



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

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

May 31, 2019

David Patton, Chief Executive Officer
Learning Community of Douglas and Sarpy Counties
1612 N. 24th Street
Omaha, Nebraska 68110

Dear Mr. Patton:

Attached is a copy of the audit report and management letter of the Learning Community of Douglas and Sarpy Counties for the fiscal year ended August 31, 2018. You can also access the report and management letter on our website at www.auditors.nebraska.gov.

If you have any questions concerning this report, please do not hesitate to write or call.

Sincerely,

A handwritten signature in black ink, appearing to read "C. J. Janssen", with a long horizontal flourish extending to the right.

Charlie Janssen
Auditor of Public Accounts

Enclosure

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

SEPTEMBER 1, 2017, THROUGH AUGUST 31, 2018

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

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

Issued on May 31, 2019

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

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LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

KEY OFFICIALS AND CONTACT INFORMATION

Council Members

Name	Title
Bradley Ekwerekwu	Subcouncil 1
Brian Thommes	Subcouncil 1
Cornelius Williams	Subcouncil 2
Carol Hahn	Subcouncil 2 – Council Treasurer
Mark Hoeger	Subcouncil 3
Melinda Kozel	Subcouncil 3
Susan Kelley	Subcouncil 4 – Council Chair
Allen Hager	Subcouncil 4 – Council Vice Chair
Tonya Ward	Subcouncil 5
Anayeli Martinez-Real	Subcouncil 5
Mike Avery	Subcouncil 6
Jill Woodward	Subcouncil 6 – Council Secretary

Learning Community of Douglas and Sarpy Counties Leadership

Name	Title
David Patton, Ed. S.	Chief Executive Officer

Learning Community of Douglas and Sarpy Counties
1612 N. 24th Street
Omaha, NE 68110
www.learningcommunityds.org



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LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities and each major fund of the Learning Community of Douglas and Sarpy Counties (Learning Community), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Learning Community'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 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 Learning Community'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 Learning Community'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 cash-basis financial position of the governmental activities and each major fund of the Learning Community as of August 31, 2018, and the respective changes in cash-basis financial position for the year then ended in conformity with the 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 opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole, which collectively comprise the Learning Community's basic financial statements. The Management's Discussion and Analysis and Budgetary Comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Management's Discussion and Analysis and Budgetary Comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements; accordingly, we do not express an opinion or provide any assurance on such information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2019, 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, 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 the Learning Community's internal control over financial reporting and compliance.



Mark Avery, CPA
Assistant Deputy Auditor

May 22, 2019

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Learning Community of Douglas and Sarpy Counties (Learning Community) presents this Management's Discussion and Analysis of its financial statements to provide a narrative overview and analysis of the financial activities as of and for the fiscal years ended August 31, 2018, and 2017. Please read it in conjunction with the Learning Community's financial statements, which begin on page 10.

Financial Highlights

- General Fund receipts remained consistent for the years ended August 31, 2018, and 2017, with receipts of \$500,325 and \$500,639, respectively. General Fund disbursements increased from \$468,831 in fiscal year 2017 to \$506,990 in fiscal year 2018. The Learning Community's General Fund balance decreased from \$452,428 at the end of fiscal year 2017 to \$445,763 at the end of fiscal year 2018.
- Elementary Learning Centers Fund receipts increased for the year ended August 31, 2018, compared to the year ended August 31, 2017, with receipts of \$9,153,620 and \$8,210,440, respectively, primarily due to increased tax receipts due to an increase in the levy rate from \$0.014 per \$100 of assessed valuation in 2017 to \$0.015 per \$100 of assessed valuation in 2018. Elementary Learning Centers Fund disbursements decreased for the year ended August 31, 2018, compared to the year ended August 31, 2017, with disbursements of \$8,346,738 and \$9,450,235, respectively. The decrease in Elementary Learning Centers Fund disbursements was the result of a planned decrease in expenditures to restore the fund balance resulting from the decreased revenue in 2017 resulting from the \$0.001 levy decrease to \$0.014 per \$100 of assessed valuation in 2017. Additionally, the gradual reduction in the pilot programming for the school districts in and around the North and South centers account for the remaining decrease.

