

**AUDIT REPORT
OF THE
LEARNING COMMUNITY OF
DOUGLAS AND SARPY COUNTIES**

SEPTEMBER 1, 2010 THROUGH AUGUST 31, 2011

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the Auditor of Public Accounts.**

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Issued on March 7, 2012

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

TABLE OF CONTENTS

	<u>Page</u>
Exit Conference	1
Financial Section	
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets - Cash Basis	8
Statement of Activities - Cash Basis	9
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances - Governmental Funds	10
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances - Governmental Funds	11
Notes to Financial Statements	12 - 18
Required Supplementary Information:	
Budgetary Comparison Schedule - Budget and Actual - General Fund	19
Budgetary Comparison Schedule - Elementary Learning Centers Fund	20
Notes to Required Supplementary Information	21
Government Auditing Standards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 - 23

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

EXIT CONFERENCE

An exit conference was held February 10, 2012, with the Learning Community to discuss the results of our audit. Those in attendance for the Learning Community of Douglas and Sarpy Counties were:

NAME	TITLE
Ted Stilwill	CEO
Brian Gabriel	Finance Director



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LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

INDEPENDENT AUDITORS' REPORT

Coordinating Council
Learning Community of Douglas and Sarpy Counties
Omaha, Nebraska

We have audited the accompanying financial statements of the governmental activities and each major fund of the Learning Community of Douglas and Sarpy Counties (Learning Community), as of and for the year ended August 31, 2011, which collectively comprise the Learning Community's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Learning Community's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities and each major fund of the Learning Community, as of August 31, 2011, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012, on our consideration of the Learning Community's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison information on pages 4 through 7 and 19 through 21 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Signed Original on File

March 2, 2012

Don Dunlap, CPA
Assistant Deputy Auditor

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Learning Community of Douglas and Sarpy Counties (Learning Community) provides this Management's Discussion and Analysis of its financial statements to provide a narrative overview and analysis of the financial activities for the fiscal year ended August 31, 2011, and 2010. Please read it in conjunction with the Learning Community's financial statements, which begin on page 8.

Financial Highlights

- General Fund receipts decreased from \$2,634,542 in fiscal year 2010 to \$916,609 in fiscal year 2011, while General Fund disbursements also decreased from \$1,151,344 in fiscal year 2010 to \$724,427 in fiscal year 2011. The Learning Community's General Fund balance decreased from \$1,593,768 at the end of fiscal year 2010 to \$1,110,950 at the end of fiscal year 2011.
- General Fund receipts decreased due to a reduction in appropriations from the State of Nebraska from \$1,000,000 in 2010 to \$882,275 in 2011. Also, the allocation of Educational Service Unit No. 3 and No. 19 (ESU) Core Service funding in the amount of approximately \$1,079,000 pursuant to State statute was designated for elementary learning center programs and was included in a separately established Elementary Learning Center fund to recognize activities related to these programs. The decrease in General Fund disbursements was due primarily to the establishment of the separate Elementary Learning Center fund.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Learning Community's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets – Cash Basis and a Statement of Activities – Cash Basis. These statements provide information about the activities of the Learning Community as a whole and present an overall view of the Learning Community's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Learning Community's operations in more detail than the Government-wide statements by providing information about the most significant funds. The fund financial statements of the Learning Community only include governmental activities. The Learning Community has no business type (proprietary) or fiduciary funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Learning Community's budget for the year.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE LEARNING COMMUNITY

Net Assets

The Learning Community's net assets reported in the Statement of Net Assets – Cash Basis represent the financial position of the Learning Community. The Learning Community's net assets at August 31, 2011, and 2010 amounted to \$7,264,650 and \$3,823,621, respectively. The improvement in the financial position resulted from unspent tax levies restricted for capital projects in the amount of \$2,888,968, and tax levies collected to support the operation of elementary learning center programs.

