Educational Service Unit No. 18 of the State of Nebraska

(A Component Unit of Lancaster County School District 001 – Lincoln Public Schools)

Financial Statements and Supplemental Schedules - Modified Cash Basis for the Year Ended August 31, 2017 and Independent Auditors' Report

EDUCATIONAL SERVICE UNIT NO. 18 OF THE STATE OF NEBRASKA

TABLE OF CONTENTS

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November 1, 2017

INDEPENDENT AUDITORS' REPORT

Board of Education
Educational Service Unit No. 18 of the State of Nebraska
Lincoln, Nebraska

We have audited the accompanying modified cash basis financial statements of the governmental activities of Educational Service Unit No. 18 of the State of Nebraska (the "ESU 18"), a component unit of Lancaster County School District 001 – Lincoln Public Schools, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise ESU 18'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 A; 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 opinions 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 the ESU 18's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities of ESU 18, as of August 31, 2017, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A 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 opinions are not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ESU 18's basic financial statements. The accompanying supplemental information presented on pages 12-14 is presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and 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 1, 2017, on our consideration of ESU 18's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESU 18's internal control over financial reporting and compliance.

HSMC Orizon LLC

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EDUCATIONAL SERVICE UNIT NO. 18 OF THE STATE OF NEBRASKA

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
AUGUST 31, 2017

	Governmental Activities
ASSETS:	
Investments held by Lincoln Public Schools	$ 4,116,377
LIABILITIES:	
Accrued expenses and encumbrances	216,504
NET POSITION:	
Unrestricted	$ 3,899,873

See Notes to Financial Statements.

EDUCATIONAL SERVICE UNIT NO. 18 OF THE STATE OF NEBRASKA

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED AUGUST 31, 2017

Functions/Programs	Expenditures	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Expenditures)/ Receipt and Changes in Net Position
Primary government:				
Governmental activities:				
Instruction	$ 2,004,066	$ 856,969	$ 1,518,576	$ 371,479
Support services	6,671,753	5,761,656		(910,097)
General administration	164,045			(164,045)
Co-op services	3,777,208			(3,777,208)
Total governmental activities	$ 12,617,072	$ 6,618,625	$ 1,518,576	(4,479,871)
	General receipts:			
	Taxes:			
	Property			2,883,696
	Pro rate motor vehicle			7,797
	Other			1,825
	Total taxes			2,893,318
	State aid			2,127,834
	Total general receipts			5,021,152
	Change in net position			541,281
	Net position - beginning of year			3,358,592
	Net position - ending of year			$ 3,899,873

See Notes to Financial Statements.

EDUCATIONAL SERVICE UNIT NO. 18 OF THE STATE OF NEBRASKA

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS
FOR THE YEAR ENDED AUGUST 31, 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – On November 28, 1972, the Lincoln Educational Service Unit, a tax-supported governmental organization, was formed to provide supplementary educational services to Lancaster County School District 001 – Lincoln Public Schools (the “School District”). It was later renamed as the Educational Service Unit No. 18 of the State of Nebraska (“ESU 18”) by statute. The ESU 18, a component unit of Lancaster County School District 001 – Lincoln Public Schools as defined by the Governmental Accounting Standards Board, is controlled by the same Board of Education as is elected for the School District and is supported by property taxes of up to 1.5 cents per one hundred dollars of valuation. The ESU 18 is a tax-exempt political subdivision of the State of Nebraska under Nebraska Statute §79-1202.

Reporting Entity – The financial statements of the ESU 18 include all significant separately administered organizations for which the ESU 18 is financially accountable. Financial accountability is determined on the basis of selection of governing authority, imposition of will, a financial benefit/burden relationship, and/or fiscal dependency. The ESU 18’s financial statements are included in the School District’s financial statements as a blended component unit. No component units are included in these financial statements.

Basis of Presentation – The ESU 18 prepares its financial statements based on the provisions of Statement No. 34 (“Statement 34”) of the Government Accounting Standards Board *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Statement 34 establishes standards for external financial reporting for all state and local government entities, which includes government-wide financial statements and fund financial statements. Fund financial statements are not presented as part of these financial statements due to the ESU 18 only having one fund which would report essentially the same information as the government-wide financial statements. However, on fund financial statements, the fund balance is reported in five classifications based primarily on the extent to which the ESU 18 is bound to observe constraints imposed upon the use of the resources. The classifications are nonspendable, restricted, committed, assigned and unassigned. As of August 31, 2017, the entire fund balance is considered unassigned. Unassigned are those funds not identified as restricted, committed, or assigned for a specific purpose by ESU No. 18.