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 Position – 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 financial 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 the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- The budgetary 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 Position

The Learning Community's net position reported in the Statement of Net Position – Cash Basis represents the financial position of the Learning Community. The Learning Community's net position at August 31, 2018, and 2017 amounted to \$6,617,865 and \$5,820,041, respectively. The increase in the financial position primarily resulted from a planned decrease in expenditures to restore the Elementary Learning Centers Fund fund balance resulting from the decreased revenue in 2017 caused by the \$0.001 levy decrease to \$0.014 per \$100 of assessed valuation in 2017 compared to \$0.015 per \$100 of assessed valuation in 2016.

Governmental Activities

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

	Fiscal year ended <u>August 31, 2018</u>	Fiscal year ended <u>August 31, 2017</u>	Change from Prior Year
Receipts:			
Property and other taxes	\$ 9,128,261	8,190,057	938,204
State appropriations	1,226,792	1,189,720	37,072
Investment earnings	<u>2,464</u>	<u>2,395</u>	<u>69</u>
Total receipts	<u>10,357,517</u>	<u>9,382,172</u>	<u>975,345</u>
Disbursements:			
Elementary learning centers	9,052,703	10,159,115	(1,106,412)
Diversity	--	5,450	(5,450)
Coordinating Council	12,289	56,106	(43,817)
Administration	<u>494,701</u>	<u>407,275</u>	<u>87,426</u>
Total disbursements	<u>9,559,693</u>	<u>10,627,946</u>	<u>(1,068,253)</u>
Change in net position	<u>\$ 797,824</u>	<u>(1,245,774)</u>	<u>2,043,598</u>

The decrease in governmental disbursements primarily resulted from a planned decrease in expenditures to restore the Elementary Learning Centers Fund fund balance resulting from the decreased revenue in 2017 caused by the \$0.001 levy decrease to \$0.014 per \$100 of assessed valuation in 2017 compared to \$0.015 per \$100 of assessed valuation in 2016. Additionally, the gradual reduction in the pilot programming for the school districts in and around the North and South centers account for the remaining decrease.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Concluded)

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 appropriations from the State of Nebraska. The General Fund fund balance amounted to \$445,763 at August 31, 2018, a decrease of \$6,665 from the fund balance at August 31, 2017. General Fund disbursements were less than total budgeted disbursements in the amount of \$9,460. Excess amounts are being carried over to the 2018-2019 fiscal year to fund ongoing operations of the Learning Community.

Capital Projects Fund – The Capital Projects Fund consists of unspent tax levies restricted by State statute for capital projects and lease or leasehold improvements. The Capital Projects Fund fund balance amounted to \$747,157 at August 31, 2018, a decrease of \$2,393 from the fund balance at August 31, 2017. In 2018 and 2017, respectively, \$705,965 and \$708,880 was expended for purposes of leases and leasehold improvements for elementary learning centers.

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. The Elementary Learning Centers Fund fund balance amounted to \$5,424,945 as of August 31, 2018, an increase of \$806,882 from the fund balance at August 31, 2017. Disbursements of \$8,346,738 were less than budgeted disbursements of \$8,922,244 in the amount of \$575,506.

Economic Factors Bearing on the Learning Community's Future

At the time these financial statements were prepared, 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 2018/2019 increased by 5.67% from the 2017/2018 property valuation.
- The Elementary Learning Centers Fund tax levy rate for 2019 is consistent with the 2018 levy rate at \$0.015 per \$100 of assessed valuation.
- The Capital Projects Fund tax levy rate for 2018 is consistent with the 2017 levy rate at \$0.00125 per \$100 of assessed valuation.
- General Fund monies, which are received through state appropriations, are subject to modification by the Nebraska Unicameral Legislature.

