

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 13**

SEPTEMBER 1, 2016, THROUGH AUGUST 31, 2017

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Issued on January 24, 2018

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EDUCATIONAL SERVICE UNIT NO. 13

KEY OFFICIALS AND CONTACT INFORMATION

Board Members

Name	Title
Ray Richards	President
Kim Marx	Vice President
Tom Millette	Board Secretary
Pat Dobry	Board Member
Diane Coon	Board Member
Steve Diemoz	Board Member
Don Egging	Board Member
Patricia Jones	Board Member
Bill Knapper	Board Member
Mark Sinner	Board Member
Rosalene Tollman	Board Member
Scott Marsh	Board Member

Educational Service Unit No. 13 Executive Management

Name	Title
Dr. Jeff West	Administrator
Jodi Walker	Business Manager
Desira Martin	Executive Admin Assistant

Educational Service Unit No. 13
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Scottsbluff, NE 69361
www.esu13.org



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EDUCATIONAL SERVICE UNIT NO. 13

INDEPENDENT AUDITOR'S REPORT

Educational Service Unit No. 13 Board
Scottsbluff, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Educational Service Unit No. 13 (ESU No. 13), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise ESU No. 13'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. 13'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 and the major fund of ESU No. 13, as of August 31, 2017, and the respective changes in financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

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 and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise ESU No. 13's basic financial statements. The Management Discussion and Analysis, and the Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund, on pages 5-10 and 22, 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 pages 24-25, 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 Expenditures of Federal Awards is the responsibility of management and was derived from and relates 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 Expenditures of Federal Awards is 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 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 January 19, 2018, on our consideration of ESU No. 13'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. 13's internal control over financial reporting and compliance.

January 19, 2018



Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

EDUCATIONAL SERVICE UNIT NO. 13

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Educational Service Unit No. 13's (ESU No. 13) annual audit report presents our discussion and analysis of the ESU's financial performance during the fiscal year that ended on August 31, 2017. Please read it in conjunction with the ESU's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

ESU No. 13 is completing this audit report in compliance with 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 establishes standards for external financial reporting for all State and local government entities, which includes government-wide financial statements, fund financial statements, and the classification of net assets into three components: (a) invested in capital assets, net of related debt; (b) restricted; and (c) unrestricted.

This annual report consists of four parts: (1) Management's Discussion and Analysis (this section); (2) Basic Financial Statements – Cash Basis; (3) Supplemental Schedules; and (4) Information on the Single Audit (Federal funds).

The accompanying basic financial statements have been prepared on the cash basis of accounting. Accordingly, the financial statements and supplemental schedules are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. The use of the cash basis of accounting is permissible under Title 92, Nebraska Administrative Code, Chapter 2, for public school entities.

The financial statements report information on all the activities of ESU No. 13. All ESU activities are essentially reported under the umbrella of ESU No. 13's General Fund. In addition, ESU No. 13 has set aside money from the General Fund into a separate bank account for any possible unemployment insurance claims. Activity in these sub funds can be tied back directly to ESU No. 13's General Fund when any activity occurs within these funds.

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. 13 commitments and contingencies that are not reported in the cash basis financial statements. The statements are followed by a section of Supplementary and Other Information that further explains and supports the information in the financial statements.

FINANCIAL HIGHLIGHTS

Book Balances

- As of August 31, 2017, ESU No. 13's General Fund Book Balance was \$302,887 and General Fund Investments and interest bearing accounts were \$4,880,256. ESU No. 13's Unemployment Insurance Bank Balance was \$7,284. ESU No. 13's Section 125 Plan Book Balance, included as part of the General Fund, was \$16,641. ESU No. 13 also had \$6,780 in other bank accounts tied to the General Fund.

EDUCATIONAL SERVICE UNIT NO. 13

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL HIGHLIGHTS (Continued)

- As of August 31, 2016, ESU No. 13's General Fund Book Balance was \$813 and General Fund Investments and interest bearing accounts were \$5,535,955. ESU No. 13's Unemployment Insurance Book Balance was \$7,093. ESU No. 13's Section 125 Plan Book Balance was \$4,862 and ESU No. 13 held \$800 in petty cash.

Difference: ESU No. 13's Total Cash Available General Fund decreased from \$5,549,523 to \$5,213,848 or a decrease of \$335,675.

Analysis: General Fund: Our Total Cash Available General Fund decreased during 2016-2017 as a result of Federal receipts decreasing approximately \$900,000, and increases in disbursements, including an increase of over \$200,000 for Staff Support and an approximate \$600,000 increase for State Funded Programs.

	<u>FY 2017</u>	<u>FY 2016</u>
Cash and Investments	\$ 5,213,848	\$ 5,549,523
Cash at County Treasurer	452,904	452,240
Total Assets	<u>5,666,752</u>	<u>6,001,763</u>
Net Position		
Unrestricted	<u>\$ 5,666,752</u>	<u>\$ 6,001,763</u>

Receipts and Disbursements

- As of August 31, 2017, ESU No. 13's total receipts were \$12,051,553. ESU No. 13's total disbursements were \$12,386,564. The receipt and disbursement amounts now include Special Education checking account balances and the Section 125 plan.
- As of August 31, 2016, ESU No. 13's total revenues were \$12,543,088. ESU No. 13's total expenditures were \$11,961,397.

