

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 3**

SEPTEMBER 1, 2016, THROUGH AUGUST 31, 2017

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on November 17, 2017

EDUCATIONAL SERVICE UNIT NO. 3

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Key Officials and Agency Contact Information	1
Financial Section	
Independent Auditor’s Report	2 - 4
Management’s Discussion and Analysis	5 - 8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position – Modified Cash Basis	9
Statement of Activities – Modified Cash Basis	10
Fund Financial Statements:	
Statement of Modified Cash Basis Assets, Liabilities, and Fund Balance – Governmental Funds	11
Statement of Receipts, Disbursements, and Changes in Modified Cash Basis Fund Balance – Governmental Funds	12
Notes to the Financial Statements	13 - 19
Supplementary and Other Information:	
Schedule of Eliminating Entries – General Fund	20
Schedule of Receipts, Disbursements, and Changes in Modified Cash Basis Fund Balance – Budget and Actual – General Fund	21
Notes to the Budgetary and Actual Information	22
Schedule of Expenditures of Federal Awards	23
Notes to the Schedule of Expenditures of Federal Awards	24
Government Auditing Standards Section	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 - 26
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	27 - 29
Schedule of Findings and Questioned Costs	30 - 34

EDUCATIONAL SERVICE UNIT NO. 3

KEY OFFICIALS AND CONTACT INFORMATION

Board Members

Name	Title
Ron E. Pearson	President
Stuart Dornan	Vice President
Dennis Wilkins	Board Secretary
Alan Moore	Board Member
Barb Grabowski Coleman	Board Member
Mary Scarborough	Board Member
Brett Kuhn	Board Member
Phil Wright	Board Member

Educational Service Unit No. 3 Executive Management

Name	Title
Dr. Dan Schnoes	Administrator
Jan Glenn	Business Services Director

Educational Service Unit No. 3
6949 S 110 St.
La Vista, NE 68128
www.esu3.org



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

EDUCATIONAL SERVICE UNIT NO. 3

INDEPENDENT AUDITOR'S REPORT

Educational Service Unit No. 3 Board
La Vista, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the blended component unit, the major fund, and the aggregate remaining fund information of Educational Service Unit No. 3 (ESU No. 3), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise ESU No. 3'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 modified cash basis of accounting described in Note 1; this includes determining that the modified 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. 3's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the blended component unit, the major fund, and the aggregate remaining fund information of ESU No. 3, as of August 31, 2017, and the respective changes in financial position thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

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 modified 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 and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise ESU No. 3's basic financial statements. The Management Discussion and Analysis, Schedule of Eliminating Entries – General Fund, and the Schedule of Receipts, Disbursements, and Changes in Modified Cash Basis Fund Balance – Budget and Actual – General Fund, on pages 5-8 and 20-21, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, on page 23, is required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Eliminating Entries – General Fund 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 Eliminating Entries – General Fund 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.

The Management Discussion and Analysis and the Schedule of Receipts, Disbursements and Changes in Modified Cash basis Fund Balance – Budget and Actual – General Fund have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2017, on our consideration of ESU No. 3'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. 3's internal control over financial reporting and compliance.

November 16, 2017



Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

EDUCATIONAL SERVICE UNIT NO. 3

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Educational Service Unit No. 3's (ESU No. 3) annual audit report presents our discussion and analysis of the Service Unit's financial performance during the fiscal year that ended on August 31, 2017. Please read it in conjunction with the Service Unit's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

ESU No. 3 utilizes the provisions of Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 established standards for external financial reporting for all State and local government entities, which include government-wide financial statements, fund financial statements, and the classification of net assets into the following components: restricted and unrestricted.

This annual report consists of three parts: (1) Management's Discussion and Analysis (this section); (2) Basic Financial Statements; and (3) Supplementary Schedules.

The accompanying basic financial statements have been prepared on the modified cash basis of accounting. Accordingly, the financial statements and supplementary schedules are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in United States of America. The use of the modified cash basis of accounting is permissible under Title 92, Nebraska Administrative Code, Chapter 2, for service units such as ESU No. 3.

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component unit (Educational Service Unit No. 3 Foundation). 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.

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 not included among program revenues are reported instead as general receipts.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data about the financial statements and ESU No. 3's commitments, contingencies, and long-term debt obligations that are not reported in the cash basis financial statements. The notes are followed by a section of Supplementary and Other Information that further explain and support the information in the financial statements.

EDUCATIONAL SERVICE UNIT NO. 3

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL HIGHLIGHTS

ESU No. 3's fund balance, as compared with the prior fiscal year, increased by \$1,315,955.

ESU No. 3 received \$19,175,087 in receipts for 2016-2017. This was an increase of \$572,482 from 2015-2016.

ESU No. 3 expended \$17,859,092 in 2016-2017. This was a decrease of \$2,081,277 from 2015-2016.