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, 1612 N. 24th Street, Omaha, NE, 68110.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

Statement of Net Position – Cash Basis
August 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 6,319,334
Cash held by County Treasurer	<u>298,531</u>
Total assets	<u><u>\$ 6,617,865</u></u>
NET POSITION	
Restricted for:	
Leases and leasehold improvements	\$ 747,157
Research and evaluation	284,594
Elementary learning centers	5,218,407
Unrestricted	<u>367,707</u>
Total net position	<u><u>\$ 6,617,865</u></u>

See accompanying notes to the financial statements.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

Statement of Activities – Cash Basis
For the Year Ended August 31, 2018

	FUNCTION			
	Governmental Activities Total	Administration	Coordinating Council	Elementary Learning Centers
DISBURSEMENTS				
Personnel services	\$ 967,226	393,743	--	573,483
Contracted/purchased services	7,761,706	52,766	8,699	7,700,241
Supplies and materials	42,867	13,119	237	29,511
Occupancy	760,845	18,507	--	742,338
Other	27,049	16,566	3,353	7,130
Total disbursements	<u>9,559,693</u>	<u>494,701</u>	<u>12,289</u>	<u>9,052,703</u>
RECEIPTS				
Property and other taxes	9,128,261			
State appropriations	1,226,792			
Investment earnings	2,464			
Total receipts	<u>10,357,517</u>			
CHANGE IN NET POSITION	797,824			
NET POSITION, BEGINNING OF YEAR	<u>5,820,041</u>			
NET POSITION, END OF YEAR	<u>\$ 6,617,865</u>			

See accompanying notes to the financial statements.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

Balance Sheet – Governmental Funds – Cash Basis
August 31, 2018

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Elementary Learning Centers Fund	
ASSETS				
Cash and cash equivalents	\$ 445,763	724,195	5,149,376	6,319,334
Cash held by County Treasurer	--	22,962	275,569	298,531
Total assets	<u>\$ 445,763</u>	<u>747,157</u>	<u>5,424,945</u>	<u>6,617,865</u>
FUND BALANCES				
Restricted for leases and leasehold improvements	\$ --	747,157	--	747,157
Restricted for research and evaluation	78,056	--	206,538	284,594
Restricted for elementary learning centers	--	--	5,218,407	5,218,407
Unassigned	<u>367,707</u>	<u>--</u>	<u>--</u>	<u>367,707</u>
Total fund balances	<u>\$ 445,763</u>	<u>747,157</u>	<u>5,424,945</u>	<u>6,617,865</u>

See accompanying notes to the financial statements.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

**Statement of Receipts, Disbursements, and Changes in Fund Balances –
Governmental Funds – Cash Basis
For the Year Ended August 31, 2018**

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Elementary Learning Centers Fund	
RECEIPTS				
Property and other taxes	\$ --	703,241	8,425,020	9,128,261
State appropriations	500,000	--	726,792	1,226,792
Investment earnings	325	331	1,808	2,464
Total receipts	<u>500,325</u>	<u>703,572</u>	<u>9,153,620</u>	<u>10,357,517</u>
DISBURSEMENTS				
Elementary learning centers	--	705,965	8,346,738	9,052,703
Coordinating Council	12,289	--	--	12,289
Administration	494,701	--	--	494,701
Total disbursements	<u>506,990</u>	<u>705,965</u>	<u>8,346,738</u>	<u>9,559,693</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(6,665)	(2,393)	806,882	797,824
FUND BALANCES, BEGINNING OF YEAR	<u>452,428</u>	<u>749,550</u>	<u>4,618,063</u>	<u>5,820,041</u>
FUND BALANCES, END OF YEAR	<u>\$ 445,763</u>	<u>747,157</u>	<u>5,424,945</u>	<u>6,617,865</u>

See accompanying notes to the financial statements.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

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 is a tax-exempt political subdivision in the state of Nebraska organized under Neb. Rev. Stat. § 79-2102 (Reissue 2014). 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 12-member Learning Community Coordinating Council elected from its six Subcouncil Districts and, with regard to each of its six Subcouncil Districts, an Achievement Subcouncil composed of the Learning Community Coordinating Council's 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 Position – 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 three funds: the General Fund, the Capital Projects Fund, and the Elementary Learning Centers Fund.

