

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 8
SEPTEMBER 1, 2012 THROUGH AUGUST 31, 2013**

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the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
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Issued on January 9, 2014

EDUCATIONAL SERVICE UNIT NO. 8

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EDUCATIONAL SERVICE UNIT NO. 8

EXIT CONFERENCE

An exit conference was held October 31, 2013, with Educational Service Unit No. 8 to discuss the results of our examination. Those in attendance for Educational Service Unit No. 8 were:

NAME	TITLE
Bill Mowinkel	Administrator
Jill Bates	Assistant Administrator
Elleah Wiebelhaus	Business Manager
Tonya Strom	Special Education Administrative Assistant



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EDUCATIONAL SERVICE UNIT NO. 8

INDEPENDENT AUDITOR'S REPORT

Educational Service Unit No. 8
Neligh, 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. 8, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Educational Service Unit No. 8'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 Educational Service Unit No. 8's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Unit No. 8, as of August 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Educational Service Unit No. 8's basic financial statements. The Schedule of Receipts by Source and Function and Comparison with the Budget, Schedule of Disbursements by Program and Object and Comparison with the Budget, Schedule of Investments, Schedule of Cash on Deposit with County Treasurers, and the Schedule of Expenditures of Federal Awards as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Receipts by Source and Function and Comparison with the Budget, Schedule of Disbursements by Program and Object and Comparison with the Budget, Schedule of Investments, Schedule of Cash on Deposit with County Treasurers, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Receipts by Source and Function and Comparison with the Budget, Schedule of Disbursements by Program and Object and Comparison with the Budget, Schedule of Investments, Schedule of Cash on Deposit with County Treasurers, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Management's Discussion and Analysis has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2014, on our consideration of Educational Service Unit No. 8's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Educational Service Unit No. 8'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.

SIGNED ORIGINAL ON FILE

January 2, 2014

Pat Reding, CPA, CFE
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT NO. 8

MANAGEMENT’S DISCUSSION AND ANALYSIS

The discussion and analysis of Educational Service Unit No. 8’s (ESU No. 8) financial performance provides an overall review of ESU No. 8’s financial activities for the fiscal year ended August 31, 2013. The intent of this discussion and analysis is to look at ESU No. 8’s financial performance as a whole. Readers should also review the financial statements and notes to enhance their understanding of ESU No. 8’s financial performance.

Certain comparative information between the current year and the prior year is required to be presented in this analysis.

OVERVIEW OF ESU No. 8:

- 1) ESU No. 8 provides services to the schools, their staff and students in the Nebraska counties of Antelope, Boyd, Holt, Madison, Pierce, Stanton, and Wheeler. During the 2012-2013 year, there were 20 K-12 public school districts and 18 non-public school systems within ESU No. 8’s boundaries.

This included approximately 1,333 public school teachers, 10,447 public school students, 200 non-public school teachers, and 2,216 non-public school students.

- 2) ESU No. 8 is one of 17 Educational Service Units (ESUs) in the State of Nebraska that provides State mandated and school requested services for teachers and students. Since 1997 Legislative action, all ESUs have the responsibility to organize and administer, through state-supported funding, core services that include instructional technology, staff development, instructional materials, and technology infrastructure.
- 3) ESU No. 8’s accounts are managed within a General Fund that includes the state-mandated core services, Federal programs, and school cooperatives. The 2012-2013 receipts were \$7,934,114 with disbursements of \$7,416,967, leaving a net asset balance of \$8,332,529 as of August 31, 2013.
 - a. Local sources include school contracts for special education services, cooperative purchasing of supplies and equipment, and technology consortiums.
 - b. State sources provide the funding for staff development, instructional materials, technology training, and internet connectivity for schools within ESU No. 8’s area.
 - c. Federal sources were cooperative grant programs.

Budgeted and actual receipts for 2012-2013 were as follows:

	<u>Budgeted</u>	<u>Actual</u>
Property Taxes	\$ 1,276,999	\$ 1,266,576
Local Sources	\$ 6,869,500	\$ 5,523,846
State Sources	\$ 382,785	\$ 382,785
Federal Sources	<u>\$ 1,396,000</u>	<u>\$ 760,907</u>
Total	\$ 9,925,284	\$ 7,934,114

EDUCATIONAL SERVICE UNIT NO. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL HIGHLIGHTS:

Property tax: The tax request for the fiscal year was \$1,289,770, which resulted in a levy of 0.014996 per \$100 of assessed valuation. One percent of this amount went directly to the county as part of the county treasurer's commission. The tax request for the prior year was \$1,178,670 with a levy of 0.014997. There was an increase of \$111,100 in our tax request when compared to the prior year.

ESU No. 8 has no outstanding debts.

ESU No. 8 began the year with \$3,470,048 in certificates of deposit and ended the year with \$3,464,297 in certificates of deposit.

The beginning cash balance as of September 1, 2012, was \$4,056,068 and the ending cash balance as of August 31, 2013, was \$4,586,225.

Actual receipts of interest were \$33,760.

One capital disbursement worth noting was the purchase of a 2011 Ford E Series 12 passenger van costing \$20,400 that is used for transporting learning center students at our Eastern Learning Center in Norfolk.

OVERVIEW OF FINANCIAL STATEMENTS:

The financial section of the annual report consists of three parts:

- a. Management's discussion and analysis (this section),
- b. Financial statements including notes to the financial statements, and
- c. Supplemental information.

The financial statements consist of two different kinds of statements that present different views of ESU No. 8's financial activities:

- a. Government-wide financial statements provide both short-term and long-term information about ESU No. 8's overall financial status. ESU No. 8's government-wide statements include the Statement of Net Position - Cash Basis and Statement of Activities - Cash Basis.
- b. The remaining statements are fund financial statements that focus on ESU No. 8's operations in more detail than the government-wide financial statements.

The financial statements also include notes that explain some of the information in the financial statements and also provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements.

EDUCATIONAL SERVICE UNIT NO. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Educational Service Unit No. 8's Statements

ESU No. 8's government-wide statements report information about ESU No. 8 as a whole using the cash basis of accounting. The two statements report ESU No. 8's net position and how they have changed. Net position (the difference between ESU No. 8's assets and liabilities) is one way to measure ESU No. 8's financial health or financial position.

- a. Over time, increases or decreases in ESU No. 8's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- b. To assess ESU No. 8's overall health, you need to consider additional non-monetary factors such as changes in ESU No. 8's property tax base and the condition of buildings and other facilities.

In ESU No. 8's government-wide financial statements, activities are categorized as *Governmental activities*.

Governmental activities: All of the basic services are included here, such as special education, transportation and administration.

Fund Financial Statements

The fund financial statements provide more detailed information about ESU No. 8's funds, focusing on its most significant or "major" funds. Funds are accounting devices that ESU No. 8 uses to keep track of specific sources of funding and spending on particular programs. All funds are required by State law.

ESU No. 8 maintains:

General fund: All of ESU No. 8's basic services are included in the general fund, which generally focus on:

- a. how cash and other financial assets that can readily be converted to cash flow in and out, and
- b. the balances left at year-end that are available for spending.

Agency fund: The assets held by ESU No. 8 on behalf of member school districts of the Northern Tier Schools are accounted for in the agency fund.