During 2016-2017, ESU No. 3's receipts of \$19,175,087 were \$1,315,995 greater than the disbursements of \$17,859,092.

The 2016-2017 certified taxable value of \$39,119,892,903 was an increase of 5.27% from the 2015-2016 certified value of \$37,160,222,456.

Core service funds received in 2016-2017 by ESU No. 3 of \$3,865,217 were an increase of \$198,133 or 5.40% from 2015-2016.

ESU No. 3's total net position was \$9,575,410 at August 31, 2017, and \$8,259,415 at August 31, 2016.

	<u>FY 2017</u>	<u>FY 2016</u>
Total Assets	<u>9,729,191</u>	<u>8,389,447</u>
Liabilities	<u>153,781</u>	<u>130,032</u>
Net Position		
Unrestricted	<u>9,575,410</u>	<u>8,259,415</u>
Total Net Position and Liabilities	<u>9,729,191</u>	<u>8,389,447</u>

The results of this year's operation as a whole are reported in the statement of activities and net position on pages 9 and 10. All disbursements are reported in the first column. Specific charges, grants, receipts, and subsidies that directly relate to specific disbursement categories are represented to determine the final amount of ESU No. 3's activities that are supported by general receipts.

EDUCATIONAL SERVICE UNIT NO. 3

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL HIGHLIGHTS (Concluded)

Below is information from that statement, rearranged slightly, so you can see our total receipts for the year.

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
RECEIPTS		
Receipts		
Local	13,291,939	12,027,013
County		
State	4,783,257	5,625,703
Federal	1,079,460	942,768
Non-Revenue	<u>20,431</u>	<u>7,121</u>
Total Receipts	<u>19,175,087</u>	<u>18,602,605</u>
 DISBURSEMENTS		
Regular Instruction	942,593	462,840
Special Education & Student Services	4,707,236	5,171,727
Support Services	679,035	491,316
General Administration & Operation	2,341,851	1,852,415
State Funded Programs	8,058,849	11,017,142
Federally Funded Programs	1,117,940	932,577
Fundraising	<u>11,588</u>	<u>12,352</u>
Total Disbursements	<u>17,859,092</u>	<u>19,940,369</u>
 Change In Net Position - Modified Cash Basis	1,315,995	(1,337,764)
 Net Position - Modified Cash Basis, Beginning	<u>8,259,415</u>	<u>9,597,179</u>
 Net Position - Modified Cash Basis, Ending	<u>9,575,410</u>	<u>8,259,415</u>

EDUCATIONAL SERVICE UNIT NO. 3

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Governmental Activities

ESU No. 3 serves 18 school districts located within six (6) counties.

ESU No. 3 receives funding from several sources. Those sources include property tax, core service funds, grants (Federal and State funding), and reimbursements from our member school districts. Educational service units are limited to a 1.5-cent levy on the General Fund based on certified valuation. The certified valuation for 2016-2017 was \$39,119,892,903. In 2015-2016, the Service Unit's assessed valuation was \$37,160,222,456.

General Fund Budgetary Highlights

Over the course of the 2016-2017 fiscal year, the fund balance of ESU No. 3's General Fund increased \$1,298,453 to \$9,507,586.

The total budget for 2016-2017 was \$24,460,490, of which 72.96% of that budget was expended.

In preparing for 2017-2018, the budgeted core service funding will increase \$287,711, for total funding of \$4,152,928. The certified valuation will increase 4.84%, bringing the total valuation for 2017-2018 to \$41,011,668,169.

EDUCATIONAL SERVICE UNIT NO. 3
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
August 31, 2017

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 9,383,851
Cash at County Treasurer	345,340
Total Assets	9,729,191
Liabilities:	
Accrued Expenses and Encumbrances	153,426
Sales Tax Payable	355
Total Liabilities	153,781
Net Position:	
Unrestricted	\$ 9,575,410

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

EDUCATIONAL SERVICE UNIT NO. 3
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended August 31, 2017

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements)/ Receipt and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
Regular Instruction	\$ 942,593	\$ 760,976	\$ -	\$ (181,617)
Special Education & Student Services	4,707,236	5,547,763	-	840,527
Support Services	679,035	470,854	-	(208,181)
General Administration & Operation	2,341,851	364,795	-	(1,977,056)
State Funded Programs	8,058,849	132,028	918,040	(7,008,781)
Federally Funded Programs	1,117,940	-	1,079,460	(38,480)
Fundraising	11,588	-	29,130	17,542
Total Governmental Activities	\$ 17,859,092	\$ 7,276,416	\$ 2,026,630	(8,556,046)
General Receipts:				
Property Taxes				5,849,364
State Aid for Core Services and Technology				3,865,217
Other				157,460
Total General Receipts				<u>9,872,041</u>
Change in Net Position				1,315,995
Net Position - Beginning of Year				<u>8,259,415</u>
Net Position - Ending of Year				<u><u>\$ 9,575,410</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 3
**STATEMENT OF MODIFIED CASH BASIS ASSETS,
LIABILITIES, AND FUND BALANCE**
GOVERNMENTAL FUNDS
August 31, 2017