Difference: ESU No. 13's revenue decreased from \$12,543,088 to \$12,051,553 or \$491,535. ESU No. 13's expenditures increased from \$11,961,397 to \$12,386,564 or \$425,167.

- ESU No. 13 experienced a decrease in the State's Core Services and Technology Infrastructure allocation from 2015-2016 to 2016-2017 in the amount of \$40,909 in the area of *Distance Education Telecommunication Allowance*.
- Budget restrictions for ESUs are based on receipts.

EDUCATIONAL SERVICE UNIT NO. 13

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL HIGHLIGHTS (Concluded)

Below is information from the Statement of Cash Basis Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Governmental Fund. The prior year activity was modified from the prior year description as ESU No. 13 modified its financial presentation to align with the Nebraska Department of Education's Annual Financial Report, which it is required to file with that department.

	Governmental Activities	
	2017	2016
RECEIPTS		
Taxes	\$ 1,827,601	\$ 1,671,684
Charges for Services	3,987,215	3,618,134
State	1,855,685	1,508,569
Federal	4,107,069	4,983,041
Bond Proceeds	96,500	96,500
Miscellaneous	177,483	665,160
Total Receipts	<u>12,051,553</u>	<u>12,543,088</u>
DISBURSEMENTS		
Regular Instruction	481,898	415,991
Special Education & Student Services	2,588,270	2,817,027
Support Services	629,007	612,458
Staff Support	519,203	311,881
General Administration & Operation	501,896	443,347
Business Support	424,355	495,967
Maintenance and Operations	900,950	794,670
Pupil Transportation	20,707	26,279
State Funded Programs	2,170,927	1,586,959
Federally Funded Programs	4,149,351	4,456,818
Total Disbursements	<u>12,386,564</u>	<u>11,961,397</u>
Change In Net Position - Modified Cash Basis	(335,011)	581,691
Net Position - Modified Cash Basis, Beginning	<u>6,001,763</u>	<u>5,420,072</u>
Net Position - Modified Cash Basis, Ending	<u>\$ 5,666,752</u>	<u>\$ 6,001,763</u>

EDUCATIONAL SERVICE UNIT NO. 13

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF ESU NO. 13 AS A WHOLE

- Sources of 2016-2017 revenue for ESU No. 13 include: Property Taxes – \$1,827,601; State Receipts (including Core Services) – \$1,855,685; Federal Receipts – \$4,107,069; and Local and Non-Revenue Receipts – \$4,261,198.
- Sources of 2015-2016 revenue for ESU No. 13 include: Property Taxes – \$1,671,684; State Receipts (including Core Services) – \$1,508,569; Federal Receipts – \$4,983,041; and Local and Non-Revenue Receipts – \$4,379,794.

Federal Funding

- Federal and State revenue is received by ESU No. 13 to administer Federal and State programs and grants. These funds support, for the most part, the program/grant activities. The administrative fee that ESU No. 13 is allowed to assess for overseeing these programs decreased during the 2016-2017 fiscal year from 10.9775% to 7.2372%; however, not all grant managers include this administrative fee in their budgets.

Property Tax Funding

- Property tax revenue for 2016-2017 was generated from \$0.015 General Fund levy and \$0.001396 Bonded Indebtedness levy per \$100 of actual valuation.
- Certified actual valuation for 2016 was \$11,373,673,318. Certified actual valuation for 2015 was \$10,748,445,582. Any increase in property tax receipts, therefore, can be attributed directly to increased valuation.

Difference: ESU No. 13's total valuation increased \$625,227,736 or 5.82%. Of the total increase in valuation, \$100,074,783 was categorized as "Value Attributable to Growth."

Analysis: Valuations for 2016 increased in 12 counties included in ESU No. 13's tax jurisdiction. Kimball County was the only county where the valuation decreased.

- ESU No. 13's 2016-2017 tax request was \$1,864,786 compared to the 2015-2016 tax request of \$1,772,506.

Difference: ESU No. 13's tax asking increased by \$92,280.

Analysis: Increase in tax asking helped pay for increased employer and employee costs and increased costs of doing business.

EDUCATIONAL SERVICE UNIT NO. 13

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF ESU NO. 13 AS A WHOLE (Continued)

State Funding

- In 1998-99, ESUs began receiving state funding for the delivery of core service programs and technology infrastructure. Core service programs are defined by the Nebraska Department of Education as: (1) staff development, (2) technology, and (3) instructional materials services.
- In 2016-2017, ESU No. 13 received \$1,012,684 for Core Services and Technology Infrastructure.
- In 2015-2016, ESU No. 13 received \$1,053,593 for Core Services and Technology Infrastructure.

Difference: ESU No. 13's funding for Core Services/Technology Infrastructure decreased \$40,909.

Analysis: The State's Core Services and Technology Infrastructure allocation decreased in the area of *Distance Education Telecommunication Allowance*.

General Fund Budgetary Highlights

ESU No. 13's Total Cash Available for the General Fund decreased from \$5,542,430 as of August 31, 2016, to \$5,206,564 as of August 31, 2017. ESU No. 13's Total Cash Available in the Unemployment Insurance Bank Account was \$7,093 as of August 31, 2016, and \$7,284 as of August 31, 2017.

ESU No. 13's proposed budget for the operation of ESU No. 13 for 2016-2017 was set at \$16,046,576.

