

Northern Kentucky Cooperative for Educational Services, Inc.

**Financial Statements
June 30, 2016 with
Independent Auditors' Report**

DRAFT 11-01-2016

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

June 30, 2016

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Independent Auditors' Report

To the People of Kentucky

Honorable Matthew G. Bevin

William H. Landrum III, Secretary, Finance and Administration Cabinet

Stephen L. Pruitt, Commissioner, Department of Education

David Byerman, Director, Legislative Research Commission

Board of Directors Northern Kentucky Cooperative for Educational Services, Inc.
Cold Spring, Kentucky

We have audited the accompanying financial statements of Northern Kentucky Cooperative for Educational Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Kentucky Cooperative for Educational Services, Inc. as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Independent Auditors' Report
(Continued)**

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated TBD, on our consideration of Northern Kentucky Cooperative for Educational Service, Inc.'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 Northern Kentucky Cooperative for Educational Service's internal control over financial reporting and compliance.

TBD

Crestview Hills, Kentucky

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Financial Position
June 30, 2016**

Assets

Current Assets

Cash and cash equivalents	\$ 615,160
Grant funds receivable	211,849
Accounts receivable	196,677
Prepaid expenses and other assets	<u>33,345</u>

Total current assets 1,057,031

Property and equipment, net

1,365,190

Total assets \$ 2,422,221

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 100,508
Accrued expenses	<u>24,775</u>

Total current liabilities 125,283

Noncurrent Liabilities

Accrued sick leave	<u>19,290</u>
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Total noncurrent liabilities 19,290

Total liabilities 144,573

Net Assets

Unrestricted	2,258,358
Unrestricted - designated for sick leave earned	<u>19,290</u>

Total net assets 2,277,648

Total liabilities and net assets \$ 2,422,221

See accompanying notes to financial statements

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Activities
Year Ended June 30, 2016**

Revenue, gains and other support

VI receipts	\$ 130,353
Mileage	3,330
Memberships	219,513
Membership dues - NKSR	9,000
Slots/tuition	1,196,108
Interest	6,393
Registrations	98,560
Local Grant receipts	63,989
Sponsorship	5,128
Refunds and reimbursements	11,777
KEDC rebate	44,012
Indirect costs receipts	326,222
Seek funds/ADA	142,602
Misc. revenues	58,155
State receipts	1,301,716
Federal receipts	1,700,266
	<hr/>
Total revenue, gains and other support	5,317,124

Expenses

Personnel	2,876,154
Fringe	503,274
Professional services	205,645
Contracted service	415,141
Repair and maintenance	121,766
Insurance	32,589
Office expense	187,464
Program expenses	512,515
Depreciation	63,359
Other expenses	419,320
	<hr/>
Total expenses	5,337,227

Change in net assets (20,103)

Net assets, beginning of year 2,297,751

Net assets, end of year \$ 2,277,648

See accompanying notes to financial statements

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Functional Expenses
Year Ended June 30, 2016**

	Cooperative Programs	Operating	Total
Salaries and benefits			
Personnel	\$ 2,708,396	\$ 167,758	\$ 2,876,154
Fringe	465,704	37,571	503,275
Total salaries and benefits	<u>3,174,100</u>	<u>205,330</u>	<u>3,379,429</u>
Other expenses			
Professional services	148,428	57,217	205,645
Contracted services	397,979	17,162	415,141
Repairs and maintenance	79,549	42,216	121,765
Insurance	21,761	10,828	32,589
Office expense	156,619	30,844	187,463
Program expenses	494,665	17,850	512,515
Depreciation	-	63,359	63,359
Other expenses	<u>408,637</u>	<u>10,684</u>	<u>419,321</u>
Total other expenses	<u>1,707,640</u>	<u>250,158</u>	<u>1,957,798</u>
Total expenses	<u>\$ 4,881,739</u>	<u>\$ 455,488</u>	<u>\$ 5,337,227</u>