Basis of Accounting – The accompanying statements have been prepared on the modified cash basis of accounting. Under the cash basis of accounting, revenues are recognized when collected rather than when earned and expenses are recognized when paid rather than incurred. While a primarily cash basis methodology is used, the ESU 18 does utilize certain characteristics of accrual accounting in their accounting policies to more accurately depict the cash position of the ESU 18. Specifically, payroll-related accrued expenses and operating encumbrances for specific purchase orders are recorded as liabilities at the end of the fiscal year.

The year-end potential liabilities not recorded include:

- Potential liabilities based on blanket purchase orders in any of the ESU 18’s funds, as these ongoing purchase orders do not represent a specific dollar-amount liability for the ESU 18; and
- Unencumbered accounts payable; deferred revenues; notes; bonds and capital lease obligations; compensated absences and pension liabilities.

Accordingly, the financial statements and schedules are not intended to present the financial position and results of operation in conformity with accounting principles generally accepted in the United States of America.

General Fund – This fund finances the educational services rendered by the ESU 18 and is used to account for all financial resources except those required or determined to be accounted for in another fund. Currently, the ESU 18 maintains no other funds.

Budgetary Data – The ESU 18 Board (the "Board") follows these procedures in establishing the budgetary data reflected in the accompanying financial statements:

1. Prior to September 1, the Board proposes a budget on the modified cash basis of accounting for the fiscal year commencing September 1. The operating budget includes proposed expenditures and the means of financing them.

2. Hearings are conducted at a public meeting to obtain public comments.

3. Prior to September 20, the budget is legally adopted by the Board and submitted to the Office of the Auditor of Public Accounts and to the County Clerk.

4. Once approved by the Board, total expenditures cannot legally exceed total appropriations for the ESU 18 as a whole without holding a public budget hearing and obtaining approval from the Board. No amendments to the legally adopted budget were made for the year ended August 31, 2017.

5. Appropriations lapse at the end of the fiscal year.

Property Taxes – The tax levies for all political subdivisions in Lancaster County (the "County") are certified by the County Board on or before October 15. Real estate and personal property taxes are due and become an enforceable lien on property on December 31. The first half of real estate and personal property taxes becomes delinquent on April 1 and the second half becomes delinquent August 1 following the levy date. Delinquent taxes bear a statutory rate (currently 14%) of interest. Property taxes are recognized when received from Lancaster County. Accordingly, unremitted taxes of $202,797 at August 31, 2017 collected by the County have not been reflected in the ESU 18's financial statements.

The 2016 property tax valuation for the ESU 18 was $19,461,814,212. A tax levy of $0.015 per $100 of valuation was adopted to obtain a property tax assessment of $2,919,272 for the 2016-2017 budget year.

Cash held by Lincoln Public Schools – The ESU 18 does not maintain a separate bank account, but instead operates as part of a pooled cash account and investments with the School District. The ESU 18's share of cash and investments are recognized as a cash equivalent for the financial statements. The amount held by the School District consists of $4,116,377of investments at August 31, 2017.

Interlocal Agreements – The School District and the ESU No. 18 have entered into agreements whereby each entity provides certain services on behalf of the other. The ESU No. 18 provides certain technology and instructional media services to the School District. During the fiscal year ended August 31, 2017, the School District reimbursed the ESU No. 18, $5,761,656 which is reported as Support Service program receipts on the Statement of Activities. Furthermore, the School District provides instructional media services, instructional and administrative technology services, and staff development services to the ESU No. 18. During the fiscal year ended August 31, 2017, the ESU No. 18 reimbursed the School District $3,777,208 for these services, shown as Co-op Service expenditures on the Statement of Activities.

Compensated Absences – Vacation benefits are recorded when paid. The liability for accumulated unpaid vacation benefits of ESU 18 amounting to approximately $416,510 at August 31, 2017, has not been accrued for in the financial statements in accordance with the basis of accounting disclosed above.

Sick and annual leave are also recorded when paid. Under the Option A Annual Leave Plan, certificated employees who separate from ESU 18 following twenty years of employment receive $16.50 per hour for each hour of accumulated annual (sick) leave. Under the Option B Annual Leave Plan certificated employees who separate from the ESU 18 following ten years of employment receive $16.50 per hour for each hour of accumulated annual (sick) leave. Other employee groups receive a range from four to twenty-two dollars per accumulated hour of sick or annual leave after ten to twenty years of employment.