Governmental Activities

A summary of the governmental activities of the Learning Community are as follows:

	Fiscal year ended August 31, 2011	Fiscal year ended August 31, 2010	Change from Prior Year
Receipts:			
Tax receipts	\$ 5,114,445	\$ 2,227,908	\$ 2,886,537
State funding	1,961,950	2,628,071	(666,121)
Investing earnings	23,237	8,416	14,821
Total Receipts	7,099,632	4,864,395	2,235,237
Disbursements:			
Elementary learning centers	2,934,176	347,566	2,586,610
Diversity	44,673	52,394	(7,721)
Coordinating Council	159,751	277,570	(117,819)
Administration	520,003	473,814	46,189
Total Disbursements	3,658,603	1,151,344	2,507,259
Increase in Net Assets	\$ 3,441,029	\$ 3,713,051	\$ (272,022)

The increase in governmental receipts in 2011 was due to tax collected received in the Elementary Learning Centers fund from the levy of \$0.01 per \$100 of assessed valuation restricted for elementary learning center programs. The increase in governmental disbursements was primarily due to the increase of elementary learning center program activities.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Individual Fund Analysis

As mentioned previously, the fund financial statements report the Learning Community's activities in more detail than the government-wide statements by providing information about the most significant funds. The fund financial statements of the Learning Community only include governmental activities, the General Fund, Capital Projects Fund, and the Elementary Learning Centers Fund.

General Fund – The General Fund is funded by an appropriation from the State of Nebraska. The General Fund balance amounted to \$1,110,950 at August 31, 2011, a decrease of \$482,818 from the balance at August 31, 2010, primarily due to a reduction in State appropriations and the allocation of ESU Core Service funds being included in the Elementary Learning Centers fund in 2011. General Fund disbursements were less than total budgeted disbursements in the amount of \$274,560. Excess amounts are being carried over to the 2011-2012 fiscal year to fund future programs and ongoing operations of the Learning Community.

Capital Projects Fund – The capital projects fund consists of unspent tax levies received as a result of the capital projects levy in the amount of \$2,344,457, or \$0.0050 per \$100 of assessed valuation for the 2009 tax year and \$587,376 or \$0.00125 per \$100 of assessed valuation for the 2010 tax year. These funds are restricted by State statute for capital projects and lease and leasehold improvements.

Elementary Learning Centers Fund – The Elementary Learning Centers fund is funded through taxes and other receipts restricted for purposes of supporting elementary learning center program activities. Elementary Learning Centers fund balance amounted to \$3,264,732 as of August 31, 2011. Disbursements of \$2,934,176 were less than budgeted disbursements of \$4,271,843 as programs for elementary learning centers were just being established in the current fiscal year. Excess amounts are being carried over to fund program activities in future years.

Economic Factors Bearing on the Learning Community's Future

At the time these financial statements were prepared and audited, the Learning Community was aware of several circumstances that impact the future activities of the Learning Community:

- The taxable property valuation for the Learning Community for 2011/2012 increased by 1.18% from the prior year property valuation.
- General Fund monies, which are received by State appropriation, are subject to modification by the Nebraska Unicameral Legislature.
- Commencing with the 2011/2012 fiscal year, the use of ESU Core Service funding is restricted to evaluation and research of Learning Community programs and may not be used for general operations.
- Litigation challenging the constitutionality of the General Fund Common Levy was filed in December 2010. On September 23, 2011, the District Court of Sarpy County, Nebraska declared the General Fund Common Levy and Special Building Fund Common Levy to be unconstitutional. The Learning Community appealed the district court's judgment to the Nebraska Supreme Court, which issued an opinion on February 3, 2012,

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

reversing the judgment of the district court, holding that the General Fund Common Levy is constitutional, and declaring void the district court's judgment with regard to the Special Building Fund Common Levy as not properly before the district court.