	General Fund	Nonmajor Fund Educational Foundation	Total Governmental Funds
ASSETS			
Cash	\$ 9,315,614	\$ 68,237	\$ 9,383,851
Cash held by County Treasurers	345,340	-	345,340
Due from Educational Foundation	315	-	315
Total Assets	9,661,269	68,237	9,729,506
LIABILITIES			
Payroll Withholdings	153,426	-	153,426
Due to General Fund	-	315	315
Sales Tax Payable	257	98	355
Total Liabilities	153,683	413	154,096
FUND BALANCE			
Assigned			
Student Enrichment	-	67,824	67,824
Capital Projects and Building Fund	2,900,593	-	2,900,593
Department Activities	1,608,600	-	1,608,600
Unassigned			
Cash Reserves	5,300,000	-	5,300,000
Liabilities, August Tax Receipts, and Remaining Funds	(301,607)	-	(301,607)
Total Fund Balances	9,507,586	67,824	9,575,410
Total Fund Balances and Liabilities	\$ 9,661,269	\$ 68,237	\$ 9,729,506

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

EDUCATIONAL SERVICE UNIT NO. 3
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN MODIFIED CASH BASIS FUND BALANCE
GOVERNMENTAL FUNDS

For the Fiscal Year Ended August 31, 2017

	General Fund	Nonmajor Fund Educational Foundation	Total Governmental Funds
RECEIPTS			
Local			
Taxes	\$ 5,849,364	\$ -	\$ 5,849,364
Charges for Services	7,276,416	-	7,276,416
Miscellaneous	137,029	29,130	166,159
State	4,783,257	-	4,783,257
Federal	1,079,460	-	1,079,460
Non-Revenue	20,431	-	20,431
Total Receipts	19,145,957	29,130	19,175,087
DISBURSEMENTS			
Current:			
Regular Instruction	942,593	-	942,593
Special Education & Student Services	4,707,236	-	4,707,236
Support Services	679,035	-	679,035
General Administration & Operation	2,341,851	-	2,341,851
State Funded Programs	8,058,849	-	8,058,849
Federal Funded Programs	1,117,940	-	1,117,940
Fundraising	-	11,588	11,588
Total Disbursements	17,847,504	11,588	17,859,092
Excess of Receipts Over Disbursements	1,298,453	17,542	1,315,995
Modified Cash Basis Fund Balance - Beginning	8,209,133	50,282	8,259,415
Modified Cash Basis Fund Balance - Ending	\$ 9,507,586	\$ 67,824	\$ 9,575,410

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended August 31, 2017

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies of Educational Service Unit No. 3 (ESU No. 3), La Vista, Nebraska.

ESU No. 3 is a governmental entity established under and governed by the laws of the State of Nebraska and administrative regulations of the Nebraska Department of Education. ESU No. 3 serves as an educational service provider to its member school districts.

B. Reporting Entity

ESU No. 3 has given consideration to potential component units for which it is financially accountable. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of the organization's governing body and the ability of ESU No. 3 to impose its will on that organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 3. As required by accounting principles generally accepted in the United States of America, these financial statements present ESU No. 3 (the primary government and its component units). The component units are included in ESU No. 3's reporting entity because of the significance of their operational or financial relationships. The associated entities over which ESU No. 3 is considered to be financially accountable are included in ESU No. 3's financial statements and are described below.

The component units are legally separate entities from ESU No. 3, but they are so intertwined with ESU No. 3 that they are, in substance, the same as ESU No. 3. They are reported as a part of ESU No. 3 and are blended into the appropriate funds.

ESU No. 3 Building Corporation was incorporated in August 1975 as a nonprofit corporation that exists for the purpose of issuing bonds for the acquisition or construction of facilities, which are in turn leased to ESU No. 3. Lease payments by ESU No. 3 correspond to principal and interest requirements on the bonds. There was no activity of the ESU No. 3 Building Corporation during the fiscal year.

ESU No. 3 Educational Foundation (Foundation) was incorporated in October 2007 as a nonprofit corporation that exists for the purpose of expanding the educational needs of special needs children through solicited donations.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

C. Budget Process and Property Taxes

ESU No. 3 is required by state law to hold public hearings and adopt annual budgets for all funds on the cash basis of accounting. Total expenditures for each fund may not exceed the total budgeted expenditures. The General Fund is also subject to a total non-special education expenditure limit. Appropriations for expenditures lapse at year-end. Any revisions to the adopted budget of total expenditures to any fund require a public hearing. 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.