Cafeteria plan fund: The contributions and disbursements related to employee benefits, specifically employee flexible spending accounts, are accounted for in the cafeteria plan fund.

Consequently, the general fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance ESU No. 8's programs.

EDUCATIONAL SERVICE UNIT NO. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF ESU NO. 8 AS A WHOLE:

The net position of ESU No. 8 is summarized as follows:

	<u>August 31, 2013</u>	<u>August 31, 2012</u>
Cash and Investments	\$ 8,332,529	\$ 7,815,382
Total Assets	\$ 8,332,529	\$ 7,815,382
Net Position, unrestricted	\$ 8,332,529	\$ 7,815,382

ESU No. 8's total net position was \$8,332,529 as of August 31, 2013, all of which is unrestricted.

Total net position increased by \$517,147 for the year ended August 31, 2013, due to receipt of funds which have not yet been disbursed.

Governmental Activities

The financial activities of ESU No. 8 for the years ended August 31, 2013 and 2012, are summarized as follows:

	<u>August 31, 2013</u>	<u>August 31, 2012</u>	<u>Increase (Decrease)</u>
Program Receipts:			
Charges for services	\$ 5,384,131	\$ 5,289,630	\$ 94,501
Operating grants and contributions	1,143,692	1,583,952	(440,260)
General Receipts:			
Property tax	1,266,576	1,184,359	82,217
Interest	33,760	47,787	(14,027)
Miscellaneous	105,955	108,395	(2,440)
Total Receipts	<u>7,934,114</u>	<u>8,214,123</u>	<u>(280,009)</u>
Program Disbursements	<u>7,416,967</u>	<u>7,540,193</u>	<u>(123,226)</u>
Change in Net Position	517,147	673,930	(156,783)
Beginning Net Position	<u>7,815,382</u>	<u>7,141,452</u>	<u>673,930</u>
Ending Net Position	<u><u>\$ 8,332,529</u></u>	<u><u>\$ 7,815,382</u></u>	<u><u>\$ 517,147</u></u>

ESU No. 8's only governmental activity is education.

The cost of all governmental activities this year was \$7,416,967.

EDUCATIONAL SERVICE UNIT NO. 8

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF ESU NO. 8'S FUNDS:

On August 31, 2013, ESU No. 8's governmental fund reported a fund balance of \$8,332,529, which is \$517,147 more than last year's ending fund balance of \$7,815,382 due to receipt of funds which have not yet been disbursed.

General Fund Budgetary Highlights

Some program fiscal years do not match ESU No. 8's fiscal year, so the receipt of some grant dollars from the State are carried into the next fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET:

The budget for the year ending August 31, 2014, has been prepared and approved by the Board of Directors of ESU No. 8. This budget includes several economic conditions that will produce reasonably certain results:

- ESU No. 8's property tax levy will increase approximately 12.4% over the amount collected during the past fiscal year. The increase in property valuation has offset the unpredictability of the State's core service funding.
- The property tax increase will be used to maintain the viability of ESU No. 8.
- With the projected consolidation of schools and declining enrollments in ESU No. 8's public schools, future years may bring significant change in what services ESU No. 8 provides as well as how they are delivered.

CONTACTING ESU NO. 8'S FINANCIAL MANAGEMENT:

This financial report is designed to provide ESU No. 8's citizens, taxpayers, customers, investors, and creditors with a general overview of ESU No. 8's finances and to demonstrate ESU No. 8's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the office of the Educational Service Unit No. 8 Administrator, PO Box 89, Neligh, NE 68756.

Bill Mowinkel, Administrator
Educational Service Unit No. 8
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Neligh, Nebraska
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EDUCATIONAL SERVICE UNIT NO. 8

STATEMENT OF NET POSITION - CASH BASIS

August 31, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 4,586,225
Cash held by County Treasurers	282,007
Investments	<u>3,464,297</u>
Total Assets	<u><u>\$ 8,332,529</u></u>
NET POSITION	
Unrestricted	<u>\$ 8,332,529</u>
Total Net Position	<u><u>\$ 8,332,529</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 8

STATEMENT OF ACTIVITIES - CASH BASIS

For the Fiscal Year Ended August 31, 2013

	<u>Cash</u>	<u>Program Cash Receipts</u>		Net (Disbursements), Receipts, and Changes in Net Position
	<u>Disbursements</u>	<u>Charges for</u>	<u>Operating</u>	<u>Governmental</u>
		<u>Services</u>	<u>Grants and</u>	<u>Activities</u>
			<u>Contributions</u>	
Primary Government Functions and Programs:				
Governmental Activities:				
Education	\$ 7,416,967	\$ 5,384,131	\$ 1,143,692	\$ (889,144)
General Receipts:				
Property Tax				1,266,576
Interest				33,760
Miscellaneous				105,955
Total General Receipts				<u>1,406,291</u>
Change in Net Position				517,147
NET POSITION - BEGINNING				<u>7,815,382</u>
NET POSITION - ENDING				<u>\$ 8,332,529</u>

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

EDUCATIONAL SERVICE UNIT NO. 8

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUND**

August 31, 2013

	<u>General Fund</u>
ASSETS	
Cash	\$ 4,586,225
Cash held by County Treasurers	282,007
Investments	<u>3,464,297</u>
Total Assets	<u><u>\$ 8,332,529</u></u>
 FUND BALANCE	
Assigned:	
Employee Benefit	\$ 428,215
Depreciation	1,004,237
Coop Purchasing	705,095
Unassigned	<u>6,194,982</u>
Total Fund Balance	<u><u>\$ 8,332,529</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 8

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

For the Fiscal Year Ended August 31, 2013

	<u>General Fund</u>
RECEIPTS	
County Tax Levy	\$ 1,266,576
State and Federal Sources	1,143,692
Local Sources	5,523,846
Total Receipts	<u>7,934,114</u>
DISBURSEMENTS	
Current:	
Special Education Supervision	319,422
Psychology	460,629
Speech	1,106,364
Hearing Impaired	86,549
Vision Resource	82,718
Special Education In-Service	1,684
Preschool	116,418
Trainable Mentally Handicapped	1,948,888
Telecomputing	221,068
Health	299,689
Gifted	1,976
Art	38,049
Core Instructional	233,531
Core Staff Development	341,516
Core Technology	172,761
Core Infrastructure	100,721
Board	34,645
Executive Administration	255,455
Business	123,909
Coop Operation	35,368
Compliance Consultant	27,668
Coop Purchase	439,455
Operation of Plant	52,113
Technology Support	98,952
Federal Grants	608,116
Other	188,903
Capital Outlay	20,400
Total Disbursements	<u>7,416,967</u>
Excess of Receipts Over Disbursements	517,147
CASH BASIS FUND BALANCE - BEGINNING	<u>7,815,382</u>
CASH BASIS FUND BALANCE - ENDING	<u>\$ 8,332,529</u>

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

EDUCATIONAL SERVICE UNIT NO. 8

**STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS**

August 31, 2013

	Agency Fund	Cafeteria Plan Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 67,002	\$ 5,148
Total Assets	<u>\$ 67,002</u>	<u>\$ 5,148</u>
NET POSITION		
Held in Trust for School Districts	\$ 67,002	\$ -
Held in Trust for Employees	<u>-</u>	<u>5,148</u>
Total Net Position	<u>\$ 67,002</u>	<u>\$ 5,148</u>