Contacting the Learning Community's Financial Management

This financial report is designed to provide the citizens, taxpayers, legislators, and member school districts with a general overview of the Learning Community's finances and to demonstrate the Learning Community's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Learning Community of Douglas and Sarpy Counties, 6949 South 110th Street, Omaha NE 68128-5721.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES
STATEMENT OF NET ASSETS - CASH BASIS
 August 31, 2011

	GOVERNMENTAL ACTIVITIES TOTAL
Assets	
Cash and Cash Equivalents	\$ 3,908,274
Cash held by County Treasurer	345,103
Short Term Investments	3,011,273
Total Assets	\$ 7,264,650
 Net Assets	
Restricted for:	
Capital Projects	\$ 2,323,241
Lease and Leasehold Improvements	565,727
Research and Evaluation	70,534
Elementary Learning Centers	3,194,198
Unrestricted	1,110,950
Total Net Assets	\$ 7,264,650

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

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES
STATEMENT OF ACTIVITIES - CASH BASIS
For the Year Ended August 31, 2011

	Governmental Activities TOTAL	FUNCTION			Diversity
		Administration	Coordinating Council	Elementary Learning Centers	
Disbursements:					
Personal Services	\$ 462,287	\$ 274,495	\$ 106,197	\$ 81,595	\$ -
Contracted/purchased services	3,041,380	155,952	8,350	2,849,270	27,808
Supplies and materials	7,689	7,689	-	-	-
Occupancy	37,825	32,236	5,589	-	-
Other	109,422	49,631	39,615	3,311	16,865
Total Disbursements	<u>3,658,603</u>	<u>\$ 520,003</u>	<u>\$ 159,751</u>	<u>\$ 2,934,176</u>	<u>\$ 44,673</u>
Receipts:					
Property and Other Taxes	5,114,445				
State Appropriations	1,961,950				
Investment Earnings	23,237				
Total Operating Receipts	<u>7,099,632</u>				
Change in Net Assets	3,441,029				
Net Assets, Beginning of Year	<u>3,823,621</u>				
Net Assets, End of Year	<u>\$ 7,264,650</u>				

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

**LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS**

August 31, 2011

	Major Funds			
	General Fund	Capital Projects Fund	Elementary Learning Centers Fund	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 84,815	\$ 843,568	\$ 2,979,891	\$ 3,908,274
Cash held by County Treasurer	-	37,885	307,218	345,103
Short Term Investments	1,003,758	2,007,515	-	3,011,273
Due from Other Funds	22,377	-	-	22,377
Total Assets	<u>\$ 1,110,950</u>	<u>\$ 2,888,968</u>	<u>\$ 3,287,109</u>	<u>\$ 7,287,027</u>
Liabilities and Fund Balances:				
Liabilities				
Due to Other Funds	\$ -	\$ -	22,377	\$ 22,377
Fund Balances:				
Restricted for:				
Capital Projects	-	2,323,241	-	2,323,241
Leases and Leasehold Improvements	-	565,727	-	565,727
Research and Evaluation	-	-	70,534	70,534
Elementary Learning Centers Use	-	-	3,194,198	3,194,198
Unreserved	1,110,950	-	-	1,110,950
Total Fund Balances	<u>1,110,950</u>	<u>2,888,968</u>	<u>3,264,732</u>	<u>7,264,650</u>
Total Liabilities and Fund Balances	<u>\$ 1,110,950</u>	<u>\$ 2,888,968</u>	<u>\$ 3,287,109</u>	<u>\$ 7,287,027</u>

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

**LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended August 31, 2011

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Elementary Learning Centers Fund	
RECEIPTS:				
State Appropriations	\$ 906,726	\$ -	\$ 1,055,224	\$ 1,961,950
Property and Other Taxes	-	649,096	4,465,349	5,114,445
Investment Earnings	9,883	10,019	3,335	23,237
TOTAL RECEIPTS	916,609	659,115	5,523,908	7,099,632
DISBURSEMENTS BY FUNCTION:				
Current:				
Elementary Learning Centers	-	-	2,934,176	2,934,176
Diversity	44,673	-	-	44,673
Coordinating Council	159,751	-	-	159,751
Administrative	520,003	-	-	520,003
TOTAL DISBURSEMENTS	724,427	-	2,934,176	3,658,603
Excess of Receipts Over Disbursements	192,182	659,115	2,589,732	3,441,029
OTHER FINANCING SOURCES (USES):				
Transfers	(675,000)	-	675,000	-
EXCESS OF RECEIPTS AND TRANSFERS IN OVER (UNDER) DISBURSEMENTS AND TRANSFERS OUT	(482,818)	659,115	3,264,732	3,441,029
FUND BALANCES, BEGINNING OF YEAR	1,593,768	2,229,853	-	3,823,621
FUND BALANCES, END OF YEAR	\$ 1,110,950	\$ 2,888,968	\$ 3,264,732	\$ 7,264,650