The property tax requirement resulting from the budget process is utilized to establish the tax levy in accordance with State statutes, which tax levy attaches as an enforceable lien on property within the District as of January 1. Taxes are due as of that date. For counties with a population of less than one hundred thousand, one half of the real estate taxes due January 1, become delinquent after the following May 1, with the second half becoming delinquent after September 1. For counties with a population greater than one-hundred thousand, the first half of real estate taxes shall become delinquent April 1, and the second half after August 1.

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements. The Statement of Net Position and Statement of Activities display information about the activities of ESU No. 3 and are in the format of government-wide statements, as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of ESU No. 3 and its component units. ESU No. 3 reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in two categories:

Restricted. This category results when constraints are externally imposed on net asset use by creditors, grantors, or contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted. This category represents resources that do not meet the definition of the preceding category. Unrestricted resources often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues 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 revenues include all other revenues properly not included as program revenues. ESU No. 3 reported the following general revenues: Property Taxes and State Aid for Core Services and Technology.

Fund Financial Statements. The fund financial statements provide information about ESU No. 3's funds, including its blended component units. ESU No. 3 has only the Governmental Fund category. The emphasis of fund financial statements is on the major Governmental Fund.

General Fund. This is ESU No. 3's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

ESU No. 3 also presents its component unit, ESU No. 3 Educational Foundation Fund, as a nonmajor fund.

Educational Foundation Fund. This fund is used to account for resources being used to develop the purpose of the foundation.

ESU No. 3 designates fund balances as follows:

Assigned. The fund balance has been constrained by ESU No. 3 for a specific purpose, but it is neither restricted nor committed.

Unassigned. Those funds that are not restricted, committed, or assigned for a specific purpose.

E. Measurement Focus, Basis of Accounting

ESU No. 3 prepares its financial statements on the modified cash basis, which is in conformity with the accounting practices prescribed or permitted by the State of Nebraska Department of Education; consequently, these statements represent a summary of the modified cash activity of the various funds of ESU No. 3 and do not include certain transactions that would be included if ESU No. 3 prepared its financial statements in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units. Under the modified 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 accounting principles generally accepted in the United States of America, as applicable to governmental units.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Taxes and other revenues collected by the county treasurers are included in revenues of ESU No. 3 in the year collected by the counties, and ESU No. 3 funds held by the county treasurers at year-end are included as assets of ESU No. 3. This is in accordance with the requirements of the State of Nebraska Department of Education.

F. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments, such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at August 31, 2017, approximates market. Banks pledge collateral, as required by law, to guarantee ESU No. 3 funds held in time and demand deposits.

G. Capital Assets

Capital assets are not recorded as assets on the government-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. Compensated Absences

Employees of ESU No. 3 earn paid vacation, sick days, and other time off depending on the length of service and position. ESU No. 3 maintains records of cumulative days of vacation and sick leave. Vacation is cumulative up to 30 days for directors and 20 days for all other full-time employees and payable upon termination. Sick leave is accrued at a rate of one day per month. Sick leave will be paid at \$65 per day up to a maximum of 30 days of unused sick leave for employees who have completed five consecutive years of employment. The dollar amount of accrued vacation is not readily determinable. ESU No. 3's policy is to recognize the costs of compensated absences when paid to employees.

I. Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at August 31, 2017, and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Deposits and Investments

For the following disclosures, deposits – including checking accounts, savings accounts, money market accounts, and certificates of deposit – are all classified as cash or cash and cash equivalents on the financial statements.

Custodial credit risk is the risk that, in the event of a bank failure, ESU No. 3’s deposits may not be returned to it. As of August 31, 2017, all of ESU No. 3’s deposits with financial institutions were fully insured or collateralized by securities held in ESU No. 3’s name in the form of joint safekeeping receipts. State law requires all funds in depositories to be fully insured or collateralized, and ESU No. 3’s policy is to require depositories to provide pledged securities to cover deposits in excess of FDIC limits.

Cash per the books of ESU No. 3, at August 31, 2017, consisted of the following:

Public funds NOW accounts	\$ 8,363,252
Liquid assets – NLAFF	992
Certificates of deposit – Pinnacle Bank	<u>1,019,607</u>
	<u>\$ 9,383,851</u>

The Nebraska Liquid Asset Fund (NLAFF) was established in March 1988 through the Interlocal Cooperation Act. NLAFF was established to assist Nebraska school districts, educational service units, and technical community colleges with the investment of their available cash reserves. Participation in the investment trust is voluntary for its members. The objective of NLAFF is to provide its owner-members with a conservative and effective investment alternative tailored to the needs of its members. NLAFF’s portfolio management generally follows established investment criteria developed by the Securities and Exchange Commission for money market funds designed to offer an acceptable yield while maintaining liquidity. NLAFF is not registered with the Securities and Exchange Commission (SEC) as an investment company. ESU No. 3 has \$992 invested with NLAFF as of August 31, 2017.