The liability for sick and annual leave has not been determined, but management believes that annual payments for these benefits will not have a material financial impact on the accompanying financial statements and has not been accrued for in the financial statements in accordance with the basis of accounting disclosed above.

B. INVESTMENTS

For financial reporting purposes, the ESU 18's investments are carried at cost, which approximates fair value. As of August 31, 2017, the cost and fair value of the ESU 18's investments was $4,116,377.

The ESU 18 has not adopted a fair value measurements policy, but is providing the following information to enhance the understanding of its investments. A fair value policy establishes a framework for measuring fair value and expanded disclosures about fair value measurements. If adopted, the policy applies to all assets and liabilities that are measured and reported on a fair value basis. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

Assets and liabilities are classified into one of the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents financial instruments at cost and fair value utilizing the above hierarchy as of August 31, 2017:

	Cost	Fair Value Level 2
Short-term Federal Investment Trust	$ 4,116,377	$ 4,116,377

Risks – The ESU 18 attempts to mitigate the following types of deposit and investment risks through compliance with the State Statutes referred to above. The three types of deposit and investment risks are the following:

- Custodial Credit Risk – for deposits and investments, custodial credit risk is the risk that in the event of the failure of a bank or other counterparty, the ESU 18 will not be able to recover the value of its deposits or investments or collateral securities in the possession of a third-party.

- Credit Risk – for deposits and investments, credit risk is the risk that a bank or other counterparty defaults on its principal and/or interest payments owed to the ESU 18.

- Interest Rate Risk – for deposits and investments, interest rate risk is the risk that the value of deposits and investments will decrease as a result of a rise in interest rates.

The ESU 18's investment policy does not restrict investment maturities. The ESU 18 minimizes its interest rate risk by structuring its investment portfolio so that securities mature to meet the ESU 18's cash needs, which is accomplished in part by investing primarily in short-term investments or in investment vehicles that allow for monthly cash draws.

C. PENSION PLANS

The employees of ESU 18 are covered by the following pension plan:

The ESU 18 contributes to the Nebraska School Employees Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement System (NPERS). NPERS provides retirement and disability benefits to plan members and beneficiaries. The School Employees Retirement Act establishes benefit provisions.

In 1945, the Nebraska Legislature enacted the law establishing a retirement plan for school employees of the State. During the NPERS fiscal year ended June 30, 2016, there were 266 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plans (Class V school districts, Nebraska State Colleges, University of Nebraska, Community Colleges), are members of the plan.

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

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

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

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

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

For the ESU 18's year ended August 31, 2017, the ESU 18's total payroll for all employees was $5,628,869. Total covered payroll was $5,613,465. Covered payroll refers to all compensation paid by the ESU 18 to active employees covered by the Plan.

Contributions

The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to two percent of the compensation of all members. This contribution is considered a nonemployer contribution since employees are not employees of the State. The employee contribution was equal to 9.78 percent from July 1, 2015, to June 30, 2016, (and from July 1, 2016, through August 31, 2016). The school district (employer) contribution is 101 percent of the employee contribution. The ESU 18's contribution to the Plan for its year ended August 31, 2017 was $545,745.

Pension Liabilities

At June 30, 2016, the ESU 18 had a liability of $3,586,706 for its proportionate share of the net pension liability. (This liability is not recorded in the accompanying modified cash basis financial statements.) The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The NPERS School Plan was 86.56% funded as of June 30, 2016 based on actuarial calculations comparing total pension liability to the plan fiduciary net position. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the ESU 18's proportion was 0.238344% which was an increase/(decrease) of (0.009434%) from its proportion measured as of June 30, 2015.

Under Nebraska Statute 79-966.01, if the actuarially required contribution rate exceeds the rate of all contributions required by the School Employees Retirement Act by ESU 18, the added contributions, if any, are required to be paid by the State of Nebraska. Accordingly, ESU 18 is not responsible for any portion of this liability beyond its current annual funding requirements. Thus the future liability, if any, related to the unfunded benefits will not have a material financial impact on the accompanying financial statements and has not been accrued for in the financial statements in accordance with the basis of accounting disclosed above.

For the year ended June 30, 2016, the ESU 18's allocated pension expense was $239,186.

