

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 4
JULY 1, 2015 THROUGH JUNE 30, 2016**

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Issued on December 14, 2016

EDUCATIONAL SERVICE UNIT NO. 4

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EDUCATIONAL SERVICE UNIT NO. 4

KEY OFFICIALS AND ENTITY CONTACT INFORMATION

Board Members

Name	Title
James Cain	Board President
Cheri Wirthele	Vice President
Faye Booth	Secretary
Jeff Bacon	Board Member
Linda Engel	Board Member
J.C. Hauserman	Board Member
Allison Hayes	Board Member
Leslie Stevens	Board Member
Lana Williams	Board Member

Management

Name	Title
Jon H. Fisher	Administrator

Educational Service Unit No. 4
919 16th Street
Auburn, Nebraska 68305
Esu4.org

EDUCATIONAL SERVICE UNIT NO. 4

SUMMARY OF COMMENTS

During our audit of Educational Service Unit No. 4 (ESU No. 4), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. **Accounting Issues:** During testing, we noted several errors in the prepared financial schedules, related notes, and budgetary schedules that needed revision.
2. **Lack of Internal Controls and Board Policies:** There was a lack of segregation of duties over receipts and payroll. Petty cash accounts were not adequately secured or approved by the Board and there was a lack of Board policies for the petty cash accounts.
3. **Related Party Transactions:** There were three couples that had not properly disclosed the employment of immediate family members; this included the Board President, Administrator, and Technology Director.
4. **Budgeted Cash Reserve Exceeded Limitation:** The adopted budget for fiscal year 2016 contained several inaccurate amounts, which would have caused ESU No. 4 to exceed the 50% cash reserve limitation per State statute.
5. **Lack of Documentation:** There was a lack of documentation for allocations of disbursements, the selection of a \$19,500 vehicle purchase, two inventory items were not on the asset listing, and there was a lack of support for rates charged and/or paid for services.
6. **Contract Issues:** ESU No. 4 did not have a policy of publicly bidding service contracts, one contract for \$143,500 had no documentation for the selection of the vendor, and several provider contracts were outdated or not on file.
7. **Unallowable Federal Charges:** During testing, we noted an estimated \$12,840 in Federal disbursements reimbursed to ESU No. 4 were outside of the grant's period of performance and, therefore, were unallowable.
8. **Payroll Issues:** The employer contributions to a 403(b) annuity plan were included in taxable wages, one employee did not meet his contractual hours worked for the year, leading to an overpayment of \$1,210, and timesheets were not adequately authorized.
9. **Travel Reimbursements:** Travel reimbursements were not submitted timely, \$214 in meal receipts were not itemized, \$19 was an unallowable reimbursement for a spouse, and \$13 was reimbursed for alcohol purchases.
10. **Insufficient Pledged Collateral:** For six days during June 2016, bank deposits held by ESU No. 4 were under collateralized. The under-collateralized amounts ranged from \$28,865 to \$63,487.

EDUCATIONAL SERVICE UNIT NO. 4

SUMMARY OF COMMENTS

(Concluded)

More detailed information on the above items is provided hereinafter. 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. 4 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. In accordance with Generally Accepted Government Auditing Standards, Chapter 4.35, the APA summarized ESU No. 4's response to Comment Number 1 (Accounting Issues). 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. Accounting Issues

Educational Service Unit No. 4 (ESU No. 4) did not have adequate procedures to ensure that its financial statements were properly presented. A certified public accountant prepared the financial schedules, related notes, and the budgetary schedules for the audit; however, ESU No. 4 did not have adequate procedures to ensure the prepared information was accurate.

We noted several issues regarding the presentation and accuracy of the financial statement information, as follows:

- Several amounts were not appropriately compiled on the financial statements, requiring adjustments to be made for proper presentation. Adjustments totaled \$257,864 across multiple financial statements.
- Core Services were inappropriately reflected as General Receipts; however, they should have been Program Receipts. Disbursements related to Core Services were also inappropriately reflected as Staff Development and General Administration on the Statement of Activities. Adjustments totaled \$213,709 in receipts and \$455,289 in disbursements.
- The Statement of Assets and Fund Balances only reflected a totals column, but it should have presented the General Fund and Depreciation Fund separately.
- Transfers In and Out between the General Fund and Depreciation Fund for \$175,000 were not properly included in the financial statements or budgetary schedules.
- Budgeted amounts were not properly accumulated for the budgetary comparison schedules for Special Education Contract Receipts, Flow Thru Services Receipts, Other Local Income, Miscellaneous Receipts, Special Education Services, Staff Development, Media/Telecomputing Service, Distance Learning, Cooperative Purchasing, and Contracted Services (NCECBVI) disbursements.
- Several notes to the financial schedules needed revision due to inaccurate amounts or inaccurate information contained within.
- The certified public accounting firm, Rigg's & Associates, C.P.A.'s, P.C., which was utilized by ESU No. 4, had several deficiencies in its peer review report dated January 29, 2016, including, "The Firm performs audits under Government Auditing Standards and OMB Circular A-133 (now known as the Uniform Guidance). However, the Firm has not obtained adequate knowledge or fully utilized the specific industry practice aids to address the unique auditing or financial reporting requirements of these standards." ESU No. 4 did not have documentation to support how these deficiencies were overcome. A similar peer review finding was noted for the January 3, 2013, report.

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Accounting Issues (Continued)

Furthermore, we noted ESU No. 4 was doubling receipts and disbursements related to its Federal grants. During the fiscal year, we determined \$143,856 in receipts and disbursements were overstated. After the Auditor of Public Accounts (APA) brought this issue to ESU No. 4, the financial statements were adjusted accordingly.

The doubling of receipts and disbursements took place due to the way ESU No. 4 recorded the Federal grant activity. Employee salaries, benefits, and professional development costs related to Federal grants were first paid and recorded to a general activity function in the accounting system. When ESU No. 4 requested reimbursement from the Nebraska Department of Education (NDE) for Federal grants, ESU No. 4 then recorded another disbursement in the Federal activity function in the accounting system. ESU No. 4 also wrote itself a check from its Federal bank account for the requested Federal grant amounts to reimburse the general bank account and recorded a receipt in the General Fund. However, this check was held until the Federal monies were received from NDE. For one reimbursement tested, we noted the check was held for approximately four months. When the grant funds were received from NDE, ESU No. 4 recorded another receipt.

Good internal controls require procedures to ensure information used to compile financial statements is complete and accurate. Furthermore, good internal controls and sound accounting practice require the proper recording of receipts and disbursements to ensure amounts are not overstated.

When adequate procedures are not in place to ensure the accuracy of financial information, there is a greater risk that material misstatements may occur and remain undetected. Also, when checks are not cashed between accounts for an extended period of time, there is a greater risk of loss of funds.

We recommend ESU No. 4 implement policies and procedures to ensure financial information is complete and accurate. We also recommend ESU No. 4 perform transfers between bank accounts instead of writing checks.

ESU No. 4 Response: We inadvertently assumed that the APA would prepare the statements as part of their audit. We prepared a working trial balance, our known adjusting entries, assorted workpapers that show how balances were derived and a "Draft" of the financial statements for the Nebraska Auditor of Public Accounts (APA). The original draft of the financial statements was not reviewed to make sure they were accurate by management due to the expectation that there would be changes made by the APA. We presumed that the APA would assist us in preparing the financial statements. Regarding the reimbursement of federal expenses, we were aware of the timing issue dealing with the year end, and we expected this would be resolved by the auditor. We were also not given a detail of the adjusting entries to make our records correct. By not giving us details to the adjusting entries, we could not always understand the changes being made by the APA; we could not make the proper adjustment to our records, resulting in our records being incorrect if we were to run a comparison statement of activity. The APA did not consider our need for an accurate trial balance in order to complete our Annual Financial Report (AFR).