NLAFF’s short-term investment portfolio consists of cash and short-term investments valued at amortized cost, which is determined to approximate fair value due to the short-term nature of the instruments. This involves valuing a portfolio security at its original cost on the date of purchase and, thereafter, amortizing any premium or discount on the straight-line basis to maturity. The amount of premium or discount amortized to income under the straight-line method does not differ materially from the amount, which would be amortized to income under the interest method. Procedures are followed to maintain a constant net asset value of \$1 per unit in NLAFF.

3. Contingencies and Commitments

ESU No. 3 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. 3 has purchased commercial insurance to offset these certain risks. Settled claims have not significantly exceeded this commercial coverage in any of the past three fiscal years.

EDUCATIONAL SERVICE UNIT NO. 3

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. State Employees Retirement Plan (Plan)

The Retirement System for Nebraska Schools (Plan) is a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement Board (NPERB) in accordance with the provisions of the School Employees Retirement Act. The Plan's provisions are established under Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2014, Cum. Supp. 2016) and may be amended through legislative action.

Participation in the Plan is required of all regular full-time or part-time employees who work 20 or more hours per week.

ESU No. 3 employees contribute 9.78% of their total compensation. In addition, ESU No. 3 contributes an amount equal to 101% of the employee's contribution. The contribution rates are established by Neb. Rev. Stat. § 79-958 (Neb. Laws 2017, LB 415, § 33) and may be amended through legislative action. The employee's and employer's contributions are kept in separate accounts. The employee's account is fully vested. The employee is fully vested after five years of creditable service.

For the year ended August 31, 2017, ESU No. 3 employees contributed \$786,960, and ESU No. 3 contributed \$794,830.

5. Unemployment Compensation Insurance

ESU No. 3 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. 3 is obligated to reimburse to the State the amount of any claim.

ESU No. 3 has not established a reserve for this contingent liability. However, the expense is included as a line item on the budget each year, at an estimated amount based on factors including past experience.

6. Capital Assets

Capital asset activity for the year ended August 31, 2017, was as follows:

	September 1, 2016	Additions	Deletions	Reclassifications	August 31, 2017
Land	1,236,255	-	-	-	1,236,255
Buildings	8,202,371	450,610	-	387,347	9,040,328
Improvements Other Than Buildings	372,658	-	-	187,961	560,619
Leasehold Improvements	390,516	-	-	(390,516)	
Equipment	5,029,768	59,438	119,769	(184,792)	4,784,645
Total	<u>15,231,568</u>	<u>510,048</u>	<u>119,769</u>	<u>-</u>	<u>15,621,847</u>

EDUCATIONAL SERVICE UNIT NO. 3

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

6. Capital Assets (Concluded)

The reclassifications were made after review of ESU No. 3’s capital asset policies, which identified capital assets that should be reported differently.

The following is a summary of capital assets for the Foundation as of August 31, 2017:

	September 1, 2016	Additions	Deletions	Reclassifications	August 31, 2017
Buildings	55,918	-	-	-	55,918
Equipment	20,957	-	-	-	20,957
Total	76,875	-	-	-	76,875

7. Film Contracts on Yearly Basis

ESU No. 3 enters into a number of agreements for the duplication and streaming rights of films each year, the total cost of which fluctuates yearly. The cost is based on a percentage of the purchase price of each film. This percentage is determined by each vendor. ESU No. 3 can add or delete individual film titles, and the vendor can discontinue titles. The duplication and streaming rights cost is different each year, as the content of each film package is constantly changing. Due to the uncertain costs of these agreements from year to year, a schedule of duplication and streaming rights purchases is not included.

8. Co-op Purchasing

ESU No. 3 participates in a consolidated statewide program on behalf of school districts within the boundaries of ESU No. 3 for the purchase of administrative and instructional supplies, equipment, and personal property. This program is operated and administered by the Educational Service Unit Coordinating Council (ESUCC). Co-op revenues represent monies received from school districts included in charges for services. Co-op expenditures represent payments to the ESUCC.

9. Capital and Operating Leases

ESU No. 3 entered into a lease agreement in February 2014 for seven copier machines. The lease requires 36 monthly payments of \$1,790. ESU No. 3 exercised an option to purchase the equipment for one dollar at the end of the lease. The total amount of the capitalized lease included in property, plant, and equipment as of August 31, 2017, was \$61,080. In February 2017, this lease agreement was paid in full.

ESU No. 3 has an operating lease for a postage meter with an unrelated party. Rent expense for the operating lease for the year ended August 31, 2017, was \$734.

No future payments are required for these leases.