When preparing the proposed budget, ESU No. 13 allows for fluctuations in Federal and State program/grant activity throughout the year. For this reason, during the 2016-2017 fiscal year, ESU No. 13 did not spend over the budget of \$16 million that was published on September 10, 2016, in the Star Herald (Scottsbluff); during the 2015-2016 fiscal year, ESU No. 13 did not spend over the budget of \$15.4 million that was published on September 3, 2015, in the Star Herald (Scottsbluff).

The actual amount that restricted funds can be increased by each year is 2.5% unless a super majority of the Board allows for an additional 1%. Restricted funds are comprised of Personal and Real Property Tax Requirements, In-Lieu of Tax Payments, Motor Vehicle Pro-Rate, Aid for Core Services and Technology Infrastructure, and Prior Year Budgeted Capital Improvements (excluded from prior year's budget but not spent). However, due to the additional restriction of a \$.015 levy per \$100 actual valuation, authorization of a full 3.5% increase generally does not translate into an increased tax asking but rather establishes an unused budget authority amount that can be accessed in a later fiscal year if and when property valuations or levy limits allow it.

EDUCATIONAL SERVICE UNIT NO. 13

MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)

FINANCIAL ANALYSIS OF ESU NO. 13 AS A WHOLE (Concluded)

During the 2016-2017 fiscal year, it was moved and seconded that the Board approve the resolution to increase the total restricted funds authority by an additional 1%. That motion passed by a super majority vote of the Board.

Joint Public Agency and Interlocal Agreements

ESU No. 13 reports involvement in eight interlocal agreements for the reporting period July 1, 2016, through June 30, 2017. They are: *ESU No. 17* for cooperative purchasing project; *West Nebraska Distance Learning Consortium* for distance learning activities; *Western Nebraska Community College* for construction and maintenance of addition to Harms Advanced Technology Center; *All Lines Interlocal Cooperative Aggregate Pool (ALICAP)* for property, automobile, liability, errors and omissions, and workers compensation insurance; *Master Services Agreement – Educational Service Unit Coordinating Council (ESUCC)* for administration of statewide education initiatives and provision of statewide education services; *NASB Medicaid Consortium* for case management services for Medicaid-eligible students in the ESU No. 13 service area; and *Gering Public Schools, Alliance Public Schools, and ESU No. 13 Technology Cooperative No. 8* for the purpose of funding hardware and/or software upgrades for delivery of information.

Contacting ESU No. 13's Financial Management

This financial report is designed to provide the public with a general overview of ESU No. 13's finances and to demonstrate ESU No. 13's accountability for the money with which it is entrusted. If you have any questions about this report or need additional information, contact Dr. Jeffrey D. West, Administrator, Educational Service Unit No. 13, 4215 Avenue I, Scottsbluff, NE, 69361. ESU No. 13's phone number is (308) 635-3696, the fax number is (308) 635-0680, and the website is located at www.esu13.org

EDUCATIONAL SERVICE UNIT NO. 13
STATEMENT OF NET POSITION – CASH BASIS
August 31, 2017

	<u>Governmental Activities</u>
ASSETS:	
Cash in bank and interest-bearing deposits	\$ 1,183,593
Certificates of deposit	4,030,255
Cash - County Treasurer	<u>452,904</u>
Total Assets	<u><u>\$ 5,666,752</u></u>
NET POSITION:	
Unrestricted - designated	\$ 7,284
Unrestricted	<u>5,659,468</u>
Total net position	<u><u>5,666,752</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 13
STATEMENT OF ACTIVITIES – CASH BASIS
For the Fiscal Year Ended August 31, 2017

Functions/Programs	Expenditures	Program Receipts		Net (Expenditures)/ Receipt and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
Regular Instruction	\$ 481,898	\$ 440,597	\$ -	\$ (41,301)
Special Education & Student Services	2,588,270	2,451,101	-	(137,169)
Support Services	629,007	595,819	-	(33,188)
Staff Support	519,203	338,127	-	(181,076)
General Administration	501,896	62,666	-	(439,230)
Business Support	424,355	26,098	-	(398,257)
Maintenance & Operations	900,950	-	-	(900,950)
Pupil Transportation	20,707	19,380	-	(1,327)
State Funded Programs	2,170,927	53,427	843,001	(1,274,499)
Federally Funded Programs	4,149,351	-	4,107,069	(42,282)
	<u>\$ 12,386,564</u>	<u>\$ 3,987,215</u>	<u>\$ 4,950,070</u>	<u>(3,449,279)</u>
General receipts:				
				1,827,601
				1,012,684
				96,500
				38,701
				138,782
				<u>3,114,268</u>
				(335,011)
				<u>6,001,763</u>
				<u>\$ 5,666,752</u>

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

EDUCATIONAL SERVICE UNIT NO. 13
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUND

August 31, 2017

	<u>General Fund</u>
ASSETS	
Cash in bank and interest-bearing deposits	\$ 1,183,593
Certificates of deposit	4,030,255
Cash - County Treasurer	<u>452,904</u>
Total Assets	<u><u>5,666,752</u></u>
FUND BALANCE	
Assigned	7,284
Unassigned	<u>5,659,468</u>
Total Fund Balances	<u><u>\$ 5,666,752</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 13
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BASIS FUND BALANCE**
GOVERNMENTAL FUND
 For the Fiscal Year Ended August 31, 2017