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Accounting Issues (Concluded)

APA Response: On September 12, 2016, ESU No. 4 informed the APA their CPA would be completing the financial statements, footnotes, and budgetary schedules. Subsequently, the engagement letter signed by ESU No. 4 did not contain non-audit services (such as financial statements, footnotes, and budgetary schedules) to be provided by the APA. At no time during the audit did ESU No. 4 indicate changes would be necessary in order for the financial information to be accurately presented. Instead, adjustments proposed by the APA were determined during our testing of the financial statements and underlying activity. The APA also provided summary level adjustments to ESU No. 4, and not until responses were submitted by ESU No. 4 did they indicate they needed detailed adjustments in order to adjust their accounting records for their AFR. At that time the APA provided further information, however, it should be noted all adjustments were discussed in detail with ESU No. 4 during the engagement and at no point did management indicate they did not understand the adjustments or needed further documentation.

2. Lack of Internal Controls and Board Policies

Good internal control requires an adequate segregation of duties to ensure no one individual is able to perpetrate and conceal errors or irregularities. Good internal control also requires procedures to ensure cash accounts are adequately safeguarded, and disbursements are reviewed and approved prior to payment.

Without adequate segregation of duties and approved Board policies, there is an increased risk for loss or misuse of funds.

Receipts

During review of the receipt and billing processes for ESU No. 4, we noted a lack of segregation of duties. One individual was able to handle cash receipts through the mail, prepare the deposit, and record the deposit in the accounting system. Upon arrival, moreover, incoming mail was given to program personnel for processing. Cash receipts should have been retained by the accounting area to ensure all monies were properly deposited.

Payroll

During testing of payroll, we noted two individuals were able to process payroll, set up new employees, make changes to wages, implement deductions, etc., and there was no documented secondary review of the payroll register to ensure wages paid were proper.

Petty Cash

We noted ESU No. 4 had three petty cash accounts totaling \$2,001. There was not a sufficient segregation of duties over the control of the petty cash. The employees with access to the cash often reconciled the petty cash amounts. The \$100 petty cash account contained at the Learning Center was not adequately secured in a locked location. We also tested several transactions related to the Nebraska Center for the Education of Children Who Are Blind or Visually Impaired (NCECBVI) petty cash checking account and noted two disbursements, totaling \$21, were missing adequate supporting documentation.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Lack of Internal Controls and Board Policies (Concluded)

In addition, there was no Board policy establishing the amounts of the petty cash funds or the allowable uses of the funds. During testing of the NCECBVI petty cash account, we observed several expenses that could have been for personal use. We were not able to determine if the expenses were allowable since there was no policy on the acceptable use of petty cash funds. Total expenses from the NCECBVI petty cash account for the year was \$4,954.

We recommend the following:

- ESU No. 4 establish an adequate segregation of duties or establish compensating procedures to ensure no one individual is able to perpetrate or conceal errors or irregularities.
- A documented review of the payroll register be performed.
- ESU No. 4 ensure petty cash is adequately secured.
- ESU No. 4 approve and authorize the petty cash funds and the allowable uses of such funds.

ESU No. 4 Response:

Segregation of Duties:

Receipts - *A new receipting process has been developed and implemented requiring multiple checks and balances between members of the ESU 4 Audit Committee.*

Payroll - *A pre-payroll packet is prepared which includes all salaries and payee information. This packet is reviewed and approved by administrator prior to completion of the payroll. This process was put in place at the beginning of the 2016-2017 fiscal year.*

Petty Cash - Board Policies *are being addressed and updated regarding Petty Cash funds at the different locations of ESU 4 Office, Learning Center and NCECBVI. The staff at the Learning Center has been reminded that petty cash funds must be locked at all times. The NCECBVI expenditures and receipts will be monitored more closely with payments being approved by NCECBVI administration prior to reimbursement to the account.*

The petty cash at NCECBVI (NCECBVI Emergency Cash Fund) is actually a checking account we consider secure since the checkbook is secured in a locked office during non-business hours. The Life Skills petty cash, in the amount of \$100, is used throughout the school day to assist our students in Life Skills, due to developmental disabilities, is needed and used to teach them proper day-to-day use of money and how to interact with the general public. We consider this cash as a teaching tool, but the cash will be put in a secure location when it is not needed to teach the life skills needed by the students. The petty cash at the ESU 4 office is kept secure in a locked file cabinet at all times.

3. Related Party Transactions

We noted that the written disclosures required by Neb. Rev. Stat. § 49-1499.04(1) (Reissue 2010) of the Nebraska Political Accountability and Disclosure Act (Act), which declare the employment of immediate family members, were not on file for three married couples employed by ESU No. 4.

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Related Party Transactions (Concluded)

The individuals at issue consisted of the Board President and his wife, an early childhood teacher; the Administrator and his wife, the part time custodian; and the Technology Director and his wife, the Technology Coordinator. According to ESU No. 4 staff, they were unaware of the required written disclosures but submitted them upon inquiry by the APA.

Section 49-1499.04(1) mandates the following:

An official or employee of a political subdivision may employ or recommend or supervise the employment of an immediate family member if (a) he or she does not abuse his or her official position as described in section 49-1499.05, (b) he or she makes a full disclosure on the record to the governing body of the political subdivision and a written disclosure to the person in charge of keeping records for the governing body, and (c) the governing body of the political subdivision approves the employment or supervisory position.

The ESU No. 4 staff addressed in this comment were not in compliance with State statute.

We recommend ESU No. 4 implement procedures to ensure that any official or employee who employs or recommends or supervises the employment of an immediate family member submits the appropriate written disclosure, as required by State statute.

ESU No. 4 Response: Disclosure forms have now been completed and are on file. These forms will be updated at the beginning of each fiscal year going forward.

4. Budgeted Cash Reserve Exceeded Limitation

During our review of ESU No. 4's adopted budget, we noted the following issues:

- The adopted budget submitted by ESU No. 4 did not include \$1,717,380 in special education receipts for the fiscal year ended June 30, 2016, and ESU No. 4 did not revise the budget to correct the omission in accordance with Neb. Rev. Stat. § 13-504(3) (Supp. 2015).
- The beginning balance in the budget for \$6,239,293 did not agree to the beginning balance in the audited financial statements for \$5,499,031.

Using the proper amounts would have caused ESU No. 4's cash reserve to be 65% of its total adopted budget, which is above the 50% limit set by § 13-504(1)(c).

Section 13-504 states, in relevant part, the following:

(1) Each governing body shall annually or biennially, as the case may be, prepare a proposed budget statement on forms prescribed and furnished by the auditor. The proposed budget statement shall be made available to the public by the political subdivision prior to publication of the notice of the hearing on the proposed budget statement pursuant to section 13-506. A proposed budget statement shall contain the following information, except as provided by state law:

* * * *

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS
(Continued)

4. **Budgeted Cash Reserve Exceeded Limitation** (Concluded)

(c) For the immediately ensuing fiscal year or biennial period, an estimate of revenue from all sources, including motor vehicle taxes, other than revenue to be received from taxation of personal and real property, separately stated as to each such source: The actual or estimated unencumbered cash balances, whichever is applicable, to be available at the beginning of the year or biennial period; the amounts proposed to be expended during the year or biennial period; and the amount of cash reserve, based on actual experience of prior years or biennial periods, which cash reserve shall not exceed fifty percent of the total budget adopted exclusive of capital outlay items;

* * * *

(3) The political subdivision shall correct any material errors in the budget statement detected by the auditor or by other sources.

According to discussions with ESU No. 4 staff, they were aware of the omission of the receipts but did not realize it would require a revision of their adopted budget. It is unknown why the amount was originally omitted. ESU No. 4 provided no explanation for the inaccurate beginning balance.

By not revising the budget, ESU No. 4 was in violation of State statute, and the budget reflected that ESU No. 4 needed more property taxes than necessary.

We recommend ESU No. 4 ensure its budget is accurate. If material errors are detected after the budget is submitted, ESU No. 4 should correct the errors in accordance with State statute. Furthermore, we recommend ESU No. 4 ensure cash reserves do not exceed the statutory limitation.