EDUCATIONAL SERVICE UNIT NO. 3
SCHEDULE OF ELIMINATING ENTRIES
GENERAL FUND

For the Fiscal Year Ended August 31, 2017

	ESU No. 3 Accounting System	Elimination for Interagency Activity	General Fund
RECEIPTS			
Local			
Taxes	\$ 5,849,364	\$ -	\$ 5,849,364
Charges for Services	7,276,416	-	7,276,416
Miscellaneous	137,029	-	137,029
State	4,783,257	-	4,783,257
Federal	1,079,460	-	1,079,460
Non-Revenue	245,843	(225,412)	20,431
Total Receipts	<u>19,371,369</u>	<u>(225,412)</u>	<u>19,145,957</u>
DISBURSEMENTS			
Current:			
Regular Instruction	942,593	-	942,593
Special Education & Student Services	4,707,236	-	4,707,236
Support Services	679,035	-	679,035
General Administration & Operation	2,567,263	(225,412)	2,341,851
State Funded Programs	8,058,849	-	8,058,849
Federal Funded Programs	1,117,940	-	1,117,940
Total Disbursements	<u>18,072,916</u>	<u>(225,412)</u>	<u>17,847,504</u>
Excess of Receipts Over Disbursements	<u>\$ 1,298,453</u>	<u>\$ -</u>	<u>\$ 1,298,453</u>

The eliminating entry above was made to reduce the interagency activity which was for building rent paid off by an ESU No. 3 Department over time.

EDUCATIONAL SERVICE UNIT NO. 3
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN MODIFIED CASH BASIS FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended August 31, 2017

	Budget (Original and Final)	Actual
Receipts:		
Local	\$ 18,396,745	\$ 13,262,809
State	4,685,275	4,783,257
Federal	1,375,695	1,079,460
Non-Revenue	2,775	20,431
Total Receipts	24,460,490	19,145,957
 Disbursements:		
Regular Instruction	1,186,960	942,593
Special Education & Student Services	6,774,898	4,707,236
Support Services	1,128,939	679,035
General Administration & Operation	4,578,008	2,341,851
State Funded Programs	9,364,684	8,058,849
Federal Funded Programs	1,427,001	1,117,940
Total Disbursements	24,460,490	17,847,504
 Excess of Receipts Over Disbursements		1,298,453
 Fund Balance, Beginning of Year		8,209,133
 Fund Balance, End of Year		\$ 9,507,586

EDUCATIONAL SERVICE UNIT NO. 3

NOTES TO THE BUDGETARY AND ACTUAL INFORMATION
For the Fiscal Year Ended August 31, 2017

BUDGETARY COMPARISON SCHEDULE

Basis of Accounting

The accompanying Schedule of Receipts, Disbursements, and Changes in Modified Cash Basis Fund Balance – Budget and Actual – General Fund is presented on the modified cash basis of accounting. This basis is consistent with the basis of accounting used in preparing the basic financial statements. All unexpended appropriations lapse at the end of the budget year.

Budget Law

ESU No. 3 is required by State law to hold public hearings and adopt annual budgets for all funds on the cash basis of accounting. Total expenditures for each fund may not exceed the total budgeted expenditures. The General Fund is also subject to a total non-special education expenditure limit. Appropriations for expenditures lapse at year-end. Any revisions to the adopted budget of total expenditures to any fund require a public hearing.

EDUCATIONAL SERVICE UNIT NO. 3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2017

Federal Grantor Pass-Through Grantor Program or Cluster Title	Pass Through Entity's Identifying Number	Federal CFDA Number	Expenditures
U.S. Department of Education:			
Passed through Nebraska Department of Education:			
Title I Grants to Local Educational Agencies	17-4200-00-03-000-0003	84.010	\$ 386,589
* Career and Technical Education-Basic Grants to States	17-4700-00-03-000-0003	84.048	68,044
Special Education-Grants to States	00-0003-248-DTIPS06-17	84.027	128,515
Special Education-Grants to States	00-0003-248-6B1-17	84.027	232,721
Special Education-Grants to States	17-03-000-0003-00	84.027	22,819
Special Education-Grants to States	00-0003-248-3B1-17	84.027	3,224
* Total for Federal Program			<u>387,279</u>
Special Education-Grants for Infants and Families	00-0003-248-6B1-17	84.181	25,858
Special Education-Grants for Infants and Families	17-03-000-0003-00	84.181	14,674
Total for Federal Program			<u>40,532</u>
English Language Acquisition State Grants	17-03-000-0003-00	84.365	42,897
English Language Acquisition State Grants	17-03-000-0003-00	84.365	10,722
Total for Federal Program			<u>53,619</u>
U.S. Department of Agriculture:			
Passed through Nebraska Department of Education:			
National School Lunch Program		10.555	41,871
U.S. Department of Health and Human Services:			
Passed through Nebraska Department of Education			
Child Care and Development Block Grant	17-4990-03-000-0003	93.575	117,960
Child Care and Development Block Grant	18-4990-03-000-0003	93.575	22,046
Total for Federal Program			<u>140,006</u>
TOTAL			<u><u>\$ 1,117,940</u></u>

* Represents Major Program

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

EDUCATIONAL SERVICE UNIT NO. 3

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2017

1. Basis for Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal grant activity of Educational Service Unit No. 3 (ESU No. 3) under programs of the Federal government for the year ended August 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of ESU No. 3, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of ESU No. 3.