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3.25%
Investment rate of return, net of investment expense and including inflation: 8%
Projected salary increases, including inflation: 4.0%- 9.0%
Cost-of-living adjustments (COLA): For members hired before July 1, 2013, it is 2.50% per annum, compounded annually and 3.25% per annum, compounded annually, after reaching 75% purchasing power floor benefit. For members hired on or after July 1, 2013, it is 1.00% per annum, compounded annually, and there is no floor for the purchasing power of the benefit.

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

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

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

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

The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The return assumptions were developed using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plans' target asset allocation as of first quarter 2016, (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	**Target Allocation**	**Long-term Expected Real Rate of Return**
U.S. Stocks	29.0%	4.3%
Non-U.S. Stocks	13.5%	5.4%
Global Stocks	15.0%	5.1%
Fixed Income	30.0%	1.4%
Real Estate	7.5%	3.6%
Private Equity	5.0%	6.4%
Total	100%	

Discount Rate

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

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and contributions from employers and non-employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability. The projected future benefit payments for all current plan members were projected through 2115.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	Discount Rate	District's proportionate Share of net pension liability
1% decrease	7.0%	$ 7,009,066
Current discount rate	8.0%	$ 3,586,706
1% increase	9.0%	$ 741,397

Plan Fiduciary Net Position

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

D. COMMITMENTS AND CONTINGENCIES

Self-Insurance – The ESU 18 uses a blend of self-insurance and commercial insurance to manage its financial risk. The ESU 18 is covered under the School District's self-insurance program. The School District's primary areas of risk are covered as follows:

- Workers' Compensation – benefits, medical expenses, evaluation expenses, legal fees, and other administrative costs are self-insured up to a maximum retention of $500,000 per incident. Excess liabilities are commercially insured in accordance with the Nebraska Workers' Compensation laws.

- Unemployment Compensation – the School District is a "self-insured employer" under regulations promulgated by the Nebraska Department of Labor, and utilizes a third-party administrator to monitor quarterly reimbursements to the Department of Labor.

- Real and Personal Property, Basic Liability, Motor Vehicle Liability, and Errors and Omissions – the School District utilizes a "protected self-insurance" program whereby losses are self-insured up to a maximum retention of $250,000 per incident. Excess liabilities are self-insured, with the excess liability covered by various commercial insurers.

- Flood Insurance – the School District is commercially insured for losses due to floods.

- Employee Death Benefit – active-employee death benefits are payable pursuant to the School District's various employment agreements, ranging from $5,000 to $20,000 per individual, are commercially insured.

The ESU 18 or School District did not pay any settlement amounts which exceeded its insurance coverages or amounts that exceeded its budget estimates for self-insured risks for the years ending August 31, 2017, 2016, or 2015.

Federal Award Programs – The ESU 18 receives funds under various federal and state programs and such assistance is to be expended in accordance with the provisions of the various grants. Compliance with the grants is subject to audit by various government agencies which may impose sanctions in the event of non-compliance. Management believes that they have complied with all aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would not have any material financial impact.

EDUCATIONAL SERVICE UNIT NO. 18 OF THE STATE OF NEBRASKA

SCHEDULE OF GENERAL FUND RECEIPTS, EXPENDITURES AND FUND BALANCE - BUDGET AND ACTUAL - MODIFIED CASH BASIS FOR THE YEAR ENDED AUGUST 31, 2017

	Budget (Original and Final)	Actual
FUND BALANCE, beginning of year	$ 2,693,269	$ 3,358,592
Receipts:		
Local sources:		
Local property taxes	2,890,368	2,679,866
Tuition receipts for classes	7,500	9,850
Contracted services	919,920	847,119
Other	26,750	1,825
	3,844,538	3,538,660
State sources:		
State aid	2,216,494	2,127,834
Homestead exemption		75,893
Property tax credit		127,937
Pro-rata motor vehicle	7,500	7,797
	2,223,994	2,339,461
Federal sources	1,567,950	1,518,576
Inter-local agreement - Lincoln Public Schools	5,831,680	5,761,656
Total receipts	13,468,162	13,158,353
Total available resources	16,161,431	16,516,945
EXPENDITURES:		
Operational expenditures:		
Instruction (non-special education)	957,120	856,553
Instruction (special education)	1,567,950	1,147,513
Support services and programs to schools	6,787,610	6,671,753
General administration	159,380	164,045
Co-op contracts and services	4,055,460	3,777,208
Total expenditures	13,527,520	12,617,072
FUND BALANCE, end of year	$ 2,633,911	$ 3,899,873

EDUCATIONAL SERVICE UNIT NO. 18 OF THE STATE OF NEBRASKA

NOTE TO SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2017

A. BUDGETARY ACCOUNTING

The ESU 18 prepares its budget for the Governmental Funds on the modified cash basis of accounting. This basis is consistent with the basis of accounting used in presenting the basic financial statements. Under this method of accounting, all unexpended appropriations lapse at the end of the budget year.