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 receipts used to acquire or improve sites and/or erect, alter or improve buildings, and to finance facility lease payments and any leasehold improvements.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Elementary Learning Centers Fund – The Elementary Learning Centers Fund is use to account for taxes levied and other receipts 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 position 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 three 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 State of Nebraska Budget Act.

Public hearings are held to obtain taxpayer comments regarding the proposed budget, which is legally adopted by the Learning Community 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 Learning Community Coordinating Council following a hearing to obtain taxpayer comments.

E. Property Taxes

Under Neb. Rev. Stat. § 79-2104 (Cum. Supp. 2018), the Learning Community Coordinating Council has the authority to levy the following property taxes:

- Capital Projects Levy (between \$0.00 and \$0.005, as noted in Neb. Rev. Stat § 77-3442 (Reissue 2018), 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 Center Levy (between \$0.00 and \$0.015, as noted in Neb. Rev. Stat § 77-3442 (Reissue 2018), per \$100 of assessed valuation) for elementary learning center operations, pilot projects, and employees.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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, 2018, per \$100 of assessed valuation was as follows:

	<u>Levy Rate</u>	<u>Amount</u>
Capital Projects Levy	\$ 0.00125	\$ 705,617
Elementary Learning Center Levy	0.015	8,467,409

Common Levies. With the passage of Legislative Bill 1067 (2016), effective September 1, 2017, the levy authority of the Learning Community for the General Fund Common Levy and the Special Building Fund Common Levy were discontinued. Total receipts by county treasurers and distributions to the member school districts under previous amounts levied for the common levies during year ended August 31, 2018, are as follows:

	<u>General Fund Common Levy</u>	<u>Special Building Fund Common Levy</u>
Cash held by county treasurers, August 31, 2017	\$ 7,918,945	(124)
Total collections, net of 1% county treasurer commission	14,532,451	51
Less distributions to member school districts	(22,370,888)	74
Cash held by county treasurers, August 31, 2018	<u>\$ 80,508</u>	<u>1</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. Net Position

Net position of the Learning Community is classified in two components:

- *Restricted net position* is noncapital net position 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 position* is remaining net position that does not meet the definition of restricted.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

H. 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, 2018, the Learning Community had no nonspendable fund balances.

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, 2018, the Learning Community had restricted fund balances of \$6,250,158.

Committed – This component of fund balance consists of amounts that can be used only for the specific purposes determined by a formal action of the Learning Community Coordinating Council. Commitments may be changed or lifted only by the Learning Community taking the same formal action that imposed the constraint originally. At August 31, 2018, 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 Learning Community Coordinating Council. At August 31, 2018, 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.

I. Use of Estimates

The preparation of financial statements in conformity with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

J. Subsequent Events

The Learning Community considered events occurring through May 22, 2019, for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **Deposits**

Neb. Rev. Stat. § 77-2341 (Reissue 2018) provides that the Learning Community Coordinating Council may invest in the following:

Certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made.

Deposits

As of August 31, 2018, the carrying amount of the Learning Community's deposits was \$6,319,334, and the bank balance was \$6,386,701. The deposits were fully collateralized at August 31, 2018.

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 the State statutes. At August 31, 2018, the Learning Community has no deposits exposed to custodial credit risk.

3. **Funds Held by County Treasurer**

Funds in the amount of \$212,186, \$83,881, and \$2,464 were held by the Douglas, Sarpy, and Washington County Treasurers, respectively, for the Elementary Learning Centers Fund and the Capital Projects Fund of the Learning Community as of August 31, 2018. These amounts are remitted to the Learning Community subsequent to year end.