ESU No. 4 Response: The budget, in detail, was submitted to the Board for review and approval. This budget did include the \$1,717,380 in Special Education receipts. What happened was that this amount was inadvertently omitted from the budget form submitted to the state. If this amount was included in the budget form, we would have been able to increase the transfer to our depreciation fund and thereby keeping our cash reserve below the 50% threshold. The beginning balance in the budget was based on the estimate activity from the prior year. It would not be unusual for the actual results to be different from the budget, since this is not based on actual results. We do not consider this issue to be relevant. When the APA completed the budgetary comparisons schedule, the amount on the budget form submitted to the state had a budget expense \$1,000,000 for Capital Improvements. We feel that if the APA is using this budget form for the justification of the amounts on the budgetary comparison schedule, this amount should probably be included in the budget column.

APA Response: ESU No. 4 provided the budgetary schedules, which did not include the \$1,000,000 in capital improvement expenditures. The APA did not propose an adjustment because it was our understanding that these were reserves meant to be spent in future years from the Depreciation Fund and therefore, the budgetary schedules properly reflected the budgeted expenditures for the current year. Furthermore, the \$1,000,000 capital improvement expenditure would not have changed the issue reported by the APA regarding the exceeded cash reserve.

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Lack of Documentation

We noted the following transactions tested did not have adequate supporting documentation:

- ESU No. 4 lacked documentation to support the allocation of disbursements between programs. We noted 4 of 10 employees' payroll disbursements tested, totaling \$17,356, and 2 of 21 vendor payments tested, totaling \$20,483, were allocated between several programs; however, there was no documentation to support how the allocations were determined. The vendor payments were for auditing services, totaling \$8,500, and insurance premiums for \$11,983.
- During the fiscal year, ESU No. 4 purchased a vehicle for \$19,500. There was no documentation on file to support ESU No. 4 had obtained bids to ensure that the best vehicle had been purchased for the best price. The Administrator explained that he had purchased other vehicles from this dealership and trusted the seller. He also claimed to have done research to ensure the vehicle was priced at the lowest cost; however, no documentation of that research was on file.
- The APA was unable to trace two of six assets tested to ESU No. 4's asset records. One item was an iMac computer costing \$1,698, and the second was the aforementioned vehicle bought for \$19,500. ESU No. 4 failed to add the items to the asset listing when they were purchased.
- Documentation supporting stipend amounts paid and the 17% withholding rate was not on file. ESU No. 4 receives Federal funds for the Title II Improving Teacher Quality State Grants. Schools send teachers to training and pay the teachers a stipend for attending. Schools request reimbursement of expenses for stipends paid to teachers plus a 17% withholding rate from ESU No. 4. ESU No. 4 staff was unable to provide documentation to support the \$120 and \$200 rates paid. Stipends plus withholding expenses tested totaled \$1,732. During the fiscal year, stipend payments totaled \$39,171.
- An ESU No. 4 nurse performed student health checks at area schools. ESU No. 4 charged the schools \$6 per student for that service. Documentation supporting that price could not be provided. ESU No. 4 staff explained that past charges for performing student health checks had been reviewed, and \$6 per student was determined to be acceptable; however, no documentation of this review could be found. The student health check receipt tested was \$5,280 for fiscal year ended June 30, 2016, and student health check receipts totaled \$24,984.

Good internal controls require that adequate documentation be maintained to support allocations to programs, payments for services and goods, and charges for services. Good internal controls also require accurate asset records to be maintained. When supporting documentation is not maintained, there is an increased risk for misuse or loss of funds or assets. When allocations are not supported, there is an increased risk that financial statements will be misleading.

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Lack of Documentation (Concluded)

We recommend ESU No. 4 ensure documentation is maintained for the allocation of disbursements, selection of goods, and charges for services. ESU No. 4 should also ensure asset records are accurately and timely maintained.

ESU No. 4 Response:

- a. Support of the allocations between programs is based on history and best estimates. This information is reviewed yearly based on number of employees, changes to employee assignments, vehicle purchases or sales, changes to insurance policies and auditing requirements.*
- b. Bidding Policy will be followed and Board approval will be obtained prior to purchases.*
- c. Missing Items on Inventory - vehicle had been input to the systems but final posting had not been completed thus leaving the item off the master inventory list. iMac computer was inadvertently left off master list but was accounted for on the technology listing. Review of master list will be conducted more frequently to insure accuracy of master list.*
- d. Lack of support for stipend rate paid to districts and per student health check rate - These rates are determined by the ESU 4 Advisory Committee. A form outlining these rates or charges will be updated yearly at an Advisory Committee Meeting with members signing off on these charges.*

6. Contract Issues

During testing of 21 disbursements, which included eight contractual agreements, we noted one contract did not have documentation for how the vendor was selected. We also noted provider contracts were not on file, payments that did not agree to the contract, and a lack of documented review of contractor billings. Furthermore, ESU No. 4 lacked policies and procedures governing competitive bidding for service contracts.

- ESU No. 4 utilized the services of a training contractor to provide training to several school districts across the State during the fiscal year. The contract totaled \$143,500, but there was no documentation for how the vendor was selected. According to ESU No. 4 staff, the superintendents of the schools selected the vendor; however, there was no documentation to support this statement. According to discussions with ESU staff, the contractor had provided the training services for several different ESUs across the State for approximately the last six years.
- The NDE contracts with ESU No. 4 to operate the NCECBVI. NDE established rates for service contractors. We noted the following:

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Contract Issues** (Concluded)

- One provider had an outdated contract dating back to September 2000. The contractor provided physical therapy services at the NCECBVI. According to the contract, the NDE-approved rates were to be paid at \$62 per hour. However, the contractor was being paid \$81.92 per hour. It is unknown how the rate paid was determined. The contractor was overpaid \$1,250 for the payment tested. During the fiscal year tested, the contractor was paid \$42,304.
- Two service providers tested did not have a contract on file until after the APA inquiry. The contractors provided occupational therapy and orientation and mobility services at the NCECBVI. The providers were paid \$33,516 and \$12,548, respectively, during the fiscal year tested. ESU No. 4 properly paid the approved rates, as established by NDE.
- Additionally, the providers' billings did not contain documentation that the hours requested for payment were reviewed by an individual knowledgeable of the services provided. According to discussions with ESU staff, the invoices from the providers were first received at NCECBVI, where they were reviewed, and then sent to ESU No. 4's headquarters for payment.

Good internal controls require policies and procedures to ensure contracts are fairly bid, and documentation is kept on file for the selection process. Furthermore, good internal controls require up-to-date contracts to be on file for services provided.

Failure to competitively bid contracts increases the risk that the best contractor will not be obtained at the best price. Also, when contracts are not current or not on file, there is an increased risk for disputes to occur that could result in a loss or misuse of funds.

We recommend ESU No. 4 implement policies and procedures governing competitive bidding for service contracts. We also recommend ESU No. 4 ensure contracts are current and on file for all service providers. We further recommend procedures be implemented to ensure payments agree to contracted rates, and hours paid are actually provided.

ESU No. 4 Response:

- a. No bidding was acquired for the Marzano Training as this is unique to this company. This model was chosen and requested by districts. A contract for these trainings with Marzano and individual contracts with the participating districts are on file.*
- b. Contracts with service providers will be updated yearly going forward. When appropriate the NDE rate will be paid. Sometimes providers with additional experience and training in various disabilities charge a higher rate. This rate will be paid when deemed necessary to provide the level of care necessary for our students.*
- c. Provider billings will be reviewed and approved by NCECBVI administration prior to payment.*

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Unallowable Federal Charges

ESU No. 4 received a Federal grant from NDE for salaries, benefits, and disbursements of the NCECBVI for the period July 1, 2015, through June 30, 2016. During our review, we noted costs of \$12,840 incurred outside of the period of performance for the grant. One reimbursement tested included costs for a camp held during May 2015 and a second camp from June 28, 2015, through July 2, 2015.

As the costs were incurred prior to the start date of the grant, NDE approval was required. ESU No. 4 was unable to provide documentation of such approval by NDE.