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

EDUCATIONAL SERVICE UNIT NO. 8

**STATEMENT OF CHANGES IN FIDUCIARY
NET POSITION - CASH BASIS
FIDUCIARY FUND**

For the Fiscal Year Ended August 31, 2013

	<u>Cafeteria Plan Fund</u>
ADDITIONS	
Participant Contributions	\$ 40,329
Interest	<u>7</u>
Total Additions	<u>40,336</u>
DEDUCTIONS	
Payments to Participants	30,178
Administrative Dues	<u>8,475</u>
Total Deductions	<u>38,653</u>
Change in Net Position Held in Trust for Employees	1,683
CASH BASIS NET POSITION - BEGINNING	<u>3,465</u>
CASH BASIS NET POSITION - ENDING	<u><u>\$ 5,148</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 8

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended August 31, 2013

1. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

A. Entity

Educational Service Unit No. 8 (ESU No. 8) is a governmental entity that provides supplies, equipment, materials, and services to school districts in a seven county region. The major funding of ESU No. 8 comes from local and State tax sources, Federal funds, and receipts from the materials and services provided to school districts. ESU No. 8 is required to comply with the requirements of the funding source entities. However, ESU No. 8 is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. ESU No. 8 is an independent entity. No potential component units exist that could be excluded from the reporting entity.

B. Basis of Accounting

ESU No. 8 prepares its financial statements on the cash basis, which is in conformity with the accounting practices permitted by the State of Nebraska Department of Education; consequently, these statements represent a summary of the cash activity of the various funds of ESU No. 8 and do not include certain transactions that would be included if ESU No. 8 prepared its financial statements in accordance with generally accepted accounting principles, as applicable to governmental units. Under the cash basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial position or results of operations in conformity with generally accepted accounting principles, as applicable to governmental units.

C. Basis of Presentation

On September 1, 2003, ESU No. 8 adopted 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." 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 - invested in capital assets, net of related debt; restricted; and unrestricted.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental receipts, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. ESU No. 8 does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct disbursements of a given function or segment are offset by program 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. Taxes and other items properly not included among program revenues are reported instead as general receipts.

Separate financial statements are provided for governmental funds.

Proprietary funds are used to account for business type activities; Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements. ESU No. 8 does not maintain any proprietary funds.

Fiduciary funds report assets held in a trustee or agency capacity for others and, therefore, cannot be used to support ESU No. 8's own programs.

E. Fund Types

The accounts of ESU No. 8 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. 8. 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 accounted for in this fund. General operating expenditures and the new and replacement capital outlay costs that are not paid through other funds are paid from the General Fund. This is a governmental fund.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Agency Fund - The assets held by ESU No. 8 on behalf of member school districts of the Northern Tier Schools are accounted for in the agency fund. This is a fiduciary 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.

F. Inventory

Inventories of expendable supplies held for consumption have been recorded as an expenditure at the time the items were purchased.

G. Capital Assets

In accordance with the cash basis of accounting, capital assets are not recorded as assets on the governmental-wide or fund financial statements and depreciation is not recognized. Purchases of capital assets are recorded as disbursements by function in the financial statements.

H. Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates. Accordingly, no estimates were made for encumbered balances.

I. Equity

In the government-wide statements, equity is classified as unrestricted and restricted net assets. In the governmental fund statements, equity is classified as non-spendable, restricted, committed, assigned, and unassigned fund balances according to the detail at the end of Note 1.

J. Compensated Absences

ESU No. 8 has entered into negotiated agreements with certified and non-certified personnel. In those agreements they have agreed to benefits for vacation and sick leave. In accordance with the cash basis of accounting, these benefits are recorded as an expense when paid.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

K. Restricted Assets

When both restricted and unrestricted resources are available for use, it is ESU No. 8's policy to use restricted resources first and then unrestricted resources as needed.

L. Fund Balance

ESU No. 8 adopted Governmental Accounting Standards Board Statement No. 54 (GASB 54) "Fund Balance Reporting and Governmental Fund Type Definitions" as of and for the year ended August 31, 2011. In accordance with GASB 54, ESU No. 8 classifies governmental fund balances as follows:

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.

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 neither considered restricted nor committed. Fund balances may be assigned by management.

Unassigned - Fund balance amounts are considered unassigned if they are positive fund balances within the General Fund that are not classified as one of the above or negative fund balances in other governmental funds.

ESU No. 8's policy is to spend restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal restrictions that prohibit doing so. Additionally, ESU No. 8 is to first spend committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

ESU No. 8 has elected to be a reimbursable employer with regard to unemployment claims filed by former employees. Therefore, ESU No. 8 is required to reimburse the State of Nebraska for any claims paid on behalf of ESU No. 8. ESU No. 8 has assigned a portion of the General Fund balance to pay any claims. The amount assigned at August 31, 2013, was \$428,215.

EDUCATIONAL SERVICE UNIT NO. 8

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

ESU No. 8 has created a reserve for future equipment and building needs. At August 31, 2013, ESU No. 8 had assigned \$1,004,237 for future equipment needs.

ESU No. 8 has created reserves for future co-op purchasing needs. At August 31, 2013, ESU No. 8 had assigned \$705,095 for future co-op purchasing needs.

ESU No. 8 does not have a formal minimum fund balance policy.

2. Budget Process and Property Taxes

ESU No. 8 is required by State law to adopt annual budgets for the General 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 expenditures and/or tax levy limitations.

ESU No. 8 follows these procedures in establishing the budgetary data reflected in the accompanying financial statements:

- Annually, the Administrator submits to the Board a proposed operating budget for the next fiscal year. The operating budget includes proposed expenditures 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 Assessor to establish the tax levy, which attaches as an enforceable lien on property within ESU No. 8 as of January 1. The tax levy is not to exceed \$0.015000 on each \$100 of the actual valuation of all taxable property within its geographic region.
- Budgets for all funds of ESU No. 8 are adopted on the cash basis. Budgeted amounts as presented on the budgetary comparisons are as originally adopted, and are on the cash basis.

County Treasurer Funds

The cash balances, shown as held by the County Treasurers, represent taxes collected by the counties. Property tax revenues are recognized on a cash basis, and an allowance for property taxes receivable has not been established.

EDUCATIONAL SERVICE UNIT NO. 8

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Employees' Retirement System

Plan Description

ESU No. 8 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 September 1, 2012 to August 31, 2013. ESU No. 8 is required to contribute 101% of the employee contribution. The contribution requirements of plan members and ESU No. 8 are established by the Nebraska statutes. ESU No. 8's contributions to NPERS for the year ended August 31, 2013, was \$368,209, equal to the required contributions for the period.

4. Cash and Investments

ESU No. 8 deposits consist of cash and certificates of deposits only. It is ESU No. 8's policy for deposits to be secured by collateral, less the amount of the FDIC coverage. The carrying amount of deposits is a reasonable estimate of fair value.

Nebraska statutes allow ESU No. 8 to make any investment allowed by the State Investment Officer. This includes bank certificates of deposit.