4. **Operating Lease Commitments**

The Learning Community leases office space 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 ending August 31, 2018, amounted to \$703,525.

The following is a schedule, by year, of future minimum lease payments under operating leases, as of August 31, 2018, that have initial or remaining lease terms in excess of one year:

<u>Year Ended August 31,</u>	<u>Amount</u>
2019	\$ 721,214
2020	764,013
2021	772,820
2022	736,775
2023	739,177
2024-2025	719,443

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO FINANCIAL STATEMENTS

(Concluded)

5. Tax Abatements

Tax abatements are a reduction in tax revenues that result from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled, and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Property tax revenues of the Learning Community were reduced by the following amounts for the year ended August 31, 2018, under agreements entered into by the following entities:

<u>Entity</u>	<u>Tax Abatement Program</u>	<u>Amount of Tax Abated</u>
City of Omaha	Tax Increment Financing	\$ 252,921
City of Bellevue	Tax Increment Financing	12,974

6. 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 includes:

	<u>Maximum Coverage</u>
General Liability Claim	\$ 2,000,000
Workers' Compensation Claim	\$ 500,000
Crime/Employee Dishonesty Claim	\$ 1,000,000
Auto Claim	\$ 1,000,000
Umbrella Policy	\$ 4,000,000
School Leader Risk Protector	\$ 3,000,000

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

**Other Information –
Budgetary Comparison Schedule – General Fund**
For the Year Ended August 31, 2018

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
RECEIPTS				
State appropriations	\$ 500,000	500,000	500,000	--
Investment earnings	750	750	325	(425)
Total receipts	500,750	500,750	500,325	(425)
DISBURSEMENTS				
Coordinating Council	33,150	33,150	12,289	20,861
Administration	483,300	483,300	494,701	(11,401)
Total disbursements	516,450	516,450	506,990	9,460
DEFICIENCY OF RECEIPTS OVER DISBURSEMENTS	(15,700)	(15,700)	(6,665)	9,035
FUND BALANCE, BEGINNING OF YEAR	393,988	393,988	452,428	58,440
FUND BALANCE, END OF YEAR	\$ 378,288	378,288	445,763	67,475

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

**Other Information –
Budgetary Comparison Schedule – Elementary Learning Centers Fund**
For the Year Ended August 31, 2018

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL AMOUNTS	
RECEIPTS				
Property and other taxes	\$ 8,382,735	8,382,735	8,425,020	42,285
State appropriations	741,934	741,934	726,792	(15,142)
Investment earnings	1,500	1,500	1,808	308
Total receipts	9,126,169	9,126,169	9,153,620	27,451
DISBURSEMENTS				
Elementary learning centers	8,453,028	8,922,244	8,346,738	575,506
Total disbursements	8,453,028	8,922,244	8,346,738	575,506
EXCESS OF RECEIPTS OVER DISBURSEMENTS	673,141	203,925	806,882	602,957
FUND BALANCE, BEGINNING OF YEAR	4,258,883	4,258,883	4,618,063	359,180
FUND BALANCE, END OF YEAR	\$ 4,932,024	4,462,808	5,424,945	962,137

LEARNING COMMUNITY OF DOUGLAS AND SARPY COUNTIES

NOTES TO OTHER INFORMATION

For the Year Ended August 31, 2018

BUDGETARY COMPARISON SCHEDULE

The Learning Community has provided budgetary comparison schedules for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules 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 Learning Community Coordinating Council or otherwise legally authorized.

The Learning Community is required by State law to adopt annual operating budgets at the fund level for its three 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 State of Nebraska Budget Act.

Public hearings are held to obtain taxpayer comments regarding the proposed budget, and the budget is legally adopted by the Learning Community 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 Learning Community Coordinating Council following a hearing to obtain taxpayer comments.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

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

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**

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Learning Community of Douglas and Sarpy Counties (Learning Community) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Learning Community's basic financial statements, and have issued our report thereon dated May 22, 2019. The report notes 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 the Learning Community's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Learning Community's internal control. Accordingly, we do not express an opinion on the effectiveness of the Learning Community's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Learning Community'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 the Learning Community’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*.