2 CFR § 200.309 (January 1, 2015) states the following:

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §200.461 Publication and printing costs) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

When costs are incurred prior to the start of a grant without the approval from the pass-through entity, those costs are not allowable and could result in loss of funds.

We recommend ESU No. 4 ensure that grant costs are within the period of performance. If items are outside of the grant period, prior approval should be obtained from the pass-through entity.

ESU No. 4 Response: Future expenditures will be requested from the appropriate grant year.

8. Payroll Issues

During testing of payroll disbursements, we noted the following issues:

- ESU No. 4 made employer contributions to the employee Internal Revenue Code section 403(b) annuity plan during the year for employees who did not elect the family health insurance coverage. The difference between the coverage selected and the family plan coverage was put in the 403(b) plan. For 8 of 10 employees tested, the employer contribution was improperly included as taxable wages, resulting in the employees paying more in taxes than required. The total overpayment in taxes for the eight employees tested for one month was \$423.

The Internal Revenue Service (IRS) Government Retirement Plans Toolkit, Section 403(b) Plans, contains the following:

Plans under IRC section 403(b), also called tax-sheltered annuities, are available to certain employees of public schools, employees of certain tax-exempt organizations, and certain ministers. To maintain a section 403(b) plan, a governmental employer must be a public school of a state, political subdivision of a state, or an agency or instrumentality of one or more of these. Many public school employees are covered by 403(b) plans in addition to social security coverage under section 218 Employer contributions (within dollar limitations) are tax-deferred and exempt from FICA.

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Payroll Issues (Concluded)

- One employee tested was contracted to work 2,040 hours during the year. ESU No. 4 paid the employee in 12 equal monthly payments. The APA reviewed timesheets to verify the required hours were met. However, only 1,982 hours were documented during the year; therefore, 58 hours were overpaid for a total of \$1,210.
- One employee timesheet tested was not signed by a supervisor, and a second employee did not sign his timesheet certifying the hours were proper for payment.

ESU No. 4 had approximately 75 employees and expended \$4.56 million related to payroll and benefits during the fiscal year ended June 30, 2016.

Good internal controls require adequate policies and procedures to ensure taxes are properly withheld from employees' pay, contracted hours paid are provided, and timesheets are properly documented as approved.

When taxes are not properly withheld, ESU No. 4 is in noncompliance with IRS regulations. Furthermore, when contracts are not reviewed to ensure hours paid are properly worked, and timesheets are not signed, there is an increased risk for misuse or loss of funds.

We recommend ESU No. 4 work with the IRS to properly defer taxes on the employer contributions to the 403(b) plan. We also recommend ESU No. 4 implement a system to track hours worked throughout the contract period to ensure payments are proper. We recommend further ESU No. 4 recover any overpayments to employees. Finally, we recommend ESU No. 4 implement controls to ensure timesheets are correct, such as requiring supervisors to document their review and employees to certify their time worked.

ESU No. 4 Response:

- 403(b) - ESU 4 is further investigating this matter and will make adjustments as directed.*
- ESU 4 has implemented the use of an on-line time recording system. Hours are being more closely monitored to ensure proper payment to employees. Also, the results of this added diligence for the 2016-17 year will be used to make adjustments to the work agreements for 2017-18. Signatures of employees and supervisors or administration will be required on all time sheets going forward.*

9. Travel Reimbursements

During testing of three travel-related reimbursements, we noted one Board member and the ESU No. 4 Administrator did not submit their expense reimbursements within 45 days of the event in accordance with Board policies. One expense document totaled \$2,349 for the period January through December 2015 and the other totaled \$758 for the period July 2015 through May 2016.

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Travel Reimbursements (Continued)

Board Policy 2020 states, in part, the following:

Upon proper authorization, the board shall allow the payment or reimbursement for expenses incurred by board members, employees or volunteers as otherwise specifically permitted by law. Reimbursements will be made when expenses are identified and approved on ESU 4's reimbursement form. Reimbursements must be completed within 45 days of the event.

Also, during testing of the Administrator's expense reimbursement document, we noted the following:

- One receipt contained \$13 in alcohol purchases, which is neither allowable nor a reasonable and necessary use of taxpayer funds.
- A \$38 reimbursement for one meal had two guests, and the reimbursement document noted the meal was for himself and his spouse. Therefore, only \$19 should have been claimed.
- 14 meal receipts, totaling \$214, were not itemized.

Board Policy 2020 states, in part, the following:

The cost of meals and lodging, if authorized, shall be reimbursed based upon documented expenditures actually and necessarily incurred.

Neb. Rev. Stat. § 13-2203 (Reissue 2012) provides, as is relevant, the following:

In addition to other expenditures authorized by law, each governing body may approve:

(1)(a) The expenditure of public funds for the payment or reimbursement of actual and necessary expenses incurred by elected and appointed officials, employees, or volunteers at educational workshops, conferences, training programs, official functions, hearings, or meetings

(2) The expenditure of public funds for:

(a) Nonalcoholic beverages provided to individuals attending public meetings of the governing body; and

(b) Nonalcoholic beverages and meals

Additionally good internal controls require adequate procedures to ensure that meal expense reimbursements are properly supported, reasonable, and adhere to both State law and ESU No. 4's own policies.

We recommend ESU No. 4 implement procedures to ensure travel-related expenditures are properly supported, reasonable, and adhere to State law and ESU policies. Furthermore, we recommend ESU No. 4 consider recouping inappropriate expense reimbursements.

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Travel Reimbursements (Concluded)

ESU No. 4 Response:

- a. Reimbursements paid outside of the 45-day window will be addressed with updated Board policy.*
- b. An oversight occurred and an unallowable reimbursement was made. These funds have since been recouped.*
- c. An effort will be made to ensure that receipts are itemized in order to receive reimbursement.*

10. Insufficient Pledged Collateral

ESU No. 4 lacked procedures to ensure its deposits were adequately secured by either Federal Deposit Insurance Corporation (FDIC) coverage or adequate pledged collateral.

During the audit period, the FDIC coverage was \$250,000 per depositor, per insured bank, and ESU No. 4's pledge collateral was \$5,182,352. Our testing revealed six days in June 2016 during which ESU No. 4 maintained pledged collateral below the statutorily required 102% minimum. ESU No. 4 was unaware of this statutory coverage requirement.

Date	Total Bank Balances	FDIC Coverage	Excess over Insured Amount	102% Coverage Required on Excess	Pledged Collateral	Amount Less than Required Coverage
6/22/2016	\$ 5,364,920	\$ 250,000	\$ 5,114,920	\$ 5,217,219	\$ 5,182,352	\$ 34,867
6/23/2016	\$ 5,362,277	\$ 250,000	\$ 5,112,277	\$ 5,214,522	\$ 5,182,352	\$ 32,170
6/24/2016	\$ 5,359,036	\$ 250,000	\$ 5,109,036	\$ 5,211,217	\$ 5,182,352	\$ 28,865
6/25/2016	\$ 5,359,036	\$ 250,000	\$ 5,109,036	\$ 5,211,217	\$ 5,182,352	\$ 28,865
6/26/2016	\$ 5,359,036	\$ 250,000	\$ 5,109,036	\$ 5,211,217	\$ 5,182,352	\$ 28,865
6/30/2016	\$ 5,392,980	\$ 250,000	\$ 5,142,980	\$ 5,245,839	\$ 5,182,352	\$ 63,487

Neb. Rev. Stat. § 77-2395(1) (Reissue 2009) states the following, in relevant part:

[T]he custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation, unless and until the depository has furnished to the custodial official securities, the market value of which are in an amount not less than one hundred two percent of the amount on deposit which is in excess of the amount so insured or guaranteed.

Without adequate procedures to ensure its deposits are properly insured, ESU No. 4 risks not only violating State law but also increasing the potential for the loss of funds.

EDUCATIONAL SERVICE UNIT NO. 4

COMMENTS AND RECOMMENDATIONS
(Concluded)

10. Insufficient Pledged Collateral (Concluded)

We recommend ESU No. 4 implement policies and procedures to ensure deposits are fully insured by FDIC coverage or other pledged collateral at all times throughout the year in accordance with State statute.