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

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

1. **Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies of the Learning Community of Douglas and Sarpy Counties (Learning Community) consistently applied in the preparation of the accompanying financial statements. The Learning Community's financial statements are presented on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

A. Reporting Entity

The Learning Community of Douglas and Sarpy Counties (Learning Community) is a tax exempt political subdivision in the State of Nebraska organized under Neb. Rev. Stat. § 79-2102 (Reissue 2008). The geographic area served by the Learning Community consists of the metropolitan area surrounding Omaha, Nebraska, generally located within Douglas, Sarpy and Washington Counties and includes the geographic territory of the 11 school districts headquartered in Douglas and Sarpy Counties. The Learning Community is governed by a Coordinating Council, and, with regard to each of its six Subcouncil Districts, an Achievement Subcouncil composed of the Coordinating Council members who represent the Subcouncil District.

The Learning Community's financial statements are presented as the primary government and include all the funds and activities for which the Learning Community is financially accountable.

B. Basis of Presentation

Government-Wide Financial Statements. The government-wide financial statements include the Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis, which present information about the Learning Community as a whole. The statements present the Learning Community's financial statements as governmental activities. The Learning Community has no business type or fiduciary activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions.

Fund Financial Statements. Fund financial statements report information about the Learning Community's funds. The Learning Community consists of five funds, the Common Levy General Fund, the Common Levy Special Building Fund, the General Fund, the Capital Projects Fund, and the Elementary Learning Centers Fund. Pursuant to Neb. Rev. Stat. § 79-1073 (Cum. Supp. 2010) and Neb. Rev. Stat. § 79-1073.01 (Cum. Supp. 2010), the Common Levy General Fund tax receipts and Common Levy Special Building Fund tax receipts are distributed directly by county treasurers to member school districts rather than deposited in a Learning Community depository account and

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

distributed by the Learning Community. Because the Learning Community's financial statements are presented on a cash basis, and they are not financially accountable for these funds, the activities of the Common Levy General Fund and the Common Levy Special Building Fund are therefore not included in the financial statements of the Learning Community.

Separate columns are presented for each major governmental fund in the fund financial statements.

The Learning Community has three governmental funds in the fund financial statements, described below:

General Fund. The General Fund is the operating fund of the Learning Community. It is used to account for all financial resources except those required to be accounted for in other funds.

Capital Projects Fund. The Capital Projects Fund is used to account for taxes levied and other revenues used to acquire or improve sites and/or erect, alter, or improve buildings, and to finance facility lease payments and any leasehold improvements.

Elementary Learning Centers Fund. The Elementary Learning Centers Fund is used to account for taxes levied and other revenue used to support elementary learning center program activities.

C. Measurement Focus and Basis of Accounting

The government-wide and fund financial statements are presented using a cash basis measurement focus. The reported net assets and fund balances are considered a measurement of "available cash and investments." The activities reported focus on cash received and cash disbursed.

Under the cash basis of accounting, revenues are recognized when cash is received by the Learning Community and expenditures are recognized when paid.

D. Budget Process

The Learning Community is required by State law to adopt annual operating budgets at the fund level for its five funds. Budgets are prepared and presented on the cash basis of accounting, which is consistent with the basis of accounting used in presenting the basic financial statements and with the requirements of the Nebraska Budget Act.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Public hearings are held to obtain taxpayer comments regarding the proposed budget and the budget is legally adopted by the Coordinating Council on or before September 1 through passage of a resolution in accordance with State statutes. Total disbursements cannot legally exceed the adopted budget. Any revisions to the budget must be approved by the Coordinating Council following a hearing to obtain taxpayer comments.