Additional Items

We noted certain additional items that we reported to management of the Learning Community in a separate letter dated May 22, 2019.

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 entity’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 Learning Community’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mark Avery, CPA
Assistant Deputy Auditor

May 22, 2019



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

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

May 22, 2019

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

We have audited the basic financial statements of the Learning Community of Douglas and Sarpy Counties (Learning Community), as of and for the year ended August 31, 2018, and have issued our report thereon dated May 22, 2019. In planning and performing our audit of the basic financial statements of the Learning Community, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of the Learning Community's compliance with certain provisions of laws, regulations, contracts, and grants.

During our audit, we noted certain matters involving internal control over financial reporting and other operational matters that are presented here. This comment and recommendation is intended to improve the internal control over financial reporting or result in operational efficiencies in the following area:

Credit Card Purchases and Charges Issues

During our testing of a sample of Learning Community credit card expenditures, we noted the following issues:

- Supporting documentation was lacking.
- Sales tax was paid inappropriately.
- Expenditures were not approved in a timely manner.
- Interest and fees were paid inappropriately.
- The credit card balance was overpaid, resulting in a credit balance.

The Learning Community was unable to produce a receipt for a \$23.70 meal expenditure in March 2018. The credit card statement shows that the charge was at a restaurant. Documentation was provided that the expenditure was incurred during a meeting between a Learning Community employee and an individual performing a strategic staffing evaluation for the Learning Community. However, a detailed receipt showing the items purchased could not be provided.

Two March 2018 credit card purchases included the Learning Community inappropriately paying sales tax of \$9.51 and \$4.62. After the Auditor of Public Accounts (APA) asked about the expenditures, the Learning Community was able to recoup the \$9.51 in May 2019. The \$4.62 could not be recouped.

The April 2018 credit card statement included 28 charges, totaling \$5,383.99, with purchase dates between March 21, 2018, and April 19, 2018. These expenditures were not reviewed and approved by the Learning Community Council (Council) until August 2018.

The Learning Community received the April 2018 credit card statement, which showed a payment due by May 14, 2018. The charges on that statement should have then been entered promptly into the accounting system; however, they were not entered until June 2018. A monthly Treasurer's report is generated from the accounting system for all transactions for each month and is presented to the Budget, Finance, and Audit Committee for review and then to the full Council for approval. The Council did not hold a July 2018 meeting. Due to the delay in entering into the accounting system the charges incurred in March and April, these expenditures were not approved until approximately five months later, in August 2018.

The May 2018 credit card statement included charges for a late fee of \$30, a return check charge of \$30, and interest of \$172.82 – all due to a lack of payment for April 2018 credit card statement charges in a timely fashion. These combined service charges of \$232.82 were never included on a Treasurer's report for review and approval by the Council.

On May 14, the Learning Community attempted to make an online ACH payment of \$5,383.99 to the credit card company for the previous month's charges. However, the Learning Community's credit card account had not been set up to allow for processing an online ACH payment; therefore, the payment attempt was rejected, resulting in the credit card company treating this as a returned check and assessing the \$30 returned check fee on the May statement. The Learning Community then made three subsequent weekly attempts, on May 22, May 31, and June 8, to complete an online ACH payment for \$5,383.99. All of these attempts were rejected, resulting in three more \$30 return check charges being assessed on the June credit card statement.

On June 5, 2018, the credit card company sent a letter to the Learning Community, warning that the account was past due and, as of that date, a balance of \$16,083.66 was owed. Finally, on June 13, an online ACH payment was processed for \$10,799.67. Additionally, on June 18, a \$16,083.66 check from the Learning Community was processed by the credit card company. This resulted in the Learning Community overpaying and, as a result, having a credit balance of \$10,658.94 on the June credit card statement. At the Learning Community's fiscal year end in August 2018, that credit balance was \$10,050.25.