	<u>General Fund</u>
RECEIPTS	
Local	
Taxes	\$ 1,827,601
Charges for Services	3,987,215
Miscellaneous	138,782
State	1,855,685
Federal	4,107,069
Bond Proceeds	96,500
Interest	38,701
Total Receipts	<u>12,051,553</u>
DISBURSEMENTS	
Current:	
Regular Instruction	481,898
Special Education & Student Services	2,588,270
Support Services	629,007
Staff Support	519,203
General Administration	501,896
Business Support	424,355
Maintenance & Operations	900,950
Pupil Transportation	20,707
State Funded Programs	2,170,927
Federally Funded Programs	4,149,351
Total Disbursements	<u>12,386,564</u>
Excess of Disbursements Over Receipts	(335,011)
Cash Basis Fund Balance - Beginning	<u>6,001,763</u>
Cash Basis Fund Balance - Ending	<u>\$ 5,666,752</u>

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

EDUCATIONAL SERVICE UNIT NO. 13

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. 13 (ESU No. 13), Scottsbluff, Nebraska.

ESU No. 13 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. 13 serves as an educational service provider to its member school districts.

B. Reporting Entity

ESU No. 13 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. 13 to impose its will on that organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 13. ESU No. 13 did not have any component units.

C. Budget Process and Property Taxes

ESU No. 13 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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. 13 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. 13. ESU No. 13 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.

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. 13 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. 13's funds. ESU No. 13 has only the Governmental Fund category. The emphasis of fund financial statements is on the major Governmental Fund.

General Fund. This is ESU No. 13's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

ESU No. 13 designates fund balances as follows:

Assigned. The fund balance has been constrained by ESU No. 13 for a specific purpose, but it is neither restricted nor committed. This amount is assigned for potential unemployment claims.

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

E. Measurement Focus, Basis of Accounting

ESU No. 13 prepares its financial statements on the 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 cash activity of the various funds of ESU No. 13 and do not include certain transactions that would be included if ESU No. 13 prepared its financial statements in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units. Under the cash basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units.

Taxes and other revenues collected by the county treasurers are included in revenues of ESU No. 13 in the year collected by the counties, and ESU No. 13 funds held by the county treasurers at year-end are included as assets of ESU No. 13. 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. 13 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.

EDUCATIONAL SERVICE UNIT NO. 13

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

H. Compensated Absences

Employees of ESU No. 13 earn paid vacation, sick days, and other time off depending on the length of service and position. ESU No. 13 maintains records of cumulative days of vacation and sick leave. Vacation is cumulative up to 30 days for all other full-time employees and payable upon termination. Sick leave is cumulative for up to 60 days. Employees are not paid for unused sick leave upon closure of ESU No. 13 employment. The dollar amount of accrued vacation is not readily determinable. ESU No. 13'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 cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets at August 31, 2017, and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. **Deposits and Investments**

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. 13's deposits may not be returned to it. As of August 31, 2017, all of ESU No. 13's deposits with financial institutions were fully insured or collateralized by securities held in ESU No. 13'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. 13's policy is to require depositories to provide pledged securities to cover deposits in excess of FDIC limits.

The bank balance of ESU No. 13, at August 31, 2017, consisted of the following:

Bank Account	\$ 1,327,235
Certificates of deposit	4,030,256
	<hr/>
	\$ 5,357,491

3. **Contingencies and Commitments**

ESU No. 13 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. 13 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments (Concluded)

ESU No. 13 has elected to be a reimbursable employer with regard to unemployment claims filed by former employees. Therefore, ESU No. 13 is required to reimburse the State of Nebraska for any claims paid on behalf of ESU No. 13. ESU No. 13 has established a reserve for this contingent liability of \$7,284 as of August 31, 2017. ESU No. 13 paid \$2,934 in unemployment claims in fiscal year 2016 and \$5,341 in unemployment claims in fiscal year 2017.

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, Supp. 2017) 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. 13 employees contribute 9.78% of their total compensation. In addition, ESU No. 13 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. 13 employees contributed \$657,677, and ESU No. 13 contributed \$664,254.

5. Unemployment Compensation Insurance

ESU No. 13 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. 13 is obligated to reimburse to the State the amount of any claim.

ESU No. 13 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 and Operating Leases

ESU No. 13 leases copiers, a postage machine, and a building under operating leases. The following schedule for operating leases includes all leases for ESU No. 13.

EDUCATIONAL SERVICE UNIT NO. 13

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. **Capital and Operating Leases** (Concluded)

The minimal annual lease payments for operating leases, as of August 31, 2017, are as follows

<u>Year</u>	<u>Governmental Activities</u>
2018	\$ 31,223
2019	25,778
2020	25,131
2021	12,683
2022	1,760
Total	<u>\$ 96,575</u>

Total operating lease payments for the year ended August 31, 2017, were \$28,661.

7. **Long-Term Debt**

ESU No. 13 issued bonds in January 2007 in the amount of \$875,000. The total amount of bonds was \$3,500,000 with the remaining \$2,625,000 being covered by Western Nebraska Community College. The bonds were issued for a building addition where both entities own a portion of the new building. The original bonds had interest rates between 3.6% and 4.7% and matured in 2027. Interest payments began in the fiscal year ended August 31, 2008, while principal payments began in the fiscal year ended August 31, 2009. These bonds were refinanced on June 17, 2013, and now bear interest between 0.4% and 2.7%. The refinanced bonds still mature in 2027. Total interest paid for the fiscal year ended August 31, 2016, on the bonds was \$10,735.

