorrect Payroll Tax Withholding), and Comment Number 11 (Warrant Signatures).

Educational Service Unit No. 17's Response to Findings

ESU No. 17's responses to the findings identified in our audit are described in the Comments Section of the report. ESU No. 17's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. Where no response is indicated, ESU No. 17 declined to respond.

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 result of that testing, and not to provide an opinion on the effectiveness of ESU No. 17's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESU No. 17's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pat Reding

December 16, 2014

Pat Reding, CPA, CFE
Assistant Deputy Auditor