ESU No. 3 received grant 00-0003-248-6B1-17, which was funded by CFDA 84.027 and 84.181. In this instance, the expenditures for each grant were split based on the funding percentage identified on the grant award, which approximated the Federal receipts for this grant.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

ESU No. 3 elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

EDUCATIONAL SERVICE UNIT NO. 3

**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. 3 Board
La Vista, 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, the blended component unit, the major fund, and the aggregate remaining fund information of Educational Service Unit No. 3, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Educational Service Unit No. 3's basic financial statements, and have issued our report thereon dated November 16, 2017. The report was modified to emphasize that the financial statements were prepared on the modified 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. 3'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. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 3'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. 3'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 # 2017-1 (Federal and State Tax Withholdings), # 2017-2 (Lack of Segregation of Duties Over Payroll), and # 2017-3 (Capital Asset Records).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educational Service Unit No. 3'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. 3's Response to Findings

Educational Service Unit No. 3's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Educational Service Unit No. 3's responses were 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 Educational Service Unit No. 3'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. 3's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 16, 2017



Zachary Wells CPA
Audit Manager
Lincoln, Nebraska



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

EDUCATIONAL SERVICE UNIT NO. 3

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

Educational Service Unit No. 3 Board
La Vista, Nebraska

Report on Compliance for Each Major Federal Program

We have audited Educational Service Unit No. 3's compliance with the types of compliance requirements described in the OMB Compliance Supplement, which could have a direct and material effect on each of Educational Service Unit No. 3's major Federal programs for the year ended August 31, 2017. Educational Service Unit No. 3's major Federal programs are 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 Federal statutes, regulations, and terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Educational Service Unit No. 3's major Federal programs 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200,

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, which 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. 3's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Educational Service Unit No. 3's compliance.

Opinion on Each Major Federal Program

In our opinion, Educational Service Unit No. 3 complied, in all material respects, with the types of compliance requirements referred to above, which could have a direct and material effect on each of its major Federal programs for the year ended August 31, 2017.

Report on Internal Control Over Compliance

Management of Educational Service Unit No. 3 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. 3's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. 3'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



November 16, 2017

Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

EDUCATIONAL SERVICE UNIT NO. 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended August 31, 2017

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weaknesses identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiencies identified?	<u> X </u> Yes	<u> </u> No	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	
Internal control over major programs:			
Material weaknesses identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> No	
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR section 200.516(a):	<u> </u> Yes	<u> X </u> No	
Major programs: Special Education – Grants to States, CFDA 84.027; and Career and Technical Education – Basic Grants to States, CFDA 84.048			
Dollar threshold used to distinguish between type A and type B programs:	\$750,000		
Auditee qualified as low-risk auditee:	<u> </u> Yes	<u> X </u> No	

EDUCATIONAL SERVICE UNIT NO. 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding # 2017-1: Federal and State Tax Withholdings

Fifteen of 19 employees tested had incorrect tax withholdings because ESU No. 3 had not updated the tax tables for 2017. Employees paid monthly and with married status had correct State taxes withheld but incorrect Federal taxes withheld. Employees paid monthly and with single status had incorrect State and Federal tax withholdings.

Name	Monthly Excess Taxes Withheld from Employee Pay
Employee 1	7.42
Employee 2	6.59
Employee 3	1.63
Employee 4	5.69
Employee 5	1.64
Employee 6	8.24
Employee 7	7.42
Employee 8	1.63
Employee 9	7.42
Employee 10	7.42
Employee 11	1.64
Employee 12	6.69
Employee 13	1.63
Employee 14	1.64
Employee 15	5.69
Total	72.39

A good internal control plan requires procedures to ensure that tax tables are updated in a timely manner. Without such procedures, there is an increased risk employee tax withholdings will be incorrect.

We recommend ESU No. 3 implement procedures to ensure tax tables are updated on the accounting system in a timely manner.

ESU No. 3 Response: ESU #3 has implemented procedures to safeguard this from occurring in the future. A recurring calendar event has been established at the end of December to update the FICA, Medicare, Federal and State Withholding tables. The event includes two different notifications on a couple of days prior to the end of the year and displays on the department calendar and the payroll/HR employee calendars. The Payroll Accountant is responsible for updating the rate tables in the payroll system and the Accounting Assistant and HR Specialist will review the tables for accuracy. As an extra measure, during the first bi-weekly payroll review and monthly payroll review of the year, we will calculate a couple of employee deductions to ensure the tables are calculating the correct deduction amounts.