ESU No. 13 issued bonds of \$100,000 on December 20, 2016. The total amount of bonds issued was \$300,000 with the remaining amount being covered by Gering Public Schools and Alliance Public Schools, which were issued for the purpose of acquiring upgrades or related improvements to information technology for the operation of libraries. The bonds had an interest rate of 1.05% and matured August 15, 2017. Total interest paid on the bonds during the fiscal year ended August 31, 2017, was \$885. Bond issued costs of \$3,500 reduced cash proceeds actually received by ESU No. 13 to \$96,500.

Bond Activity and bonds outstanding as of August 31, 2017, were as follows:

	Balance August 31, 2016	Proceeds	Principal Payments	Balance August 31, 2017	Due Within One Year
Series 2013 Refunding Bonds	\$ 570,000	\$ -	\$ 47,500	\$ 522,500	\$ 48,750
NE Technology Financing Coop #8	-	100,000	100,000	-	-

EDUCATIONAL SERVICE UNIT NO. 13

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

7. **Long-Term Debt** (Concluded)

The schedule of maturities is as follows:

Fiscal Year Ending August 31	Principal Amount	Interest Amount	Total
2018	\$ 48,750	\$ 10,355	\$ 59,105
2019	48,750	9,843	58,593
2020	50,000	9,209	59,209
2021	50,000	8,434	58,434
2022	51,250	7,559	58,809
2023-2027	273,750	20,800	294,550
	\$ 522,500	\$ 66,200	\$ 588,700

EDUCATIONAL SERVICE UNIT NO. 13
**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BASIS FUND BALANCE**
BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended August 31, 2017

	Budget (Original and Final)	Actual
RECEIPTS		
Local		
Taxes	\$ 1,810,802	\$ 1,827,601
Charges for Services	4,448,379	3,987,215
Miscellaneous	235,107	138,782
State	2,432,729	1,855,685
Federal	7,089,559	4,107,069
Bond Proceeds	-	96,500
Interest	30,000	38,701
Total Receipts	16,046,576	12,051,553
DISBURSEMENTS		
Current:		
Regular Instruction	476,313	481,898
Special Education & Student Services	2,742,372	2,588,270
Support Services	593,897	629,007
Staff Support	477,938	519,203
General Administration	463,100	501,896
Business Support	746,406	424,355
Maintenance & Operations	901,759	900,950
Pupil Transportation	18,900	20,707
State Funded Programs	2,533,332	2,170,927
Federally Funded Programs	7,092,559	4,149,351
Total Disbursements	16,046,576	12,386,564
Excess of Disbursements Over Receipts		335,011
Fund Balance, Beginning of Year		6,001,763
Fund Balance, End of Year		\$ 5,666,752

See the Notes to the Budgetary and Actual Information.

EDUCATIONAL SERVICE UNIT NO. 13

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 Cash Basis Fund Balance – Budget and Actual – General Fund is presented on the 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. 13 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. 13
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal 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	16-13-079-0016-00	84.010	\$ 544
Migrant Education - State Grant Program	16-13-000-0013-00	84.011	97,179
Migrant Education - State Grant Program	17-13-000-0013-00	84.011	<u>509,156</u>
* Total for Federal Program			606,335
Career and Technical Education-Basic Grants to States	17-13-000-0013-00	84.048	51,233
Special Education-Grants to States	00-0013-248-1B12-17	84.027	350
Special Education-Grants to States	00-0013-248-3B4-17	84.027	5,746
Special Education-Grants to States	17-13-000-0013-00	84.027	11,312
Special Education-Grants to States	00-0013-248-6B5-16	84.027	9,335
Special Education-Grants to States	00-0013-248-6B6-17	84.027	104,672
Special Education-Grants to States	00-0013-248-DTIPS15-17	84.027	138,027
Special Education-Grants to States	16-13-000-0013-00	84.027	<u>6,249</u>
Total for Federal Program			275,691
Special Education-Grants for Infants and Families	16-13-000-0013-00	84.181	3,390
Special Education-Grants for Infants and Families	16-13-000-0013-00	84.181	2,760
Special Education-Grants for Infants and Families	17-13-000-0013-00	84.181	10,181
Special Education-Grants for Infants and Families	17-13-000-0013-00	84.181	8,250
Special Education-Grants for Infants and Families	16-06-13-000-0013	84.181	607
Special Education-Grants for Infants and Families	00-0013-248-6B5-16	84.181	1,037
Special Education-Grants for Infants and Families	00-0013-248-6B6-17	84.181	<u>11,630</u>
Total for Federal Program			37,855
English Language Acquisition State Grants	16-13-000-0013-00	84.365	27,396
English Language Acquisition State Grants	17-13-000-0013-00	84.365	29,183
English Language Acquisition State Grants	16-13-000-0013-00	84.365	<u>11,832</u>
Total for Federal Program			68,411

EDUCATIONAL SERVICE UNIT NO. 13
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal 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 Agriculture:			
Passed through Nebraska Department of Education:			
Child and Adult Care Food Program		10.558	124,623
U.S. Department of Health and Human Services:			
Passed through Nebraska Department of Education			
Child Care and Development Block Grant	16-06-13-000-0013	93.575	6,982
Child Care and Development Block Grant	17-4990-13-000-0013	93.575	<u>102,408</u>
Total for Federal Program			<u>109,390</u>
U.S. Department of Health and Human Services:			
Head Start	07CH7096-02-00	93.600	2,129,685
Head Start	07CH7096-03-00	93.600	<u>726,932</u>
* Total for Federal Program			<u>2,856,617</u>
Passed through the Nebraska Association of School Boards			
Medical Assistance Program		93.778	18,652
TOTAL			<u><u>\$ 4,149,351</u></u>

* Represents Major Program

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

(Concluded)

EDUCATIONAL SERVICE UNIT NO. 13

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal 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. 13 (ESU No. 13) 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. 13, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of ESU No. 13.