ESU No. 4 Response: We consider that this title is misleading, in that our entire cash deposit at the bank was either covered by FDIC or had pledge collateral to cover the entire amount. We agree that our collateral did not exceed the state statute requirement of 102% of our bank balance, but our entire bank balance was covered. We highly doubt that the bank would pay us the entire pledge collateral if it exceeded our bank balance. We also find interesting that the testing performed by the APA did not show any change in the value of the pledged collateral, since these are marketable securities and could reasonably be expected to show some fluctuation in the market value over the six days tested.

APA Response: The APA does not consider the title of the comment to be misleading as ESU No. 4 did not meet statutory requirements for bank accounts to be collateralized at 102%, therefore, ESU No. 4 had insufficient collateral during the days noted. Furthermore, the APA did consider changes in the pledged collateral during the month and the days reported were still under the 102% requirement.



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EDUCATIONAL SERVICE UNIT NO. 4

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Service Unit No. 4
Auburn, Nebraska

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities and each major fund of the Educational Service Unit No. 4 (ESU No. 4), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise ESU No. 4'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. 4'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 cash basis financial position of the governmental activities and each major fund of ESU No. 4, as of June 30, 2016, and the respective changes in cash basis financial position thereof for the year then ended in accordance with the cash basis of accounting.

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.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise ESU No. 4's basic financial statements. The Budgetary Comparison Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedules 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 Budgetary Comparison Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, on our consideration of the ESU No. 4'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. 4's internal control over financial reporting and compliance.



Pat Reding, CPA
Assistant Deputy Auditor

December 12, 2016

EDUCATIONAL SERVICE UNIT NO. 4
STATEMENT OF NET POSITION - CASH BASIS

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash in Bank - General	\$ 58,748
Cash in Bank - Federal (overdraft)	(4,983)
Cash in Bank - Payroll	1,000
Cash in Bank - Savings	5,373,334
Cash in Bank - County Treasurers	8,924
TOTAL ASSETS	<u><u>\$ 5,437,023</u></u>
NET POSITION	
Restricted for:	
Depreciation Fund	\$ 1,002,109
Unrestricted	4,434,914
TOTAL NET POSITION	<u><u>\$ 5,437,023</u></u>

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 4
STATEMENT OF ACTIVITIES - CASH BASIS
For the Year Ended June 30, 2016

Functions/Programs:	Cash	<u>Program Cash Receipts</u>		Net (Disbursement) Receipts and Changes in Net Position
		Disbursements	Charges for Services	
Governmental Activities:				
Services to Schools	\$ 1,574,516	\$ 1,504,354	\$ -	\$ (70,162)
Student Health Services	125,547	-	-	(125,547)
State Aid (Core Services)	469,834	-	213,709	(256,125)
General Administration	1,084,116	-	-	(1,084,116)
Federal Programs	276,657	-	351,131	74,474
Operation and Maintenance	68,375	-	-	(68,375)
NCECBVI	2,599,664	702,141	1,964,811	67,288
Total Governmental Activities	<u><u>\$ 6,198,709</u></u>	<u><u>\$ 2,206,495</u></u>	<u><u>\$ 2,529,651</u></u>	<u><u>(1,462,563)</u></u>

General Receipts:

Taxes	966,321
Interest Income	13,234
Other Local & Non-Program Receipts	421,000
Total General Receipts	<u><u>1,400,555</u></u>

Change in Net Position	(62,008)
Net Position - Beginning of year	5,499,031
Net Position - End of year	<u><u>\$ 5,437,023</u></u>

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 4
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
 June 30, 2016

	General Fund	Depreciation Fund	Total Governmental Funds
ASSETS			
Cash in Bank - General	\$ 58,748	\$ -	\$ 58,748
Cash in Bank - Federal (overdraft)	(4,983)	-	(4,983)
Cash in Bank - Payroll	1,000	-	1,000
Cash in Bank - Savings	4,371,225	1,002,109	5,373,334
Cash on Deposit - County Treasurers	8,924	-	8,924
TOTAL ASSETS	\$ 4,434,914	\$ 1,002,109	\$ 5,437,023
 FUND BALANCES			
Committed	\$ -	\$ 1,002,109	\$ 1,002,109
Unassigned	4,434,914	-	4,434,914
TOTAL CASH BASIS FUND BALANCES	\$ 4,434,914	\$ 1,002,109	\$ 5,437,023

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 4
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCES**
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General Fund	Depreciation Fund	Total Governmental Funds
RECEIPTS			
Program:			
Property Taxes	\$ 966,321	\$ -	\$ 966,321
Federal Grants	351,131	-	351,131
Local			
Interest	11,125	2,109	13,234
Special Education Contract	1,504,354	-	1,504,354
Core Services	213,709	-	213,709
Flow Thru Services	348,989	-	348,989
Other Local Income	51,534	-	51,534
Total Program Receipts	<u>3,447,163</u>	<u>2,109</u>	<u>3,449,272</u>
Non-Program:			
Contracted Services (NCECBVI)	1,964,811	-	1,964,811
Tuition (NCECBVI)	702,141	-	702,141
Total Non-Program Receipts	<u>2,666,952</u>	<u>-</u>	<u>2,666,952</u>
TOTAL RECEIPTS	<u>6,114,115</u>	<u>2,109</u>	<u>6,116,224</u>
DISBURSEMENTS			
Program:			
Special Education Services	1,574,516	-	1,574,516
Student Health Services	125,547	-	125,547
Staff Development	445,080	-	445,080
Production Services	34,680	-	34,680
Media/Telecomputing Service	24,754	-	24,754
Distance Learning	10,321	-	10,321
Board of Education	234,177	-	234,177
Administration	252,773	-	252,773
Van Delivery Services	24,756	-	24,756
Operation and Maintenance of Plant	68,375	-	68,375
Data Processing	54,429	-	54,429
Technology Support	102,974	-	102,974
Cost of Flow Thru Services	370,006	-	370,006
Federal Grants	276,657	-	276,657
Total Program Disbursements	<u>3,599,045</u>	<u>-</u>	<u>3,599,045</u>
Non-Program:			
Contracted Services (NCECBVI)	<u>2,599,664</u>	<u>-</u>	<u>2,599,664</u>
TOTAL DISBURSEMENTS	<u>6,198,709</u>	<u>-</u>	<u>6,198,709</u>

EDUCATIONAL SERVICE UNIT NO. 4
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCES**
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	<u>General Fund</u>	<u>Depreciation Fund</u>	<u>Total Governmental Funds</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>(84,594)</u>	<u>2,109</u>	<u>(82,485)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	175,000	175,000
Transfers out	(175,000)	-	(175,000)
Sale of Property	1,850	-	1,850
Miscellaneous	<u>18,627</u>	<u>-</u>	<u>18,627</u>
SOURCES (USES)	<u>(154,523)</u>	<u>175,000</u>	<u>20,477</u>
Net Change in Fund Balances	(239,117)	177,109	(62,008)
CASH BASIS FUND BALANCES - BEGINNING	<u>4,674,031</u>	<u>825,000</u>	<u>5,499,031</u>
CASH BASIS FUND BALANCES - ENDING	<u><u>\$4,434,914</u></u>	<u><u>\$ 1,002,109</u></u>	<u><u>\$ 5,437,023</u></u>

(Concluded)

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 4

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Educational Service Unit No. 4 (ESU No. 4) is presented to assist in understanding ESU No. 4's financial statements. The financial statements and notes are representations of ESU No. 4's management, which is responsible for their integrity and objectivity. These accounting policies conform to the cash basis of accounting and have been consistently applied in the presentation of the financial statements.

A. Description of Activities

ESU No. 4 operates under a board/administrator form of government. ESU No. 4 provides services to school districts in the following Nebraska counties, as identified by State law: Cass, Gage, Johnson, Lancaster, Nemaha, Otoe, Pawnee, and Richardson.