See accompanying notes to financial statements

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Cash Flows
Year Ended June 30, 2016**

Cash flows from operating activities

Change in net assets	\$ (20,103)
Adjustments to reconcile change in net assets	
Depreciation	63,359
Changes in:	
Accounts receivable	(133,325)
Grants receivable	181,149
Prepaid expenses	14,071
Accounts payable	13,498
Accrued expenses	228
KSBIT Assessment	24,775
	<hr/>
Net cash provided by operating activities	143,652
	<hr/>
Net change in cash and cash equivalents	143,652
	<hr/>
Cash and cash equivalents, beginning of year	471,508
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Cash and cash equivalents, end of year	<u><u>\$ 615,160</u></u>

See accompanying notes to financial statements

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Northern Kentucky Cooperative for Educational Services, Inc., Inc. (the Cooperative), is a non-profit corporation established to coordinate and administer federal programs for participating local school districts in Kentucky, to provide centralized purchasing for the districts, and to provide special education services jointly with education agencies.

Program Descriptions

The Phoenix Program

The Cooperative was instrumental in the development of a regional school program serving school age students who have emotional and behavioral deficits. The Phoenix Program began in 1998 and is located at the Cold Spring location of the Cooperative. The program currently serves students from twelve school districts throughout the Cooperative's region.

The intent of the program is to assist school districts by providing self-contained classrooms within an alternative school setting (if the student's IEP warrants such a placement). The objective of special education is to provide a continuum of services; the Phoenix Program has and will continue to provide that service.

Participating school districts become active members of the program. Each school district's Superintendent and Special Education Director make up the Phoenix Program's Board. Costs, budgets, policies, procedures, transitions, alignment with Kentucky's educational standards, and implementation of special education procedures are some of the topics discussed in monthly meetings. The Program is truly a collaborative effort among the participating school districts.

Part of the funding is received from the Kentucky Education Consortium of State Agency Children (KESAC). The funds are based on a formula of the number of eligible children served in the program.

NKY Learning Academy

Three member districts participate in this regional alternative school program, which the program serves 8 students in grades 4-12 who have problems in the traditional school program and are at-risk for academic failure and dropping out of school. Funding for the program comes from the Average Daily Attendance (ADA) generated by each student plus excess costs, which are paid by the participating district. Participating districts in the Learning Academy's Advisory Committee develop the budget.

Challenge Program

This regional school program serves school age students who have functional mental disabilities with behavior issues. The Program currently serves students from five school districts within the Cooperative's region. The intent of the program is to assist school districts by providing self-contained classrooms within an alternative school setting. Participating school districts become active members of the program. Costs, budgets, policies, procedures, transitions, alignment with Kentucky's educational standards and implementation of special education procedures are some of the topics discussed in the committee meetings.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IDEA B Special Education Cooperative

The Kentucky Department of Education (KDE) awards the federal IDEA state-share restricted funds to the Cooperative based upon a grant proposal presented to them in March. The Cooperative will work collaboratively with KDE, other regional cooperatives, and shareholders with a focus on equity, achievement, and integrity to improve educational outcomes for all students with disabilities across the Commonwealth.

Vocational Assessment

The Office of Vocational Rehabilitation contracts with the Cooperative to provide vocational assessments to school-aged clients who are eligible for Vocational Rehabilitation services. Referrals are made from the Vocational rehabilitation counselors to the Vocational Assessment Center. Assessment information is provided to the schools, students and counselors.

Professional Development Consortium

Sixteen member districts participate in the Professional Development Consortium. The professional development offerings coordinated by the Advisory Committee focus strictly on state required mandates relating to the Kentucky Education Reform Act. Sessions are offered during the fall, spring and summer. Participating districts have established a dues formula and session costs for the program.

Family Resource

This Memorandum of Agreement is for personnel services through the Kentucky Department for Health and Family Services. It is for Family and Youth Service Center Consultants who are serving in the Regional Centers.