ESU No. 13 received grant 16-06-13-000-0013, which was funded by CFDA 93.575 and 84.181, and grants 00-0013-248-6B5-16 and 00-001-248-6B6-17, which were funded by CFDA 84.027 and 84.181. In these instances, 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 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. 13 elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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EDUCATIONAL SERVICE UNIT NO. 13

**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. 13 Board
Scottsbluff, 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 the major fund of Educational Service Unit No. 13, 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. 13's basic financial statements, and have issued our report thereon dated January 19, 2018. The report was modified to emphasize that the financial statements were prepared on the cash basis of accounting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Educational Service Unit No. 13'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. 13's internal control. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 13'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. 13'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: Findings # 2017-001 (Capital Assets) and # 2017-002 (Lack of Segregation of Duties Over Payroll).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educational Service Unit No. 13'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. 13's Response to Findings

Educational Service Unit No. 13's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Educational Service Unit No. 13'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 Educational Service Unit No. 13'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. 13's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Zachary Wells CPA
Audit Manager
Lincoln, Nebraska

January 19, 2018



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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EDUCATIONAL SERVICE UNIT NO. 13

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

Educational Service Unit No. 13 Board
Scottsbluff, Nebraska

Report on Compliance for Each Major Federal Program

We have audited Educational Service Unit No. 13'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. 13's major Federal programs for the year ended August 31, 2017. Educational Service Unit No. 13'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. 13'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. 13'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. 13's compliance.

Opinion on Each Major Federal Program

In our opinion, Educational Service Unit No. 13 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and are described in the accompanying Schedule of Findings and Questioned costs as item #2017-006 (Migrant Grant Matching). Our opinion on each major Federal program is not modified with respect to this matter.

Educational Service Unit No. 13's response to the noncompliance finding identified in our audit is described in the Schedule of Findings and Questioned Costs. Educational Service Unit No. 13's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Educational Service Unit No. 13 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. 13'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. 13'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, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2017-003 (Migrant Grant Priority for Service Students), 2017-004 (Head Start Federal Financial Reporting), and 2017-005 (Migrant Grant Reporting), which we consider to be significant deficiencies.

Educational Service Unit No. 13's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Educational Service Unit No. 13's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on those responses.

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.

January 19, 2018



Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

EDUCATIONAL SERVICE UNIT NO. 13

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> X </u>	Yes	<u> </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> X </u>	Yes	<u> </u>	No
Major programs: Migrant Education – State Grant Programs, CFDA 84.011, Head Start, CFDA 93.600				
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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding # 2017-001: Capital Assets

Educational Service Unit No. 13 (ESU No. 13) does not maintain a complete capital asset listing. ESU No. 13 does submit significant asset values to its insurance company; however, not all assets are reported for insurance purposes. ESU No. 13 had an informal policy to add assets over \$500 or assets that were theft sensitive; however, the Board policies do not include this requirement. Some ESU No. 13 departments were tracking assets purchased, but there was not a single unified listing maintained by ESU No. 13.

Two acquisitions tested were unable to be traced to an asset listing:

- A \$228,169 addition to its Scottsbluff office building.
- Mechanical, electrical, and HVAC Improvements costing \$48,674.

Sound accounting practices and a good internal control plan require procedures to be in place to track all assets to ensure they can be accounted for.

We recommend ESU No. 13 adopt a formal capital asset policy and maintain a complete capital asset listing. The capital asset policy should include procedures for adding, removing, and adjusting capital asset records. We also recommend ESU No. 13 perform an annual inventory to ensure the capital asset listing is accurate.

Contact: Jeff West, Administrator

Anticipated Completion Date: By the end of 2017-2018 fiscal year, August 31, 2018.

Corrective Action Plan: The Administrative Assistant will compile a master spreadsheet for fixed assets i.e. vehicles, buildings, items over a \$300.00 value for Tech and \$500.00 for all other items. The Director of each program will inform the Administrative Assistant when an item is purchased and she will add it to the master spreadsheet. They will also let her know when an item is disposed of and should be removed from the spreadsheet. ESU 13 will adopt a formal capital asset policy by the end of the 2017-2018 fiscal year. ESU 13 will implement an annual inventory review in January to ensure the capital asset listing is accurate.

Finding # 2017-002: Lack of Segregation of Duties Over Payroll

ESU No. 13 did not have an adequate segregation of duties in its payroll processing. Two Payroll Clerks were responsible for entering payroll information, printing checks, and initiating payroll direct deposits. Payroll for the Head Start program was reviewed by a separate individual; however, outside of the Head Start program, no review of pay was performed, including a review of those with the ability to make payroll changes and process payroll. ESU No. 13 does perform a payroll-reasonableness review that compares pay to prior periods, but this review does not include reviewing the employees who have the ability to process payroll and make changes to pay information.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Concluded)

Finding # 2017-002: Lack of Segregation of Duties Over Payroll (Concluded)

A good internal control plan requires a proper segregation of duties to be in place to ensure no one individual is able to process a transaction from beginning to end. If a proper segregation of duties is not able to be put in place, then ESU No. 13 should implement reviews to compensate for the lack of segregation of duties.