ESU No. 8 is required by State statutes to collateralize bank deposits in excess of federally insured amounts. The bank balance as of August 31, 2013, totaled \$8,160,775 and the book balance as of August 31, 2013, was \$8,122,672. Of the bank balance, \$1,332,203 was covered by Federal depository insurance, \$6,827,066 was covered by collateral securities pledged to ESU No. 8 and held by the safekeeping department of the depository's correspondent bank, and \$1,506 was not secured by either federal depository insurance or pledged collateral. Collateral securities for ESU No. 8 are to be held by a Federal Reserve Bank, a bank, or trust company approved by ESU No. 8's governing body.

5. Cafeteria Plan

ESU No. 8 established the Educational Service Unit No. 8 Cafeteria Plan. It is the intention of ESU No. 8 that the Plan qualify as a "Cafeteria Plan" within the meaning of Section 125 of the Internal Revenue Code of 1986, as amended, and that the benefits which an employee elects to receive under the Plan be includable or excludable from the employee's income to the extent permitted by the Internal Revenue Code of 1986, as amended.

EDUCATIONAL SERVICE UNIT NO. 8

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6. **Risk Management**

ESU No. 8 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, ESU No. 8 carried commercial insurance for general liability, property coverage, worker's compensation coverage, commercial excess liability coverage, crime coverage, and blanket bond coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past year.

7. **Leases**

ESU No. 8 entered into a capital lease for office equipment on August 3, 2011. The lease was for a term of 48 months, which expires during the fiscal year ended August 31, 2015, and requires monthly payments of \$782. ESU No. 8 will own the equipment at the end of the lease if all payments have been made.

Future minimum lease payments are as follows:

<u>Fiscal Year Ended August 31</u>	<u>Payment</u>
2014	\$ 9,388
2015	<u>9,388</u>
Total future lease payments	<u>\$ 18,776</u>

8. **Subsequent Events**

Upon evaluation, management notes that there were no material subsequent events between the date of the financial statements and the date that the financial statements were issued or available to be issued.

EDUCATIONAL SERVICE UNIT NO. 8
SUPPLEMENTARY INFORMATION
SCHEDULE OF RECEIPTS BY SOURCE AND FUNCTION
AND COMPARISON WITH THE BUDGET - CASH BASIS - GENERAL FUND
For the Year Ended August 31, 2013

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Tax Levy by Counties:			
Antelope	\$ 200,018	\$ 209,449	\$ 9,431
Boyd	42,407	42,840	433
Holt	279,279	275,052	(4,227)
Madison	407,257	401,312	(5,945)
Pierce	151,144	145,426	(5,718)
Stanton	91,057	89,695	(1,362)
Wheeler	44,828	41,232	(3,596)
Adjoining Counties	61,009	61,570	561
Total County Tax Levy	<u>1,276,999</u>	<u>1,266,576</u>	<u>(10,423)</u>
State and Federal Sources:			
State Core Funds	382,785	382,785	-
Federal Grants	1,396,000	760,907	(635,093)
Total State and Federal Sources	<u>1,778,785</u>	<u>1,143,692</u>	<u>(635,093)</u>
Local Sources:			
Special Education Level I	2,000,000	1,803,272	(196,728)
Special Education Preschool	300,000	274,336	(25,664)
Special Education Level III	2,150,000	2,179,230	29,230
Repair and Maintenance	-	-	-
Art Coop	16,000	15,067	(933)
Interest	40,000	33,760	(6,240)
Other	642,500	105,955	(536,545)
Technology	95,000	44,036	(50,964)
Distance Learning Coordination	180,000	176,042	(3,958)
Northwest Evaluation Association (Measurement of Academic Progress)			
Consortium	91,000	30,763	(60,237)
Workshops	85,000	18,850	(66,150)
Nursing	400,000	307,423	(92,577)
Coop Operation	6,000	26,160	20,160
Coop Purchase	600,000	483,045	(116,955)
Distance Learning School Funds	239,000	-	(239,000)
Compliance	25,000	25,907	907
Total Local Sources	<u>6,869,500</u>	<u>5,523,846</u>	<u>(1,345,654)</u>
TOTAL RECEIPTS	<u>\$ 9,925,284</u>	<u>\$ 7,934,114</u>	<u>\$ (1,991,170)</u>

EDUCATIONAL SERVICE UNIT NO. 8
SUPPLEMENTARY INFORMATION
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT
AND COMPARISON WITH THE BUDGET - CASH BASIS - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Special Education Supervision:			
Salaries	\$ 217,151	\$ 216,611	\$ 540
Employee Benefits	78,947	77,117	1,830
Supplies and Materials	3,000	462	2,538
Equipment	4,100	1,834	2,266
Other Services and Charges	26,874	23,398	3,476
Total	<u>330,072</u>	<u>319,422</u>	<u>10,650</u>
Psychology:			
Salaries	297,560	295,081	2,479
Employee Benefits	111,609	114,769	(3,160)
Supplies and Materials	15,000	12,287	2,713
Equipment	5,000	-	5,000
Other Services and Charges	54,688	38,492	16,196
Total	<u>483,857</u>	<u>460,629</u>	<u>23,228</u>
Speech:			
Salaries	759,016	741,859	17,157
Employee Benefits	310,587	300,653	9,934
Supplies and Materials	12,000	5,707	6,293
Equipment	8,500	9,229	(729)
Other Services and Charges	86,626	48,916	37,710
Total	<u>1,176,729</u>	<u>1,106,364</u>	<u>70,365</u>
Hearing Impaired:			
Salaries	55,360	55,360	-
Employee Benefits	21,463	21,425	38
Supplies and Materials	250	-	250
Other Services and Charges	16,544	9,764	6,780
Total	<u>93,617</u>	<u>86,549</u>	<u>7,068</u>
Autism:			
Salaries	3,000	-	3,000
Employee Benefits	526	-	526
Other Services and Charges	2,700	-	2,700
Total	<u>6,226</u>	<u>-</u>	<u>6,226</u>
Vision Resource:			
Salaries	48,619	48,619	-
Employee Benefits	18,291	18,395	(104)
Supplies and Materials	1,000	36	964
Equipment	2,300	-	2,300
Other Services and Charges	16,339	15,668	671
Total	<u>86,549</u>	<u>82,718</u>	<u>3,831</u>

(Continued)