The term “Budgetary Fund Balance” used in these supplementary schedules is synonymous with the terms “Fund Balance – Modified Cash Basis” used in the basic financial statements.

EDUCATIONAL SERVICE UNIT NO. 18 OF THE STATE OF NEBRASKA

SCHEDULE OF GENERAL FUND EXPENDITURES - MODIFIED CASH BASIS FOR THE YEAR ENDED AUGUST 31, 2017

INSTRUCTION (NON-SPECIAL EDUCATION):	
Salaries:	
Professional staff	$ 511,218
Technical staff	71,018
Clerical staff	55,152
Employee benefits	195,636
Purchased services	2,505
Supplies and materials	15,093
Other	5,931
	856,553
INSTRUCTION (SPECIAL EDUCATION):	
Salaries:	
Professional staff	13,679
Technical staff	645,806
Clerical staff	36,669
Employee benefits	260,143
Contracted services	8,933
Supplies and materials	25,498
Other	156,785
	1,147,513
SUPPORT SERVICES AND PROGRAMS TO SCHOOLS:	
Salaries:	
Professional staff	930,755
Technical staff	2,591,090
Clerical staff	154,711
Employee benefits	1,249,639
Purchased services	685,419
Supplies and materials	980,144
Other	79,995
	6,671,753
GENERAL ADMINISTRATION:	
Salaries:	
Administrative staff	103,013
Employee benefits	22,924
Purchased services	28,162
Supplies and materials	20
Other	9,926
	164,045
CO-OP CONTRACTS:	
District staff development	1,457,769
Computer technology	1,898,078
Assessment services	310,638
Media contracted services	110,723
	3,777,208
Total expenditures	$ 12,617,072

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November 1, 2017

INDEPENDENT AUDITOR'S 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*

Board of Education
Educational Service Unit No. 18 of the State of Nebraska
Lincoln, Nebraska

We have audited, in accordance with the 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 of Educational Service Unit No. 18 of the State of Nebraska (the "ESU 18"), a component unit of Lancaster County School District 001 – Lincoln Public Schools, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise ESU 18's basic financial statements, and have issued our report thereon dated November 1, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ESU 18'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ESU 18's internal control. Accordingly, we do not express an opinion on the effectiveness of ESU 18'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the ESU 18'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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ESU 18's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 results of that testing, and not to provide an opinion on the effectiveness of the ESU 18's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ESU 18's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HSMC Orizon LLC

HSMC ORIZON LLC

EDUCATIONAL SERVICE UNIT NO. 18 OF THE STATE OF NEBRASKA

SUMMARY SCHEDULE OF PRIOR AUDIT COMMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

1. Lack of Internal Controls

   Condition: Good internal control requires an adequate segregation of duties to ensure no one individual is able to perpetrate and to conceal errors or irregularities. Good internal control also requires procedures to ensure cash accounts are adequately safeguarded, and disbursements are reviewed and approved prior to payment. Without an adequate segregation of duties, there is an increased risk for loss or misuse of funds. In the prior year's audit it was noted that there were individuals who had conflicting duties related to expenditures and payroll processes. Also, there was a weakness identified related to the cash receipt process.

   Response:

   Expenditures: ESU No. 18 has reviewed the roles and access of super-users and operationalized the changes available in our current system. LPS signed a contract and is in the process of implementing a mutli-year conversion to an updated system with role-based security.

   Payroll: ESU No. 18 modified the access of payroll employees. Four employees no longer have access to process a payroll or set up new employees. In addition, the payroll manager reviews for accuracy the payroll for the employee who processes their own payroll.

   Receipts: A compensating procedure has been established to include four separate people for the receipt and deposit process. One opens the mail, a second creates a log, a third makes the deposit, and a fourth checks to make sure that all items logged are in the deposit.