ESU No. 4 is a governmental entity established under and governed by the laws of the State of Nebraska. In evaluating how to define ESU No. 4 for financial reporting purposes, all potential component units have been considered. The basic – but not the only – criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Based upon the above criteria, the accompanying combined financial statements include all funds for which ESU No. 4 has oversight responsibility.

B. Basis of Accounting

ESU No. 4's policy is to prepare its financial statements on the cash basis, which is consistent with the Commissioner of Education and the Nebraska Department of Education's (NDE) requirements. 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 in accordance with generally accepted accounting principles. Property taxes collected by the County Treasurers are recognized as revenue upon receipt by the County Treasurers.

C. Reporting Entity

ESU No. 4's Board of Education (Board) is the basic level of government that has financial accountability and control over all activities related to the public school education in ESU No. 4. The Board receives funding from local, State, and Federal government sources and must comply with the concomitant requirements of these funding source entities. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments), ESU No. 4 is considered to be an independent entity and has no component units.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

D. Government-Wide and Fund Financial Statements

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. 4 has a portion of its net position listed as restricted for Depreciation Fund. The remainder of ESU No. 4’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 – Cash Basis demonstrates the degree to which the direct disbursements of a given function or segment is 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. General receipts include all other receipts properly not included as program receipts. ESU No. 4 reported the following general receipts: Taxes, Interest Income, and Other Local and Non-Program Receipts.

The fund financial statements provide information about the ESU No. 4’s funds. GAAP requires separate statements by fund category – Governmental, Proprietary, and Fiduciary. The ESU No. 4 uses only the Governmental Fund category. The emphasis of fund financial statements is on the major Governmental Funds. Both funds of ESU No. 4 are major funds.

E. Fund Types

The accounts of ESU No. 4 are organized on the basis of funds which are grouped into the following governmental fund types:

General Fund – The General Fund is the general operating fund of ESU No. 4. 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.

Depreciation Fund – A Depreciation Fund was established by ESU No. 4 in order to facilitate the eventual purchase of a costly capital outlay by reserving such monies from the General Fund. The purpose of a Depreciation Fund is to spread replacement costs of capital outlays over a period of years in order to avoid

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

a disproportionate tax effort in a single year to meet such an expense. This fund is restricted as part of the Allowable Reserve by the Tax Equity and Educational Opportunities Support Act. The Depreciation Fund shall be considered only a component of the General Fund.

F. Inventory

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

G. Capital Assets

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

H. Estimates

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

I. County Treasurers Balance

Cash available for ESU No. 4 at various County Treasurers' offices had been included in beginning and ending fund balances, and receipts from tax levies reflect actual tax revenues collected by the County Treasurers during the fiscal year for the ESU No. 4.

J. Compensated Absences

ESU No. 4 employees earn vacation leave, which may be taken or accumulated until paid. Upon termination, employees are paid for any unused vacation leave. Unused sick leave may accumulate for up to seventy days but is not paid upon termination or retirement.

As a result of the use of the cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

K. Property Taxes

The tax levied for all political subdivisions in each county are certified by the County Board on or before October 15. Real estate and personal property taxes are due and payable on December 31. One-half of the taxes due on December 31 shall become delinquent on May 1 and the second half on September 1 following the date the taxes become due, except that in counties having a population of more than one hundred thousand, the first half shall become delinquent April 1 and the second half August 1 following the date the taxes become due. Delinquent taxes bear a statutory rate (currently 14%) of interest. Property taxes levied are recognized when received from each county.

L. Fund Balance

ESU No. 4 adopted Governmental Accounting Standards Board No. 54 (GASB 54) “*Fund Balance Reporting and Governmental Fund Type Definitions*” as of and for the year ended June 30, 2016. In accordance with GASB 54, ESU No. 4 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 that 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. 4’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. 4 is to first spend committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made. ESU No. 4 does not have a formal minimum fund balance policy.

EDUCATIONAL SERVICE UNIT NO. 4

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

M. Risk Management

ESU No. 4 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. ESU No. 4 has purchased commercial insurance to offset these certain risks. No significant reductions in insurance coverage have occurred during the fiscal year ending June 30, 2016. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

2. **Cash and Investments**

Funds held by ESU No. 4 generally are deposited in interest-bearing checking accounts and certificates of deposit. Other investments ESU No. 4 is authorized to invest funds in are enumerated in Neb. Rev. Stat. § 77-2341 (Reissue 2009) and generally include U.S. Government obligations and securities in which the State Board of Educational Lands and Funds is authorized to invest the educational funds of the State.

The credit risk classifications and the amounts on deposit or invested by ESU No. 4 are shown below. Credit risk classifications for deposits are:

- A. Insured by the Federal Deposit Insurance Corporation (FDIC).
- B. Collateralized with securities held by the pledging bank in the ESU No. 4's name.
- C. Uncollateralized.

The carrying amount of ESU No. 4 deposits with financial institutions was \$5,457,966 and the book balance was \$5,428,099 as of June 30, 2016. The bank balance is categorized as follows:

Amounts insured by FDIC	\$ 314,986
Amounts collateralized with securities held by the pledging financial institution's trust department in the ESU No. 4's name	<u>5,142,980</u>
Total bank balance	<u>\$ 5,457,966</u>

In accordance with Neb. Rev. Stat. § 77-2395(1) (Reissue 2009), the ESU No. 4 is required to insure or guarantee the amount in excess of the FDIC coverage by at least 102% of the amount on deposit. At June 30, 2016, the ESU No. 4 was only collateralized 101%.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Cafeteria Plan

ESU No. 4 provides for a qualifying 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 Cafeteria Plan be includable and excludable from the employee's income under Section 125(a) and other applicable sections of the Internal Revenue Code of 1986, as amended. At June 30, 2016, ESU No. 4 had collected \$5,744 more than it paid out, this is due to timing differences between when expenses are submitted and paid. ESU No. 4 maintains a separate checking account to pay these claims, and this account had a balance of \$23,644, which is included in Cash in Bank – General in the Statement of Net Position – Cash Basis. Employees have the ability to claim reimbursements of qualified expenses of \$5,205 as of June 30, 2016.

4. Retirement Plan

A. Plan Description

The ESU No. 4 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.

In 1945, the Nebraska Legislature enacted the law establishing a retirement plan for school employees of the State. During the NPERS fiscal year ended June 30, 2015, there were 266 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plans (Class V school districts, Nebraska State Colleges, University of Nebraska, Community Colleges), are members of the plan.

Normal retirement is at age 65. The monthly benefit is equal to the greater of the following: 1) the sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to \$3.50 per year of service; or 2) the average of the three 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor of two percent, and an actuarial factor based on age.

For an employee who became a member on or after July 1, 2013, the monthly benefit is equal to the greater of the following: 1) the sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to \$3.50 per year of service; or 2) the average of the five 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor of two percent, and an actuarial factor based on age.

EDUCATIONAL SERVICE UNIT NO. 4

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. **Retirement Plan** (Continued)

Benefit calculations vary with early retirement. Employees' benefits are vested after five years of plan participation or when termination occurs at age 65 or later.

For school employees who became members prior to July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost of living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit.

For school employees who became members on or after July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent.

For ESU No. 4 year ended June 30, 2016, the ESU No. 4's total payroll for all employees was \$3,104,435. Total covered payroll was \$3,081,416. Covered payroll refers to all compensation paid by ESU No. 4 to active employees covered by the Plan.

B. Contributions

The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to two percent of the compensation of all members. This contribution is considered a non-employer contribution since school employees are not employees of the State. The employee contribution was equal to 9.78 percent from July 1, 2014 to June 30, 2015, (and from July 1, 2015, through June 30, 2016). The school district (employer) contribution is 101 percent of the employee contribution. The ESU No. 4's contribution to the Plan for its year ended June 30, 2016 was \$304,376.