We recommend ESU No. 13 implement a segregation of duties over the payroll process. If this is not feasible, we recommend ESU No. 13 implement compensating controls, such as someone without payroll access reviewing payroll to ensure the amounts are accurate. This review should include those with payroll access.

Contact: Jeff West, Administrator

Anticipated Completion Date: Implemented beginning with the November, 2017 payroll

Corrective Action Plan: The Payroll Manager will run a report prior to payroll payment for the Administrator. The Administrator will review the payroll amounts for any staff member who has full access to the payroll program and verify that the amount is correct. This report will be signed by the Administrator and Business Manager.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding # 2017-003: Migrant Grant Priority for Service Students

Program: CFDA 84.011 – Migrant Education State Grant Program – Special Tests

Grant Number & Year: Grant 16-13-000-0013-00 for the period July 1, 2015, through September 30, 2016, and grant 17-13-000-0013-00 for the period July 1, 2016, through September 30, 2017.

Federal Grantor Agency: U.S Department of Education

Criteria: A good internal control plan requires the Program Director to document her approval of all support services provided to Migrant Education eligible students. A good internal control plan also requires a review to be in place to ensure all the information input into MIS2000, the State of Nebraska information system for this grant, is accurate.

Condition: For five of seven priority for service students tested, the Program Director had not documented her review and approval of the logs used to track services provided to eligible students. The Migrant grant requires the ESU to give priority to migratory children who are failing, or most at risk of failing, to meet the State's challenging academic content standards and challenging State student academic achievement standards, and whose education has been interrupted during the regular school year.

EDUCATIONAL SERVICE UNIT NO. 13

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

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

Finding # 2017-003: Migrant Grant Priority for Service Students (Concluded)

Questioned Costs: None

Statistical Sample: No

Repeat Finding: No

Context: Services provided to children eligible for the Migrant Education grant are documented on ESU No. 13's Migrant Education Program Instructional & Support Log. These logs are turned in by ESU No. 13 employees who provide the services or set up the services to be provided. The logs are reviewed and approved by the Program Director and then entered into MIS2000.

Cause: ESU No. 13 had a procedure for the Program Director to initial completed service logs; however, many of the logs reviewed lacked the initials. ESU No. 13 stated that the logs may have been missed, or the Program Director was behind in her review.

Effect: When the Program Director does not approve the Migrant Education Program Instructional & Support Logs, there is an increased risk the data may not be correctly entered into MIS2000, or the services may not be provided to the correct students.

Recommendation: We recommend ESU No. 13 strengthen procedures to ensure that the Program Director approves all Migrant Education Program Instructional & Support Logs or other documentation.

Contact: Kiowa Rogers, Director of Migrant Education Program

Anticipated Completion Date: Implemented beginning December 2017

Corrective Action Plan: We have revised our procedures for recording and approving the material resource packets to students. Going forward this data will be recorded on a form with the date each student received the packet, or if not, the reason the packet was not given. The director will sign each page of this form.

The Migrant Education Director will perform weekly review of staff work logs, mileage, and service logs and communicate frequently to ensure that staff time is given to high impact activities for our students.

Finding # 2017-004: Head Start Federal Financial Reporting

Program: CFDA 93.600 – Head Start – Reporting

Grant Number & Year: Grant 07CH7096-02-00 for the period April 1, 2016, through March 31, 2017, and Grant 07CH7096-03-00 for the period April 1, 2017, through March 31, 2018.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

Finding # 2017-004: Head Start Federal Financial Reporting (Continued)

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: 2 CFR 200.303 (January 1, 2017) requires:

The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

A good internal control plan requires the Program Director to review and approve Federal reports prior to their submittal. This review and approval should be documented.

Condition: All three Head Start Federal Financial Reports (FFR) tested were not formally reviewed and approved by the Program Director prior to being submitted.

Questioned Costs: None

Statistical Sample: No

Context: The Head Start Fiscal Manager explained the FFR is approved by the Board President; however, the Board President receives only the FFR and no support to verify that the reported amounts are accurate.

The Head Start Fiscal Manager does send a copy of the FFR to the Program Director for her review; however, the review and approval is not formally documented.

Cause: The Program Director's review and approval of the FFR is not formally documented prior to being sent to the Board President for approval.

Effect: When the Program Director, who has knowledge of the grant disbursements, does not formally document her review and approval of the FFR, there is an increased risk the report may not be reviewed which increases the risk errors or misstatements on the report may not be identified.

Recommendation: We recommend ESU No. 13 implement procedures for the Program Director to formally review and approve the FFR prior to being submitted.

Contact: Donna Jenne, Head Start Director or Pam Hebbert, Head Start Fiscal Agent

Anticipated Completion Date: Implemented with the submission of reports due October 30, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

Finding # 2017-004: Head Start Federal Financial Reporting (Concluded)

Corrective Action Plan: After the Federal Financial Report is prepared, the Head Start Fiscal Manager will review the report and supporting documentation with the Head Start Program Director. Upon approval by the Program Director, the report and supporting documentation will be forwarded to the Authorized Representative, currently the ESU 13 Board of Directors President, in an email copied to the Program Director, notating such approval. The Fiscal Manager will review the report with the Authorized Representative by phone or in person prior to signed approval.