EDUCATIONAL SERVICE UNIT NO. 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding # 2017-2: Lack of Segregation of Duties Over Payroll

ESU No. 3 lacked an adequate segregation of duties over payroll, as no one outside of those able to process payroll performed a detailed review of the payroll registers. The Business Services Director did perform a monthly review of the payroll register; however, this employee had access to process payroll.

A good internal control plan requires an adequate segregation of duties to ensure payroll is proper. Without an adequate segregation of duties, there is an increased risk that improper or incorrect payroll may be made and not identified.

In addition, it was noted that the ESU No. 3 Board did not approve payroll expenditures at the monthly board meetings. Vendor checks and employee reimbursement checks were presented monthly to the ESU No. 3 Board and approved for payment; however, the ESU No. 3 Board did not receive or approve the total payroll disbursements.

A good internal control plan requires procedures for ensuring the ESU No. 3 Board reviews and approves all ESU No. 3 disbursements. Without such procedures, the ESU No. 3 Board risks jeopardizing that governing body's ability to exercise sound fiscal oversight.

We recommend ESU No. 3 implement procedures to ensure the following: 1) an adequate segregation of payroll responsibilities, which could include having a supervisory person, outside of payroll, review the payroll register to ensure the amounts appear reasonable and proper; and 2) the ESU No. 3 review and approve the total payroll disbursements for the month.

ESU No. 3 Response: ESU #3 has implemented procedures to add further segregation of duties for each payroll. The Chief Administrator will review each payroll journal after review by the Director of Business Services. In addition, the net amount of payroll paid from the prior month board meeting through the day of the board check run will be listed on the monthly Board Treasurer's report.

Finding # 2017-3: Capital Assets Records

ESU No. 3 could not locate 7 of 20 assets listed on its capital asset listing. The following seven assets could not be located:

Asset Description	Acquisition Date	Value	Explanation
Deaf and Hard of Hearing Library – 7 Microlink CL Batteries	8/29/2017	13,764	Value is made up of many assets, and the acquisition date is the date of the valuation of the library. Seven Microlink CL Batteries were selected, but only three of the seven were found.

EDUCATIONAL SERVICE UNIT NO. 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding # 2017-3: Capital Assets Records (Continued)

Asset Description	Acquisition Date	Value	Explanation
SAN Hardware and Software	5/9/2007	175,868	ESU No. 3 stated that the hardware and software had been discarded, and only the shell remained; however, the shell was observed.
Science Library	8/31/2001	100,000	This asset is comprised of many science supplies that can be requested by school districts. A listing of what made up the total value could not be provided.
iPad 64GB Wifi	5/4/2010	699	This capital asset could not be located.
HP Laserjet Printer	5/1/1996	3,720	This capital asset could not be located. ESU No. 3 stated that this asset had likely been discarded since it was acquired in 1996.
Panasonic 27" TV	9/1/1997	1,189	ESU No. 3 stated that this item had been discarded, but it had not been removed from the listing.
Multiple Assets (Description was unclear)	9/1/1997	18,388	ESU No. 3 stated that these assets were disposed of years ago when the Distance Learning Program was discontinued; however, they were not removed from the listing.

In addition, 2 of 10 capital assets found at ESU No. 3 could not be traced back to a capital asset listing. The following three assets could not be traced to the capital asset listing:

Asset Description	Explanation
C3400 Printer	Although tagged as being property of ESU No. 3, this printer could not be found on the capital asset listing.
Fridgidaire White Dryer	This asset was not tagged property of ESU No. 3 and was not on the capital asset listing. A dryer was found on the capital asset listing, but it was identified as a GE model.

A good internal control plan requires procedures to ensure that ESU No. 3 can track accurately and account for its capital assets.

We recommend ESU No. 3 implement procedures to ensure its capital assets can be tracked accurately and accounted for.

EDUCATIONAL SERVICE UNIT NO. 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Concluded)

SECTION II. FINANCIAL STATEMENT FINDINGS (Concluded)

Finding # 2017-3: Capital Assets Records (Concluded)

ESU No. 3 Response: ESU #3 has implemented changes to ensure a more thorough review of the physical assets and the fixed asset listing is properly executed. The Directors met with the Chief Administrator to discuss the importance of tracking the assets and procedures were forwarded to Directors as a refresher of the current process. In addition, the fixed assets will be reviewed annually rather than every other year as previously established.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Nothing was noted.

SECTION IV. SCHEDULE OF PRIOR AUDIT FINDINGS

No prior findings existed.