C. Pension Liabilities

At June 30, 2015, the ESU No. 4 had a liability of \$1,511,741 for its proportionate share of the net pension liability. (This liability is not recorded in the accompanying cash basis financial statements.) The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined using an actuarial valuation as of that date. The NPERS School Plan was 89.88% funded as of June 30, 2015 based on actuarial calculations comparing total pension liability to the plan fiduciary net position. The ESU No. 4's proportion of the net pension liability was based on a projection of the ESU No. 4's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the ESU No. 4's proportion was 0.138807 percent, which was a decrease of 0.006904 percent from its proportion measured as of June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Retirement Plan (Continued)

For the year ended June 30, 2015, the ESU No. 4’s allocated pension income was \$35,974.

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Investment rate of return, net of investment expense and including inflation	8.0%
Projected salary increased, including wage inflation	4.0% – 9.0%
Cost-of Living Adjustments (COLA)	2.50% with a floor benefit equal to 75% purchasing power of original benefit.*

*1% and no floor benefit for members joining on or after July 1, 2013.

The School Plan’s pre-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set back one year (sex distinct with 55 percent of male rates for males and 40 percent of female rates for females).

The School Plan’s post-retirement rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using Scale AA, set-back one year (sex distinct).

The School Plan’s disability mortality rates were based on the 1983 Railroad Retirement Board Disabled Annuitants Mortality (unisex).

The actuarial assumptions used in the July 1, 2015, valuations for the School plan is based on the results of the most recent actuarial experience study, which covered the five year period ending June 30, 2011. The experience study report is dated August 20, 2012. A new experience study has been completed and adopted by the Public Employees Retirement Board (PERB) in October 2016. The new actuarial assumptions will be reflected in the 2017 actuarial valuation.

The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The return assumptions were developed using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Retirement Plan (Continued)

future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plans' target asset allocation as of first quarter 2016, (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real rate of Return
U.S. Stocks	29.0%	4.4%
Non-U.S. Stocks	13.5%	5.2%
Global Stocks	15.0%	4.8%
Fixed Income	30.0%	2.1%
Real Estate	7.5%	4.4%
Private Equity	5.0%	6.7%
Total	100%	

E. Discount Rate

The discount rate used to measure the Total Pension Liability at both June 30, 2014, and June 30, 2015, was 8 percent. The discount rate is reviewed as part of the actuarial experience study, which was last performed for the period July 1, 2006, through June 30, 2011. The actuarial experience study is reviewed by the NPERS Board, which must vote to change the discount rate. A new experience study has been completed and adopted by the PERB in October 2016. The new actuarial assumptions will be reflected in the 2017 actuarial valuation.

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and contributions from employers and non-employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability. The projected future benefit payments for all current plan members were projected through 2114.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Retirement Plan (Concluded)

F. Sensitivity of the ESU No. 4's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the ESU No. 4's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the ESU No. 4's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	<u>Discount rate</u>	<u>ESU No. 4's proportionate share of net pension liability</u>
1% decrease	7.0%	\$ 3,432,500
Current discount rate	8.0%	\$ 1,511,741
1% increase	9.0%	\$ (85,511)

G. Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued Nebraska Public Employees Retirement Systems Plan financial report. NPERS issues a publicly available financial report that includes financial statements and required supplementary information for NPERS. That report may be obtained by writing the NPERS, P.O. Box 94816, Lincoln, NE 68509-4816, by calling 1-800-245-5712 or via the internet at: http://www.auditors.nebraska.gov/APA_Reports

5. Unemployment Compensation Insurance

ESU No. 4 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. 4 is then liable to reimburse the State the actual amount of the claim.

6. Commitments

ESU No. 4 leases various office equipment, which expire on various dates. The total future minimum annual lease payments under the operating lease agreements are as follows:

EDUCATIONAL SERVICE UNIT NO. 4

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. **Commitments** (Concluded)

Year Ending June 30	Copy Machine	Postage Meter
2017	\$ 684	\$ 12,874
2018	\$ -	\$ 12,874
2019	\$ -	\$ 12,874
2020	\$ -	\$ 12,874

Total lease expenses were \$16,969.

ESU No. 4 entered into a contract with NDE to take over the operations effective July 1, 1999, of the Nebraska Center for the Education of Children Who Are Blind or Visually Impaired (NCECBVI). The contract is for two years and is renewable on a bi-annual basis and was last renewed through the year ended June 30, 2017.

7. **Budgets and Budgetary Accounting**

ESU No. 4 follows these procedures in establishing the budgetary data reflected in the schedules in accordance with the statutory requirements of the Nebraska Budget Act.

- A. The ESU Board prepares a budget for the operation and maintenance of the ESU for the ensuing year. This budget itemizes the contemplated expenditures and the expected revenue from taxation; available Federal, State, and county sources; contractual services provided to school districts; and all other agencies and sources.
- B. At least one public hearing must be held by the ESU Board.
- C. After the adoption of its budget statement, the ESU may levy a tax in an amount required to be received from taxation under its adopted budget not to exceed one and five-tenths cents on each one hundred dollars on the actual valuation of all taxable property within its geographical area. The levy is to be certified to each county board of equalization within its geographical area by September 20 of each year.
- D. The ESU may exceed the general levy limit of one and five-tenths cents based on approval from the Board for the payment of bond indebtedness and/or for construction costs.
- E. The ESU is authorized to transfer budgeted amounts between departments within any fund through resolution; however, revisions that alter the total expenditures of any fund require that an additional public hearing be held.

EDUCATIONAL SERVICE UNIT NO. 4

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

8. Non-Program Contract Services (NCECBVI)

ESU No. 4 contracted with NDE to operate the NCECBVI. The NDE administers trust funds held for the benefit of NCECBVI and will disburse funds from these trusts. ESU No. 4 has no control or ownership of these trust funds but will submit requests for expenditures to the NDE. The NDE has disbursed \$84,110 directly to third parties during fiscal year 2016, for staffing, services, improvements to property and equipment. The ownership of this property and equipment remains with the NDE. These transactions are not recorded on the financial statements of ESU No. 4.

9. Restatement

The Budgetary Comparison Schedule – Cash Basis – General Fund beginning balance was decreased by \$825,000 to reflect the proper prior year ending balance. The fiscal year ended June 30, 2015, audited schedule included the Depreciation Fund balance.

EDUCATIONAL SERVICE UNIT NO. 4
BUDGETARY COMPARISON SCHEDULE -
BUDGET AND ACTUAL - CASH BASIS
TOTAL FUND BALANCE

For the Year Ended June 30, 2016

	Actual	Original & Final Budget	Variance with Budget Favorable (Unfavorable)
RECEIPTS			
Program:			
Property Taxes	\$ 966,321	\$ 994,759	\$ (28,438)
Federal Grants	351,131	608,300	(257,169)
Local			
Interest	13,234	4,000	9,234
Special Education Contract	1,504,354	-	1,504,354
Core Services	213,709	213,700	9
Flow Thru Services	348,989	180,000	168,989
Other Local Income	51,534	61,500	(9,966)
Total Program Receipts	<u>3,449,272</u>	<u>2,062,259</u>	<u>1,387,013</u>
Non-Program:			
Contracted Services (NCECBVI)	1,964,811	1,928,520	36,291
Tuition (NCECBVI)	702,141	710,000	(7,859)
Total Non-Program Receipts	<u>2,666,952</u>	<u>2,638,520</u>	<u>28,432</u>
TOTAL RECEIPTS	<u>6,116,224</u>	<u>4,700,779</u>	<u>1,415,445</u>
DISBURSEMENTS			
Program:			
Special Education Services	1,574,516	1,717,380	142,864
Student Health Services	125,547	129,740	4,193
Staff Development	445,080	496,250	51,170
Core Services	-	1,500	1,500
Production Services	34,680	41,200	6,520
Media/Telecomputing Service	24,754	42,000	17,246
Distance Learning	10,321	57,500	47,179
Board of Education	234,177	251,840	17,663
Administration	252,773	282,280	29,507
Building and Sites	-	5,000	5,000
Van Delivery Services	24,756	25,490	734
Operation and Maintenance of Plant	68,375	67,750	(625)
Data Processing	54,429	61,190	6,761
Technology Support	102,974	113,710	10,736
Cost of Flow Thru Services	370,006	142,190	(227,816)
Federal Grants	276,657	605,300	328,643
Total Program Disbursements	<u>3,599,045</u>	<u>4,040,320</u>	<u>441,275</u>