EDUCATIONAL SERVICE UNIT NO. 8
SUPPLEMENTARY INFORMATION
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT
AND COMPARISON WITH THE BUDGET - CASH BASIS - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Special Education In-Service:			
Supplies and Materials	\$ 2,500	\$ 18	\$ 2,482
Other Services and Charges	8,500	1,666	6,834
Total	<u>11,000</u>	<u>1,684</u>	<u>9,316</u>
Preschool:			
Salaries	67,402	67,164	238
Employee Benefits	32,247	34,477	(2,230)
Supplies and Materials	2,000	1,617	383
Equipment	2,450	-	2,450
Other Services and Charges	19,904	13,160	6,744
Total	<u>124,003</u>	<u>116,418</u>	<u>7,585</u>
Trainable Mentally Handicapped:			
Salaries	1,146,986	1,111,047	35,939
Employee Benefits	697,872	683,342	14,530
Supplies and Materials	38,000	41,641	(3,641)
Equipment	32,000	10,871	21,129
Other Services and Charges	162,398	101,987	60,411
Total	<u>2,077,256</u>	<u>1,948,888</u>	<u>128,368</u>
Telecomputing:			
Salaries	89,052	89,053	(1)
Employee Benefits	34,191	34,139	52
Supplies and Materials	1,000	500	500
Equipment	30,000	15,515	14,485
Other Services and Charges	126,371	81,861	44,510
Total	<u>280,614</u>	<u>221,068</u>	<u>59,546</u>
Health:			
Salaries	233,981	175,699	58,282
Employee Benefits	112,103	109,971	2,132
Supplies and Materials	2,000	1,991	9
Equipment	4,400	6	4,394
Other Services and Charges	14,084	12,022	2,062
Total	<u>366,568</u>	<u>299,689</u>	<u>66,879</u>
Gifted:			
Supplies and Materials	1,000	1,162	(162)
Other Services and Charges	1,600	814	786
Total	<u>2,600</u>	<u>1,976</u>	<u>624</u>
Art:			
Salaries	10,911	11,085	(174)
Employee Benefits	5,390	5,068	322
Supplies and Materials	14,000	20,170	(6,170)
Other Services and Charges	2,534	1,726	808
Total	<u>32,835</u>	<u>38,049</u>	<u>(5,214)</u>

(Continued)

EDUCATIONAL SERVICE UNIT NO. 8
SUPPLEMENTARY INFORMATION
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT
AND COMPARISON WITH THE BUDGET - CASH BASIS - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Core Instructional:			
Salaries	\$ 104,526	\$ 96,618	\$ 7,908
Employee Benefits	54,551	52,586	1,965
Supplies and Materials	13,000	6,771	6,229
Equipment	16,500	6,556	9,944
Other Services and Charges	61,584	71,000	(9,416)
Total	<u>250,161</u>	<u>233,531</u>	<u>16,630</u>
Core Staff Development:			
Salaries	270,075	200,041	70,034
Employee Benefits	98,711	70,252	28,459
Supplies and Materials	2,000	2,176	(176)
Equipment	5,600	887	4,713
Other Services and Charges	156,216	68,160	88,056
Total	<u>532,602</u>	<u>341,516</u>	<u>191,086</u>
Core Technology:			
Salaries	117,426	117,712	(286)
Employee Benefits	40,402	40,607	(205)
Supplies and Materials	1,250	1,466	(216)
Equipment	8,500	3,521	4,979
Other Services and Charges	11,869	9,455	2,414
Total	<u>179,447</u>	<u>172,761</u>	<u>6,686</u>
Core Infrastructure :			
Salaries	58,113	42,226	15,887
Employee Benefits	26,774	14,914	11,860
Supplies and Materials	6,500	975	5,525
Equipment	17,000	14,992	2,008
Other Services and Charges	87,247	27,614	59,633
Total	<u>195,634</u>	<u>100,721</u>	<u>94,913</u>
Board:			
Other Services and Charges	35,700	34,645	1,055
Total	<u>35,700</u>	<u>34,645</u>	<u>1,055</u>
Executive Administration:			
Salaries	189,650	185,083	4,567
Employee Benefits	51,742	50,930	812
Supplies and Materials	1,000	55	945
Equipment	3,500	2,426	1,074
Other Services and Charges	17,448	16,961	487
Total	<u>263,340</u>	<u>255,455</u>	<u>7,885</u>

(Continued)

EDUCATIONAL SERVICE UNIT NO. 8
SUPPLEMENTARY INFORMATION
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT
AND COMPARISON WITH THE BUDGET - CASH BASIS - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Business:			
Salaries	\$ 39,532	\$ 38,820	\$ 712
Employee Benefits	20,104	19,751	353
Supplies and Materials	5,000	3,056	1,944
Equipment	13,500	10,559	2,941
Other Services and Charges	67,031	51,723	15,308
Total	<u>145,167</u>	<u>123,909</u>	<u>21,258</u>
Coop Operation:			
Salaries	21,489	21,282	207
Employee Benefits	10,788	10,769	19
Supplies and Materials	200	167	33
Equipment	1,000	1,594	(594)
Other Services and Charges	3,067	1,556	1,511
Total	<u>36,544</u>	<u>35,368</u>	<u>1,176</u>
Compliance Consultant:			
Salaries	16,125	16,125	-
Employee Benefits	6,209	6,213	(4)
Supplies and Materials	500	20	480
Equipment	700	-	700
Other Services and Charges	6,113	5,310	803
Total	<u>29,647</u>	<u>27,668</u>	<u>1,979</u>
Operation of Plant:			
Salaries	21,717	25,210	(3,493)
Employee Benefits	12,093	11,118	975
Supplies and Materials	4,000	4,105	(105)
Equipment	34,000	2,082	31,918
Other Services and Charges	25,517	9,598	15,919
Total	<u>97,327</u>	<u>52,113</u>	<u>45,214</u>
Technology Support:			
Salaries	52,142	52,142	-
Employee Benefits	19,646	21,270	(1,624)
Supplies and Materials	29,000	1,573	27,427
Equipment	11,750	10,854	896
Other Services and Charges	24,242	13,113	11,129
Total	<u>136,780</u>	<u>98,952</u>	<u>37,828</u>
Coop Purchase:			
Supplies and Materials	600,000	439,455	160,545
Total	<u>600,000</u>	<u>439,455</u>	<u>160,545</u>

(Continued)

EDUCATIONAL SERVICE UNIT NO. 8
SUPPLEMENTARY INFORMATION
SCHEDULE OF DISBURSEMENTS BY PROGRAM AND OBJECT
AND COMPARISON WITH THE BUDGET - CASH BASIS - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Federal Grants:			
Rural Utilities Services Grant	\$ 3,000	\$ -	\$ 3,000
Career and Technical Education (Perkins)	82,500	64,702	17,798
Other Federal Grants	500,000	-	500,000
National School Lunch Program	13,000	9,536	3,464
Fairbanks - MAC	60,000	56,374	3,626
Collaborative Grant	50,000	54,483	(4,483)
English Language Acquisition	17,500	8,188	9,312
Systems Support Grant	10,000	7,720	2,280
Special Education State Grant (School Age)	20,000	18,359	1,641
Math and Science Partnership	610,000	385,563	224,437
Special Education State Grant (Birth)	30,000	3,191	26,809
Total	<u>1,396,000</u>	<u>608,116</u>	<u>787,884</u>
Other:			
Publicity	2,000	-	2,000
Advisory Committee	3,000	1,771	1,229
Workshops	75,000	14,678	60,322
Distance Learning School Funds	239,000	84,306	154,694
Depreciation Fund	100,000	-	100,000
Miscellaneous	527,000	88,148	438,852
Total	<u>946,000</u>	<u>188,903</u>	<u>757,097</u>
Capital Asset Acquisition:			
Building Purchase and Improvements	40,000	-	40,000
Furniture and Equipment	15,000	-	15,000
Lease Purchase	5,000	-	5,000
Vehicle Purchase	50,000	20,400	29,600
Total	<u>110,000</u>	<u>20,400</u>	<u>89,600</u>
TOTAL DISBURSEMENTS	<u><u>\$ 10,026,275</u></u>	<u><u>\$ 7,416,967</u></u>	<u><u>\$ 2,609,308</u></u>

(Concluded)

EDUCATIONAL SERVICE UNIT NO. 8

NOTES TO BUDGETARY COMPARISON SUPPLEMENTARY INFORMATION

Budgetary Process

ESU No. 8 adopts an annual budget in accordance with the statutory requirements of the Nebraska Budget Act. The budget is prepared on the cash receipts and disbursements basis of accounting. The budget contains only those receipts actually received by ESU No. 8. ESU No. 8 does not utilize an encumbrance accounting system. All appropriated spending authority lapses at the end of the fiscal year.