E. Property Taxes and Common Levies

Under Neb. Rev. Stat. § 79-2104 (Cum. Supp. 2010), the Learning Community Coordinating Council has the authority to levy the following property taxes:

- Common Levy General Fund (between \$0.00 and \$0.95 within the \$1.05 levy limit as noted in Neb. Rev. Stat. § 77-3442 (Reissue 2009) per \$100 of assessed valuation). General Fund Common Levy tax receipts are distributed by county treasurers directly to member school districts based upon the amount which the Coordinating Council certifies for each member school district in accordance with Neb. Rev. Stat. § 79-1073 (Reissue 2009).
- Common Levy Special Building Fund (between \$0.00 and \$0.02 within the \$1.05 levy limit as noted in Neb. Rev. Stat. § 77-3442 (Reissue 2009) per \$100 of assessed valuation). Special Building Fund Common Levy tax receipts are distributed by county treasurers directly to member school districts based upon the amount which the Coordinating Council certifies for each member school district in accordance with Neb. Rev. Stat. § 79-1073.01 (Reissue 2009).
- Capital Projects Fund levy (between \$0.00 and \$0.02 per \$100 of assessed valuation) to be used by the Learning Community for capital projects related to elementary learning centers or new focus schools or programs.
- Elementary Learning Centers Levy (between \$0.00 and \$0.01 per \$100 of assessed valuation) for elementary learning centers operations, pilot projects and employees.

The property tax requirement resulting from the budgeting process is utilized to establish the tax levy in accordance with State statutes, which attaches as an enforceable lien on the property within the Learning Community as of December 31. Taxes are due as of that date. One-half of the real estate taxes become delinquent after the following April 1 and the second one-half is delinquent after August 1. The combined tax levy of the Learning Community for the year ended August 31, 2011, per \$100 of assessed valuation was as follows:

	<u>Levy Rate</u>	<u>Amount</u>
Common Levy General Fund	\$ 0.95	\$ 446,406,452
Capital Projects Fund levy	0.00125	587,377
Elementary Learning Centers Levy	0.01	4,699,015

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Total collections by county treasurers and distributions to the member school districts under the common levies are as follows:

	General Fund Common Levy	Special Building Fund Common Levy
Cash held by County Treasurers, August 31, 2010	\$ 20,805,031	\$ 218,994
Total Collections	454,558,290	187,309
Distributions to Member School Districts	<u>(467,267,332)</u>	<u>(407,332)</u>
Cash held by County Treasurers, August 31, 2011	<u>\$ 8,095,989</u>	<u>\$ (1,029)</u>

F. Cash and Cash Equivalents

The Learning Community's cash and cash equivalents are considered to be cash and short-term investments with original maturities of three months or less from the date of acquisition.

G. Investments

Investments, which consist of certificates of deposit, are measured at fair value in the balance sheet. Investment income is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

H. Net Assets

Net assets of the Learning Community are classified as either:

- *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or laws or regulations external to the Learning Community.
- *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

I. Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – This component of fund balance consists of amounts that are not in a spendable form or are required to be maintained intact. At August 31, 2011, the Learning Community had no nonspendable fund balances.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Restricted – This component of fund balance consists of amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers. At August 31, 2011, the Learning Community had restricted fund balances of \$6,153,700.

Committed – This component of fund balance consist of amounts that can be used only for the specific purposes determined by a formal action by the Coordinating Council. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally. At August 31, 2011, the Learning Community had no committed fund balances.

Assigned – This component of fund balance consists of amounts intended to be used by the Learning Community for specific purposes as intended by the Coordinating Council. At August 31, 2011, the Learning Community had no assigned fund balances.

Unassigned – This component of fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

The Learning Community first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted resources are available.

J. Subsequent Events

The Learning Community considered events occurring through March 2, 2012, for recognition of disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

2. Deposits and Investments

Neb. Rev. Stat. § 79-1043 (Reissue 2008) provides that, with the approval of the Coordinating Council, funds may be invested in securities, including repurchase agreements, the nature of which individuals of prudence, discretion, and intelligence acquire or retain in dealing with the property of another.