EDUCATIONAL SERVICE UNIT NO. 4
BUDGETARY COMPARISON SCHEDULE -
BUDGET AND ACTUAL - CASH BASIS
TOTAL FUND BALANCE
For the Year Ended June 30, 2016

	Actual	Original & Final Budget	Variance with Budget Favorable (Unfavorable)
DISBURSEMENTS (Continued)			
Non-Program:			
Cooperative Purchasing	-	7,840	7,840
Contracted Services (NCECBVI)	2,599,664	3,084,495	484,831
Total Non-Program Disbursements	<u>2,599,664</u>	<u>3,092,335</u>	<u>492,671</u>
TOTAL DISBURSEMENTS	<u>6,198,709</u>	<u>7,132,655</u>	<u>933,946</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>(82,485)</u>	<u>(2,431,876)</u>	<u>2,349,391</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	175,000	175,000	-
Transfers out	(175,000)	(175,000)	-
Sale of Property	1,850	4,000	(2,150)
Miscellaneous	18,627	4,000	14,627
SOURCES (USES)	<u>20,477</u>	<u>8,000</u>	<u>12,477</u>
Net Change in Fund Balances	(62,008)	(2,423,876)	2,361,868
CASH BASIS FUND BALANCES - BEGINNING	<u>5,499,031</u>	<u>5,499,031</u>	<u>-</u>
CASH BASIS FUND BALANCES - ENDING	<u>\$ 5,437,023</u>	<u>\$ 3,075,155</u>	<u>\$ 2,361,868</u>

(Concluded)

EDUCATIONAL SERVICE UNIT NO. 4
BUDGETARY COMPARISON SCHEDULE -
BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND BALANCE
For the Year Ended June 30, 2016

	Actual	Original & Final Budget	Variance with Budget Favorable (Unfavorable)
RECEIPTS			
Program:			
Property Taxes	\$ 966,321	\$ 994,759	\$ (28,438)
Federal Grants	351,131	608,300	(257,169)
Local			
Interest	11,125	4,000	7,125
Special Education Contract	1,504,354	-	1,504,354
Core Services	213,709	213,700	9
Flow Thru Services	348,989	180,000	168,989
Other Local Income	51,534	61,500	(9,966)
Total Program Receipts	<u>3,447,163</u>	<u>2,062,259</u>	<u>1,384,904</u>
Non-Program:			
Contracted Services (NCECBVI)	1,964,811	1,928,520	36,291
Tuition (NCECBVI)	702,141	710,000	(7,859)
Total Non-Program Receipts	<u>2,666,952</u>	<u>2,638,520</u>	<u>28,432</u>
TOTAL RECEIPTS	<u>6,114,115</u>	<u>4,700,779</u>	<u>1,413,336</u>
DISBURSEMENTS			
Program:			
Special Education Services	1,574,516	1,717,380	142,864
Student Health Services	125,547	129,740	4,193
Staff Development	445,080	496,250	51,170
Core Services	-	1,500	1,500
Production Services	34,680	41,200	6,520
Media/Telecomputing Service	24,754	42,000	17,246
Distance Learning	10,321	57,500	47,179
Board of Education	234,177	251,840	17,663
Administration	252,773	282,280	29,507
Building and Sites	-	5,000	5,000
Van Delivery Services	24,756	25,490	734
Operation and Maintenance of Plant	68,375	67,750	(625)
Data Processing	54,429	61,190	6,761
Technology Support	102,974	113,710	10,736
Cost of Flow Thru Services	370,006	142,190	(227,816)
Federal Grants	276,657	605,300	328,643
Total Program Disbursements	<u>3,599,045</u>	<u>4,040,320</u>	<u>441,275</u>

EDUCATIONAL SERVICE UNIT NO. 4
BUDGETARY COMPARISON SCHEDULE -
BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND BALANCE
For the Year Ended June 30, 2016

	<u>Actual</u>	<u>Original & Final Budget</u>	Variance with Budget Favorable (Unfavorable)
DISBURSEMENTS (Continued)			
Non-Program:			
Cooperative Purchasing	-	7,840	7,840
Contracted Services (NCECBVI)	<u>2,599,664</u>	<u>3,084,495</u>	<u>484,831</u>
Total Non-Program Disbursements	<u>2,599,664</u>	<u>3,092,335</u>	<u>492,671</u>
TOTAL DISBURSEMENTS	<u>6,198,709</u>	<u>7,132,655</u>	<u>933,946</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>(84,594)</u>	<u>(2,431,876)</u>	<u>2,347,282</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(175,000)	(175,000)	-
Sale of Property	1,850	4,000	(2,150)
Miscellaneous	<u>18,627</u>	<u>4,000</u>	<u>14,627</u>
SOURCES (USES)	<u>(154,523)</u>	<u>(167,000)</u>	<u>12,477</u>
Net Change in Fund Balances	(239,117)	(2,598,876)	2,359,759
CASH BASIS FUND BALANCES - BEGINNING	<u>4,674,031</u>	<u>4,674,031</u>	<u>-</u>
CASH BASIS FUND BALANCES - ENDING	<u>\$ 4,434,914</u>	<u>\$ 2,075,155</u>	<u>\$ 2,359,759</u>

(Concluded)

EDUCATIONAL SERVICE UNIT NO. 4
BUDGETARY COMPARISON SCHEDULE -
BUDGET AND ACTUAL - CASH BASIS
DEPRECIATION FUND BALANCE
 For the Year Ended June 30, 2016

	Actual	Original & Final Budget	Variance with Budget Favorable (Unfavorable)
RECEIPTS			
Program:			
Local			
Interest	\$ 2,109	\$ -	\$ 2,109
TOTAL RECEIPTS	<u>2,109</u>	<u>-</u>	<u>2,109</u>
OTHER FINANCING			
SOURCES (USES)			
Transfers in	<u>175,000</u>	<u>175,000</u>	<u>-</u>
Net Change in Fund Balances	177,109	175,000	2,109
CASH BASIS FUND			
BALANCES - BEGINNING	<u>825,000</u>	<u>825,000</u>	<u>-</u>
CASH BASIS FUND			
BALANCES - ENDING	<u><u>\$ 1,002,109</u></u>	<u><u>\$ 1,000,000</u></u>	<u><u>\$ 2,109</u></u>



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EDUCATIONAL SERVICE UNIT NO. 4

**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. 4
Auburn, 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 and each major fund of the Educational Service Unit No. 4, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Educational Service Unit No. 4's basic financial statements, and have issued our report thereon dated December 12, 2016. The report notes the financial statements were prepared on a cash basis of accounting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Educational Service Unit No. 4'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 the Educational Service Unit No. 4's internal control. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Unit No. 4'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 the Educational Service Unit No. 4'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. We did identify certain deficiencies in internal control that we consider to be significant deficiencies that are described in the Comments Section of the report: Comment Number 1 (Accounting Issues), Comment Number 2 (Lack of Internal Controls and Board Policies), Comment Number 5 (Lack of Documentation), Comment Number 6 (Contract Issues), and Comment Number 8 (Payroll Issues).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Educational Service Unit No. 4'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*.

Additional items

We also noted certain additional items that we reported to management of the Educational Service Unit No. 4 in the Comments Section of this report as Comment Number 3 (Related Party Transactions), Comment Number 4 (Budgeted Cash Reserve Exceeded Limitation), Comment Number 7 (Unallowable Federal Charges), Comment Number 9 (Travel Reimbursements), and Comment Number 10 (Insufficient Pledged Collateral).

Educational Service Unit No. 4's Response to Findings

The Educational Service Unit No. 4's response to the findings identified in our audit are described in the Comments Section of the report. Educational Service Unit No. 4's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, not to provide an opinion on the effectiveness of the Educational Service Unit No. 4's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Unit No. 4's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

December 12, 2016



Pat Reding, CPA
Assistant Deputy Auditor