Finding # 2017-005: Migrant Grant Reporting

Program: CFDA 84.011 – Migrant Education State Grant Program – Reporting

Grant Number & Year: Grant 16-13-000-0013-00, for the period July 1, 2015, through September 30, 2016, and Grant 17-13-000-0013-00, for the period July 1, 2016, through September 30, 2017.

Federal Grantor Agency: U.S. Department of Education

Criteria: 2 CFR 200.303 (January 1, 2017) requires:

The non-Federal entity must:
(a) *Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.*

A good internal control plan requires procedures to be in place to ensure that Federal reports are accurately prepared and reviewed and approved by a person with knowledge of the program. This review and approval should be documented.

Condition: All three Migrant Education grant reimbursement requests tested did not have the review and approval of the reimbursement request documented.

Questioned Costs: None

Statistical Sample: No

Context: ESU No. 13 files periodic Federal reimbursement requests through the Nebraska Department of Education for the Migrant Education State Grant Program. ESU No. 13 stated the Program Director reviews and approves these reports but the review and approval are not documented.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

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

Finding # 2017-005: Migrant Grant Reporting (Concluded)

Cause: The review and approval of the Federal reimbursement requests are performed but not documented.

Effect: When Federal reimbursement requests are made without a documented review and approval of the reimbursement reports, there is an increased risk the reports may be inaccurate.

Recommendation: We recommend the Migrant Education Program Director document her review and approval of the reimbursement request reports prior to submittal to the Nebraska Department of Education.

Contact: Kiowa Rogers, Director of Migrant Education Program

Anticipated Completion Date: Implemented beginning with November 2017 Grant Reimbursement

Corrective Action Plan: The Grants Coordinator will have the Director of Migrant Education approve all reimbursement requests prior to submitting them to the State of Nebraska. The Migrant Education Director will review and sign the Federal Reimbursement request before submission to Nebraska Department of Education.

Finding # 2017-006: Head Start Grant Matching

Program: CFDA 93.600 Head Start – Matching

Grant Number & Year: Grant 07CH7096-02-00 for the period April 1, 2016, through March 31, 2017, and Grant 07CH7096-03-00 for the period April 1, 2017, through March 31, 2018.

Federal Grantor Agency: Department of Health and Human Services

Criteria: 2 C.F.R. § 200.96 (January 1, 2017) states, “Third-party in-kind contributions means the value of non-cash contributions (i.e., property or services) that – (a) Benefit a federally assisted project or program; and (b) Are contributed by non-Federal third parties, without charge, to a non-Federal entity under a Federal award.”

Condition: In-kind matching contributions for partnerships with local school districts to provide a Head Start program were not an allowable cost based on ESU No. 13’s method for calculating the in-kind contributions. As a result, it appeared ESU No. 13 had \$67,461 less in-kind matching contributions than required.

Questioned Costs: Unknown

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

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

Finding # 2017-006: Head Start Grant Matching (Concluded)

Statistical Sample: No

Context: 42 U.S.C. § 9835(b) (2016) requires at least 20 percent of the Head Start program expenses be provided by non-federal sources. ESU No. 13 accomplishes this through multiple sources, one of the largest being services provided by partnerships with local schools to provide preschool to Head Start eligible students.

In calculating the in-kind match of these partnerships, ESU No. 13 obtains the costs incurred by the school and subtracts the amount paid by ESU No. 13 to arrive at the in-kind contribution by the school. This methodology does not appear to agree to the “Non-Federal Share Management Matters Text Version” paper issued by the Office of Head Start Program Management and Fiscal Operations.

Per the “Non-Federal Share Management Matters Text Version” paper, Scenario 5 of “Is This Allowable?” identifies a similar situation as ESU No. 13; however, this scenario states that the in-kind contribution must be proportional based on the number of Head Start and non Head Start students. ESU No. 13 did not reduce the in-kind contribution amounts based on the percentage of Head Start students to all students provided services by the partnership.

Cause: ESU No. 13 believed its calculation method was allowable per Federal regulations.

Effect: When ESU No. 13’s method of calculating in-kind contributions is not in compliance with Federal guidance, there is an increased risk ESU No. 13 will not meet its matching requirements.

Recommendation: We recommend ESU No. 13 implement procedures to work with the Head Start Program to ensure the in-kind match is in compliance with federal regulation and practices.

Contact: Donna Jenne, Head Start Director or Pam Hebbert, Head Start Fiscal Agent

Anticipated Completion Date: The end of the current grant period, March 31, 2018

Corrective Action Plan: The ESU 13 Head Start program will continue to work with the Region VII Office of Head Start and the The National Center on Program Management and Fiscal Operations (PMFO) with the Office of Head Start (OHS) to identify practices that are in compliance with federal regulations regarding the method of calculation of in-kind contributions from school district partnerships.

Once the procedures have been identified, the ESU 13 Head Start program will implement the practices.

EDUCATIONAL SERVICE UNIT NO. 13

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Concluded)

SECTION IV. SCHEDULE OF PRIOR AUDIT FINDINGS

Finding for the year ended August 31, 2016: 2016 -1 Lack of Segregation of Duties in One or More Areas. This has been a finding since at least 2009.

Status: Corrected.