Deposits

As of August 31, 2011, the carrying amount of the Learning Community's deposits was \$3,908,274 and the bank balance was \$4,103,913. The deposits were entirely insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by a local financial institution's trust department.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. Deposits and Investments (Concluded)

Investments

Investments, consisting of certificates of deposit, stated at fair value, amount to \$3,011,273 at August 31, 2011.

Credit Risk – Custodial credit risk is the risk that in event of a bank failure, the Learning Community’s deposits may not be returned. The Learning Community does not have a formal deposit policy for custodial credit risk beyond requirements set forth by State statutes. At August 31, 2011, the Learning Community has no deposits exposed to custodial credit risk.

Interest Rate Risk – The Learning Community has a formal investment policy that staggers the maturity dates of certificates of deposit as a means of meeting short and long-term cash obligations and managing its exposure to fair value losses arising from changes in interest rates. The average duration of the certificates of deposit as of August 31, 2011, are twelve months, with varying maturity dates.

3. Funds Held by County Treasurer

Funds in the amount of \$287,877, \$56,104, and \$1,122 were held by the Douglas, Sarpy, and Washington County Treasurers, respectively, for the Capital Projects and Elementary Learning Centers Funds of the Learning Community as of August 31, 2011. These amounts were remitted to the Learning Community subsequent to the year end.

4. Operating Leases

The Learning Community leases office space and equipment under various operating lease agreements which have non-cancelable lease terms in excess of one year. Rental expenditures relating to these leases for the year ended August 31, 2011, amounted to \$20,945. The following is a schedule of future minimum rentals on such leases as of August 31, 2011:

<u>Year Ending August 31,</u>	<u>Amount</u>
2012	\$ 12,162
2013	<u>2,117</u>
Total future minimum rentals	<u>\$ 14,279</u>

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. Commitments and Contingencies

The Learning Community is exposed to various risks of loss related to torts; theft; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Learning Community carries commercial insurance for risks of loss including workers' compensation. The Learning Community assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage since its inception in January 2009. Significant coverage include:

	<u>Maximum Coverage</u>
General Liability Claim	\$ 2,000,000
Worker's Compensation Claim	\$ 500,000
Crime/Employee Dishonesty Claim	\$ 1,000,000
Auto Claim	\$ 1,000,000
Umbrella Policy	\$ 1,000,000

Litigation and Going Concern

Litigation challenging the constitutionality of the Common Levy General Fund was filed in December 2010. On September 23, 2011, the District Court of Sarpy County, Nebraska declared the Common Levy General Fund and Common Levy Special Building Fund to be unconstitutional. The Learning Community appealed the district court's judgment to the Nebraska Supreme Court, which issued an opinion on February 3, 2012, reversing the judgment of the district court, holding that the General Fund Common Levy is constitutional, and declaring void the district court's judgment with regard to the Special Building Fund Common Levy as not properly before the district court.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended August 31, 2011

	<u>BUDGETED AMOUNTS</u>		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	<u>ORIGINAL</u>	<u>FINAL</u>		
FUND BALANCE, BEGINNING OF YEAR	\$ 1,593,768	\$ 1,593,768	\$ 1,593,768	\$ -
RECEIPTS				
State Funding	906,726	906,726	906,726	-
Investment Earnings	7,200	7,200	9,883	2,683
Total Resources Available	<u>2,507,694</u>	<u>2,507,694</u>	<u>2,510,377</u>	<u>2,683</u>
DISBURSEMENTS				
Diversity	77,500	77,500	44,673	32,827
Coordinating Council	227,601	205,251	159,751	45,500
Administrative	693,886	716,236	520,003	196,233
Total Disbursements	<u>998,987</u>	<u>998,987</u>	<u>724,427</u>	<u>274,560</u>
OTHER FINANCING USES				
Transfers to Elementary Learning Center Fund	(675,000)	(675,000)	(675,000)	-
NET CHANGE IN FUND BALANCE	<u>(760,061)</u>	<u>(760,061)</u>	<u>(482,818)</u>	<u>277,243</u>
FUND BALANCE, END OF YEAR	<u>\$ 833,707</u>	<u>\$ 833,707</u>	<u>\$ 1,110,950</u>	<u>\$ 277,243</u>