The failure of the Learning Community to address with a proper sense of urgency the failed ACH payment attempts resulted in unnecessary service fees and interest totaling \$322.82. The Learning Community made no attempt to have those charges removed by the credit card company.

The Learning Community began using the credit card in March 2018. The Learning Community's current Accounting Policies and Procedures Manual (Policies Manual), which was last updated as of September 1, 2017, does not specifically address the use of a credit card. The Policies Manual does address the use of a debit card, requiring each debit card transaction to be authorized by the CEO. In October 2017, the Council authorized the use of a credit card, but the Policies Manual has yet to be updated accordingly.

Neb. Rev. Stat. § 79-2101 (Reissue 2014) defines a learning community as a "political subdivision which shares the territory of member school districts and is governed by a learning community coordinating council."

Neb. Rev. Stat. § 13-610 (Reissue 2012) authorizes political subdivisions to implement a credit card program and establishes requirements, including an itemized purchase receipt directive, for the use of such cards, as follows:

(1) A political subdivision, through its governing body, may create its own purchasing card program. The governing body shall determine the type of purchasing card or cards utilized in the purchasing card program and shall approve or disapprove those persons who will be assigned a purchasing card

(2) Any political subdivision may utilize its purchasing card program for the purchase of goods and services for and on behalf of the political subdivision.

* * * *

(4) An itemized receipt for purposes of tracking expenditures shall accompany all purchasing card purchases. In the event that a receipt does not accompany such a purchase, purchasing card privileges shall be temporarily or permanently suspended in accordance with rules and regulations adopted and promulgated by the political subdivision.

* * * *

(6) No officer or employee of a political subdivision shall use a political subdivision purchasing card for any unauthorized use as determined by the governing body.

Additionally, sound accounting practices and good internal control require implementation of the following procedures to ensure the proper use of the Learning Community’s credit card: 1) proper supporting documentation, including itemized receipts, is maintained for all expenditures; 2) sales tax is not paid on purchases; 3) the Council approves all expenditures in a timely manner; 4) monthly billings are paid timely, avoiding unnecessary late fees, service charges, and interest; 5) billings are not overpaid, and credit balances do not accrue; and 6) the Policies Manual is updated to provide appropriate guidelines and controls for credit card use.

Without such procedures, there is an increased risk of not only improper and/or unnecessary credit card charges and fees, resulting in the loss or misuse of Learning Community funds, but also lack of compliance with State statute.

We recommend the Learning Community implement procedures, preferably through an updated Policies Manual, to ensure that proper supporting documentation, including itemized receipts, is maintained for all credit card expenditures. Additionally, the procedures should ensure that sales tax is not paid on credit card purchases, and the Council approves all such expenditures in a timely manner. Those same procedures should ensure also that unnecessary late fees, service charges, and interest is avoided through the timely payment of monthly billings. Lastly, the procedures should ensure that billings are not overpaid, and credit balances do not accrue.

Learning Community Response: We appreciate the work of the state auditor’s office and suggested actions. We also appreciate the notations of the extenuating circumstances regarding the issues that were noted in the body of the report. An additional issue during this audit was the loss of our Finance Manager whom resigned at the beginning of the process. The Learning Community will undertake a full review of the Procedures Manual for our Budget, Finance and Audit Committee and implement procedures and practices to make every attempt to avoid these types of issues in the future. We will also create practices to attempt to anticipate circumstances such as canceled meetings, unplanned employee long-term absences or emergency needs that can negatively impact procedures.

* * * * *

It should be noted this report is critical in nature, containing only our comment and recommendation on the area noted for improvement and does not include our observations on any strong features of the Learning Community.

Draft copies of this report were furnished to the Learning Community to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

This report is intended solely for the information and use of the Learning Community, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and it 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Avery", with a long horizontal flourish extending to the right.

Mark Avery, CPA
Assistant Deputy Auditor