On or before August 1, ESU No. 8's budget-making authority prepares a budget for each ESU No. 8 fund. The budget includes the requirements, the outstanding warrants, the operating reserves to be maintained, the cash on hand at the close of the preceding fiscal year, the receipts from sources other than taxation, and the amount to be raised by taxation.

The property tax requirement resulting from ESU No. 8's adopted budget is utilized by the County Assessors to establish ESU No. 8's tax levy.

EDUCATIONAL SERVICE UNIT NO. 8
SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENTS
August 31, 2013

General Fund - Certificates of Deposit:		
Cornerstone Bank - York	\$	1,559,202
Depreciation Fund - Certificates of Deposit:		
Cornerstone Bank - York		800,000
Employee Benefit Fund - Certificates of Deposit:		
Cornerstone Bank - York		400,000
Cooperative Purchasing - Certificates of Deposit:		
Brunswick State Bank	\$	251,505
Cornerstone Bank		105,418
Frontier Bank		201,196
Bank of Orchard		<u>146,976</u>
Total Cooperative Purchasing		<u>705,095</u>
 TOTAL INVESTMENTS	 \$	 <u><u>3,464,297</u></u>

**EDUCATIONAL SERVICE UNIT NO. 8
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH ON DEPOSIT
WITH COUNTY TREASURERS**

August 31, 2013

Antelope County Treasurer	\$ 42,894
Boyd County Treasurer	9,192
Holt County Treasurer	54,550
Madison County Treasurer	92,037
Pierce County Treasurer	36,681
Stanton County Treasurer	27,148
Wheeler County Treasurer	7,627
Adjoining Counties:	
Boone County Treasurer	2,029
Garfield County Treasurer	761
Greeley County Treasurer	214
Knox County Treasurer	1,342
Platte County Treasurer	3,651
Wayne County Treasurer	3,881
TOTAL	<u><u>\$ 282,007</u></u>

EDUCATIONAL SERVICE UNIT NO. 8

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2013

Federal Grantor Pass-Through Grantor Program Title	Pass Through Entity's Identifying Number	Federal CFDA Number	Expenditures
U.S. Department of Education:			
Passed through Nebraska Department of Education:			
Career and Technical Education-Basic Grants to States	13-08-000-0008-00	84.048	\$ 64,702
Special Education-Grants to States (Collaborative Grant)	13-08-000-0008-00	84.027	54,483
Special Education-Grants to States	00-0008-248-2B1B	84.027	18,359
Total for Federal Program			<u>72,842</u>
Special Education-Grants for Infants and Families (Systems Support)	13-08-000-0008-00	84.181	7,720
Special Education-Grants for Infants and Families	00-0008-248-2C1C-13	84.181	3,191
Total for Federal Program			<u>10,911</u>
English Language Acquisition State Grants	12-08-000-0008-00	84.365	8,188
* Mathematics and Science Partnerships	000008-16-MSP-11	84.366	435,685
U.S. Department of Agriculture:			
Passed through Nebraska Department of Education:			
National School Lunch Program	00-0008	10.555	9,536
U.S. Department of Health and Human Services:			
Passed through Omaha Public School District:			
Medical Assistance Program (Fairbanks - MAC)	N/A	93.778	56,374
TOTAL			<u><u>\$ 658,238</u></u>

* Represents Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

EDUCATIONAL SERVICE UNIT NO. 8

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2013

1. General

The accompanying schedule of expenditures of Federal awards (Schedule) presents the activity of all Federal awards programs of Educational Service Unit No. 8 (ESU No. 8), except as noted in Note 2 below. ESU No. 8's reporting entity is defined in Note 1.A. to ESU No. 8's financial statements. Federal awards received directly from Federal agencies, as well as those passed through other government agencies, are included in the Schedule. Unless otherwise noted on the Schedule, all programs are received directly from the respective Federal agency. Due to the operations of ESU No. 8, the accumulation of amounts passed to subrecipients by ESU No. 8 is not practical.

2. Summary of Significant Accounting Policies

A. Reporting Entity

ESU No. 8's reporting entity is defined in Note 1.A. to the financial statements. The accompanying Schedule includes the Federal awards programs administered by ESU No. 8 for the fiscal year ended August 31, 2013.

B. Basis of Presentation

The accompanying Schedule presents total expenditures for each Federal awards program in accordance with the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. Federal program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA), whenever possible.

Federal Awards. Pursuant to OMB Circular A-133, Federal awards are defined as assistance provided by a Federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations.

Major Programs. In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. Programs in the accompanying Schedule denoted with an asterisk (*) are considered major programs.

C. Basis of Accounting

The accompanying Schedule was prepared on the cash basis of accounting.

Matching Costs. The Schedule does not include matching expenditures from general revenues of ESU No. 8.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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EDUCATIONAL SERVICE UNIT NO. 8

**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

Educational Service Unit No. 8
Neligh, 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. 8 as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Educational Service Unit No. 8's basic financial statements, and have issued our report thereon dated January 2, 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 Educational Service Unit No. 8'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 Educational Service Unit No. 8's internal control. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 8's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Educational Service Unit No. 8's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in Section II of the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies: Finding # 2013-1 (Lack of Segregation of Duties – Receipts), #2013-2 (Lack of Segregation of Duties – Payroll), #2013-3 (Activity and Lunch Account Controls), and #2013-4 (Federal Payroll Taxes).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educational Service Unit No. 8'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*.

Educational Service Unit No. 8's Response to Findings

Educational Service Unit No. 8's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Educational Service Unit No. 8'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.

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 Educational Service Unit No. 8's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Educational Service Unit No. 8's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

January 2, 2014

Pat Reding, CPA, CFE
Assistant Deputy Auditor



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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EDUCATIONAL SERVICE UNIT NO. 8

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Educational Service Unit No. 8
Neligh, Nebraska

Report on Compliance for Each Major Federal Program

We have audited Educational Service Unit No. 8's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Educational Service Unit No. 8's major Federal programs for the year ended August 31, 2013. Educational Service Unit No. 8's major Federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Educational Service Unit No. 8's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Educational Service Unit No. 8's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of Educational Service Unit No. 8's compliance.

Basis for Qualified Opinion on the Mathematics and Science Partnership Grant

As described in the accompanying Schedule of Findings and Questioned Costs, Educational Service Unit No. 8 did not comply with requirements regarding CFDA 84.366 Mathematics and Science Partnership as described in finding #2013-5 for Allowability. Compliance with such requirements is necessary, in our opinion, for Educational Service Unit No. 8 to comply with the requirements applicable to that program.