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
ELEMENTARY LEARNING CENTERS FUND
For the Year Ended August 31, 2011

	<u>BUDGETED AMOUNTS</u>		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET -
	<u>ORIGINAL</u>	<u>FINAL</u>		POSITIVE (NEGATIVE)
FUND BALANCE, BEGINNING OF YEAR	\$ -	\$ -	\$ -	\$ -
RECEIPTS				
Property Taxes	4,652,025	4,652,025	4,465,349	(186,676)
State Funding	1,055,224	1,055,224	1,055,224	-
Investment Earnings	3,390	3,390	3,335	(55)
Total Resources Available	<u>5,710,639</u>	<u>5,710,639</u>	<u>5,523,908</u>	<u>(186,731)</u>
DISBURSEMENTS				
Elementary Learning Centers	<u>4,271,843</u>	<u>4,271,843</u>	<u>2,934,176</u>	<u>1,337,667</u>
Total Disbursements	<u>4,271,843</u>	<u>4,271,843</u>	<u>2,934,176</u>	<u>1,337,667</u>
OTHER FINANCING USES				
Transfers from General Fund	<u>675,000</u>	<u>675,000</u>	<u>675,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>2,113,796</u>	<u>2,113,796</u>	<u>3,264,732</u>	<u>1,150,936</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 2,113,796</u></u>	<u><u>\$ 2,113,796</u></u>	<u><u>\$ 3,264,732</u></u>	<u><u>\$ 1,150,936</u></u>

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended August 31, 2011

BUDGETARY COMPARISON SCHEDULES

GAAP Requirements

Accounting principles generally accepted in the United States of America (GAAP) requires budgetary comparison schedules for the General Fund and for each major special revenue fund that has a legally adopted annual budget. GAAP further requires the budgetary comparison schedules to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, and other legally authorized changes *before* the beginning of the fiscal year. The original budget would also include amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, and other legally authorized changes applicable to the fiscal year as approved by the Coordinating Council or otherwise legally authorized.

Budgetary Process

The Learning Community is required by State law to adopt annual operating budgets at the fund level for its five funds. Budgets are prepared and presented on the cash basis of accounting, which is consistent with the basis of accounting used in presenting the basic financial statements and with the requirements of the Nebraska Budget Act.

Public hearings are held to obtain taxpayer comments regarding the proposed budget and the budget is legally adopted by the Coordinating Council on or before September 1 through passage of a resolution in accordance with State statutes. Total disbursements cannot legally exceed the adopted budget. Any revisions for increases in the budget must be approved by the Coordinating Council following a hearing to obtain taxpayer comments.



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**LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES
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**

Coordinating Council
Learning Community of Douglas and Sarpy Counties
Omaha, Nebraska

We have audited the financial statements of the governmental activities and each major fund of the Learning Community of Douglas and Sarpy Counties as of and for the year ended August 31, 2011, and have issued our report thereon dated March 2, 2012. The report notes the financial statements were prepared on the basis of cash receipts and disbursements. 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.

Internal Control Over Financial Reporting

Management of the Learning Community of Douglas and Sarpy Counties is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Learning Community of Douglas and Sarpy Counties' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Learning Community of Douglas and Sarpy Counties' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Learning Community of Douglas and Sarpy Counties' internal control over financial reporting.

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 Learning Community of Douglas and Sarpy Counties' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Learning Community of Douglas and Sarpy Counties' 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*.

This report is intended solely for the information and use of management, the Learning Community of Douglas and Sarpy Counties' Coordinating Council, others within the entity, the State Legislature, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

March 2, 2012

Don Dunlap, CPA
Assistant Deputy Auditor