Qualified Opinion on the Mathematics and Science Partnership Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Educational Service Unit No. 8 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended August 31, 2013.

Other Matters

The results of our auditing procedures disclosed no other instances of noncompliance, which are required to be reported in accordance with OMB A-133.

Educational Service Unit No. 8's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Educational Service Unit No. 8's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Educational Service Unit No. 8's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Educational Service Unit No. 8's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 8's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a

combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies. However, we identified a deficiency in internal control over compliance, as described in Section III of the accompanying Schedule of Findings and Questioned Costs, Finding #2013-5 (Federal Payroll), that we consider to be a material weakness.

Educational Service Unit No. 8's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Educational Service Unit No. 8's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

January 2, 2014

Pat Reding, CPA, CFE
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT NO. 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2013

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weaknesses identified?	___	Yes	<u> X </u> No
Significant deficiencies identified?	<u> X </u>	Yes	___ No
Noncompliance material to financial statements noted?	___	Yes	<u> X </u> No
Internal control over major programs:			
Material weaknesses identified?	<u> X </u>	Yes	___ No
Significant deficiencies identified?	___	Yes	<u> X </u> No
Type of auditor's report issued on compliance for major programs:	Qualified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133:	<u> X </u>	Yes	___ No
Major programs:	Mathematics and Science Partnerships, CFDA #84.366		
Dollar threshold used to distinguish between type A and type B programs:	\$300,000		
Auditee qualified as low-risk auditee:	<u> X </u>	Yes	___ No

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding # 2013-1: Lack of Segregation of Duties – Receipts

A good internal control plan requires an adequate segregation of duties over receipts so that no one individual is responsible for creating invoices, recording the invoices and receipts in the accounting system, receiving cash/checks, making the deposits, and reconciling the bank statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding # 2013-1: Lack of Segregation of Duties – Receipts (Concluded)

Both the Business Manager and the Administrative Assistant had the ability to perform all aspects of the receipting process from beginning to end. Both individuals could create invoices, record the invoices in the accounting system, receive cash/checks, make the deposits, and reconcile the bank statements; although, these procedures were typically performed by the Business Manager. Total receipts during the year were \$7,934,114.

A lack of segregation of duties over the receipting process increases the risk of misappropriation of ESU No. 8 assets.

We recommend ESU No. 8 implement procedures to adequately segregate the various aspects involved in the receipting process. If a segregation of duties is not possible due to limited staff, we recommend ESU No. 8 implement adequate controls to compensate for the lack of segregation of duties.

ESU No. 8's Response: We have implemented changes to the procedures and changed the access to certain portions of our accounting software to implement adequate controls for our receipts. Our Administrative Assistant no longer has access to the portions of our software that would allow for editing what is receipted in, and has taken on the role of opening all of the mail containing cash/checks and creating the bank deposits. The Business Manager no longer has access to create invoices, and does not touch the cash/checks until Administrative Assistant creates deposit slip and brings it in for a second approval. These changes have been made to compensate for the lack of segregation of duties.

Finding # 2013-2: Lack of Segregation of Duties – Payroll

A good internal control plan requires a segregation of duties that prevents an individual from performing all aspects of payroll processing from beginning to end.

ESU No. 8 does not have adequate segregation of duties over its payroll process as two individuals, the Business Manager and Administrative Assistant, both have the ability to perform all aspects of payroll processing. The Business Manager is primarily responsible for processing payroll and notifying the bank of the amounts to transfer to employee accounts. There is a separate review of the payroll register by the Administrator; however, this review does not include a detailed examination of the individuals with payroll access. While the Administrative Assistant is required to approve the bank transfer to employee accounts, this individual has payroll access and does not compare the amount transferred to the Administrator-approved payroll total.

EDUCATIONAL SERVICE UNIT NO. 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding # 2013-2: Lack of Segregation of Duties – Payroll (Concluded)

A lack of segregation of duties over the payroll process increases the risk of misappropriation of ESU No. 8 assets.

We recommend ESU No. 8 implement an adequate segregation of duties or, if that is not possible, implement controls to compensate for the lack of a segregation of duties. These compensating controls could include a detailed review of the salaries of staff that have payroll access, a review of the payroll register to ensure only proper employees are paid, and a comparison of the Administrator approved payroll register to the amounts to be transferred to employee accounts.

ESU No. 8's Response: The Business Manager now is the only individual with access to perform all aspects of payroll processing. The payroll register is approved by the Administrator, and he is consciously looking for payroll without deductions and completing a detailed review of the Business Manager and Administrative Assistants payroll, and signs them separately. The Administrative Assistant is still required to approve the bank transfer to employee accounts, and compares those amounts to the reports and payroll register from the accounting software. After she approves the transfer, it is then given back to the Administrator so he can compare the transfer to the payroll register.

Finding # 2013-3: Activity and Lunch Account Controls

A good internal control plan requires adequate documentation be maintained to support the reasonableness of purchases. A good internal control plan also requires adequate oversight of checking accounts to ensure all expenditures are proper and that accounts are not overdrawn. Furthermore, a good internal control plan requires prohibiting payments to employees without going through a formal expense reimbursement process.

Neb. Rev. Stat. § 77-2704.15(1)(a) (Cum. Supp. 2012) allows ESUs to make purchases without paying sales and use tax.

ESU No. 8 has Activity and Lunch accounts which are used at each of its three Learning Centers (Eastern, Central, and Western Learning Centers). The Activity accounts are used for student activities and supplies. The Lunch accounts are used to administer the School Lunch Program. The Learning Centers each have a Lunch and Activity checkbook and are able to make purchases from these accounts without prior approval. The Learning Centers are also not required to submit detailed receipts to the ESU No. 8 Central Office prior to replenishment of the accounts. During the fiscal year, the Learning Centers submitted a monthly report to the Central ESU Office listing the Activity and Lunch account transactions, which was compared to the bank

EDUCATIONAL SERVICE UNIT NO. 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding # 2013-3: Activity and Lunch Account Controls (Continued)

statements. However, detailed receipts to support the reasonableness of the purchases were not required to be submitted to ESU No. 8’s Central Office.

Six of twelve expenditures tested did not appear reasonable because sufficient documentation to support the purchase was not available. Below is a brief description of the purchases:

Account	Payee	Amount	Purchase Explanation
ELC Activity	[Blank]	\$58	As no documentation was available to support this purchase, we could not determine if it was a reasonable expenditure. Additionally, the payee was blank on the check image attached to the bank statement.
ELC Activity	CEC Theatres	\$247	The handwritten receipt only said “Croods’ Rental,” and did not indicate who actually attended the movie viewing.
ELC Lunch	[Employee]	\$74	As no documentation was available to support this purchase, we could not determine if it was a reasonable expenditure. Additionally, the payee was an employee of the learning center per the check image attached to the bank statement.
CLC Activity	[Employee]	\$60	As no documentation was available to support this purchase, we could not determine if it was a reasonable expenditure. Additionally, the payee was an employee of the learning center per the check image attached to the bank statement.
CLC Activity	[Employee’s Daughter]	\$400	CLC purchased a television from an employee’s daughter and there was no documentation available to support how the amount paid was determined.
WLC Activity	Office Max	\$69	As no documentation was available to support this purchase, we could not determine if it was a reasonable expenditure.

Based on the results of our initial testing, we reviewed the entire year’s account activity in order to determine if there were other expenditures written to staff with access to the checks or any other checks that appeared unusual. Upon this review we identified, 29 additional expenditures, which totaled \$808, from the Activity and Lunch accounts that appeared to be paid to employees or were unusual. Of the 29 questionable purchases identified, we noted the following:

- 27 of the additional 29 checks reviewed were written to ESU No. 8 employees, including authorized check signers. These 27 checks totaled \$638.
- For 9 checks, ESU No. 8 was not able to provide a detailed receipt to support what was actually purchased. These checks amounted to \$214 and all 9 were checks to employees.
- 11 checks paid sales tax, which the ESU is exempt from paying. 9 of these were reimbursements to employees who paid sales tax on their original purchase. Sales tax paid totaled \$24.
- 1 check totaling \$154 paid to McDonald’s for lunch, included \$65 paid for staff lunches. Employees are to reimburse the ESU for the amount paid on their behalf; however, no such reimbursement was identified.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding # 2013-3: Activity and Lunch Account Controls (Concluded)

- 1 check was written to a grocery store for \$15; however, the items purchased only totaled \$2, resulting in \$13 cash back. We were unable to identify a corresponding deposit back into the account for this \$13.
- 1 check written to reimburse an employee was for \$14; however, the supporting documentation provided indicated that only \$13 was actually spent by the employee, resulting in an overpayment of \$1.
- The documentation available for 1 payment of \$28 was insufficient. The payment was a reimbursement to an employee for a trip to a pumpkin patch; however, the only documentation provided was a flyer for the pumpkin patch with a handwritten note indicating that \$28 was spent. The documentation also did not identify the students who attended.

We also noted \$16 in overdraft fees were charged to the Western Learning Center Lunch Fund Account in September 2012.

Lack of appropriate controls and oversight of funds increases the risk of loss or misappropriation of ESU No. 8 funds. In addition, allowing checks to be written to staff increases the risk of loss or misuse of ESU No. 8 funds.

We recommend ESU No. 8 implement policies to require detailed documentation be submitted to the ESU No. 8 Central Office prior to replenishment of the Lunch and Activity accounts. We also recommend ESU No. 8 implement a policy to prohibit Learning Centers from writing checks to staff. If reimbursements to staff are necessary they should go through ESU No. 8's normal expense reimbursement process.

ESU No. 8's Response: After the audit, we had the ESU 8 Board of Directors approve the addition of the ESU 8 Administrator and Business Manager as signers to the Activity and Lunch accounts to allow us to implement further controls over these funds. All receipts are now to be turned in at the end of each month to the Central Office prior to fund replenishment for these accounts. Amounts that do not include a detailed receipt are not replenished, as well as payments to employees, and any amount of tax that had been paid. We have informed all of the signers on these accounts that all employee expenses are to run through our normal expense reimbursement process. The Business Manager and SPED Administrative Assistant are now managing these accounts much closer than in the past.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Concluded)

Finding # 2013-4: Federal Payroll Taxes

Internal Revenue Service (IRS) Publication 15 (Circular E), 2013 Employer's Tax Guide, states, "Employers should implement the 2013 withholding tables as soon as possible, but not later than February 15, 2013."

IRS Publication 15 (Circular E), 2013 Employer's Tax Guide, outlines an employer's responsibility to withhold Federal income tax based on each employee's W-4 Form.

A good internal control plan requires procedures be in place to ensure payroll withholdings are correct and that tax files be updated in a timely manner.

For four of nine employees tested, the Federal income tax withholdings were incorrect. Upon further review, it was noted that from January 2013 to October 2013, all ESU No. 8 employees had their Federal income tax withholdings deducted based on the 2012 Federal tax rates instead of the 2013 rates. This was caused by the 2013 tax table not being updated on the ESU's payroll system. For the March 2013 payroll, the APA noted four employees had Federal taxes withheld in excess of the amount that would have been had the 2013 tax tables been used. The excess withholdings ranged from \$4 to \$21.

We also noted one employee had an additional \$200 in Federal taxes withheld from their pay without a W-4 on file to support the additional withholding.

When the tax table is not properly updated in the payroll system, there is an increased risk the ESU's tax withholdings will be incorrect. When the ESU withholds additional tax amounts, not indicated on the W-4, there is an increased risk the incorrect amount is withheld.

We recommend the ESU implement procedures to ensure the correct tax tables are used to calculate employee taxes. We also recommend the ESU implement procedures to ensure tax withholdings are based on the employees W-4. We further recommend the ESU look into the tax withholdings during the fiscal year and determine whether amended filings are required.

ESU No. 8's Response: The annual withholding tables going forward will be changed by the Business Manager while the Administrative Assistant will verify that the changes have been saved in our accounting software with her read-only access. Tax withholding will be reviewed on a quarterly basis when the Business Manager is completing the quarterly 941's. All W-4 changes are only to be made with the proper documentation, and verification that it has been stored in their employee file by the Business Manager.

EDUCATIONAL SERVICE UNIT NO. 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding # 2013-5: Federal Payroll

Program: CFDA 84.366 – Mathematics and Science Partnership – Allowability

Grant Number & Year: Grant 000008-16-MSP-11 for the period July 1, 2012, through September 30, 2013.

Federal Grantor Agency: U.S. Department of Education

Condition: Educational Service Unit No. 8 (ESU No. 8) did not have documentation to support whether payroll costs were allowable per OMB Circular A-87.

Questioned Costs: Unknown

Criteria: OMB Circular A-87, Appendix B, §8, subsection h, states:

- (3) *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*
- (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,*

EDUCATIONAL SERVICE UNIT NO. 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)

Finding # 2013-5: Federal Payroll (Concluded)

- (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 but may be used for interim accounting purposes...*

A good internal control plan requires procedures be in place to ensure ESU No. 8's payroll records are in compliance with Federal regulations, when requesting Federal reimbursement.

Cause: Timesheets did not identify the time spent working on the Mathematics and Science Partnership versus the time spent working on other programs. ESU No. 8 was not aware of the requirement.

Context: ESU No. 8 employees administered the math aspect of the Mathematics and Science Partnership program for the State of Nebraska and thus were able to bill the grant for the employee hours spent administering the program. However, OMB Circular A-87, has specific requirements of how the employee hours are to be documented for the reimbursement to be allowable. During fiscal year 2013, a total of \$147,450 in payroll costs were expended from the grant funds.

Effect: ESU No. 8 was not in compliance with Federal regulations and payroll costs charged to the grant may not have been allowable.

Recommendation: We recommend ESU No. 8 implement procedures to ensure staff time to be reimbursed from a Federal grant is documented by time records in accordance with OMB Circular A-87.

Management Response: We have determined that when the Business Manager pays any federal payroll, she will require adequate documentation supporting the actual time spent on the grant as per OMB Circular A-87.

Contact: Elleah Wiebelhaus, Business Manager

Anticipated Completion Date: January 1, 2014

SECTION IV. SCHEDULE OF PRIOR AUDIT FINDINGS

No prior findings existed.