District Flow Through

The Cooperative coordinates multiple services that individual school districts could not afford to fund individually. This fund is set up to contract with professional agencies and individuals, such as therapists, counselors and psychologists to provide shared professional services to the local school districts. The member districts are billed from the Cooperative office for reimbursements for these shared services.

English Language Acquisition (ESL) Program

The Cooperative's ESL Program was created to aid school districts of Northern Kentucky with the identification, assessment, planning and instruction of students whose first and home language is a language other than English. The Program's objectives are to ensure that Northern Kentucky schools are in compliance with state and federal guidelines for English Language Learners and to meet the needs of these students and help them achieve academic success. The federal government has provided guidelines and standards in No Child Left Behind, Title III, for the education of English Language Learners, to which the state of Kentucky holds each school accountable. Through NKCES, participating school districts have employed the services of two English-as-a-Second-Language (ESL) Consultants. The consultants help schools identify potential ESLs and then test their language proficiency to determine if they qualify for services. When students qualify, the consultants make recommendations to the school district regarding what action might be taken to help the students attain English proficiency and function with their classmates at grade level.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Division of Aging

The Cooperative serves as the Fiscal Agent for the Division of Aging who coordinates a Statewide Health and Safety Program targeting Kentucky's senior population and their caregivers.

Grants Consortium

Thirteen member districts participate in the Grants Consortium. This offers grant writing on behalf of member districts as well as grant writing workshops for individuals from participating districts. Participating districts have established a dues formula for this program.

Content Leadership Networks

The Content Leadership Networks is through the Kentucky Department of Education in order to build a statewide system in both Mathematics and English Language Arts throughout the state. Each site has representation from education cooperatives and institutions of higher education.

Wellness Alliance (PEP) Grant

Objectives of the Wellness Alliance Plan are based on Kentucky State Standards: to provide instruction and experiences that will help students understand that proper nutrition is essential to growth and development; to provide instruction and experiences that will help students understand that resources are available to assist in making nutritional choices; to provide instruction and experiences that will help students understand that motor skills need to be refined, combined and varied in the development of specialized skills; to provide instruction and experiences that will help students understand that leisure/recreational or competitive physical activities provide opportunities for self-expression, social interactions and can be enjoyable and challenging; and to provide instruction and experiences that will help students understand that regular participation in health-related physical activity supports the goals of fitness and a healthier lifestyle throughout life.

Elementary and Secondary School Counseling Program (ESSC) Grant

The purpose of the NKCES Elementary and Secondary School Counseling Program is to establish and expand professional school counseling programs in Northern Kentucky schools. (Absolute Priority 1) By expanding counseling programs where services have been minimal this project is designed to meet the needs of all students, with more intensive support as student needs increase. The project will enable these schools to approach the recommended ratio for school counselors, bringing the project ratio from 1:261 from the 2012 baseline of 1:411 and the 2011 baseline of 1:360, and it will provide additional supports to ensure the counselors do not get sidetracked with non-counseling administrative duties.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets which have no donor-imposed restriction; temporarily restricted net assets which have donor-imposed restrictions that will expire in the future; and permanently restricted net assets which have donor-imposed restriction which do not expire. A portion of unrestricted net assets is available for the compensated sick leave balances of its employees at their time of retirement. There were no temporarily or permanently restricted net assets at June 30, 2016.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016, cash equivalents consisted primarily of money market accounts. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Accounts Receivable

Accounts receivable are stated at their contractual balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The Organization begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the Organization's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Receivables are written off as uncollectible after the Organization has used reasonable collection efforts and deems them collectible. Based on this criteria, no allowance for doubtful accounts has been provided at June 30, 2016 since the Organization expects no material losses.

Property and Equipment

Property and equipment are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred.

Donated Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individual providing the service and the service would typically need to be purchased if not donated. At June 30, 2016, there were no donated services that were incurred during the year.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of Ohio law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization's IRS Form 990 is subject to review and examination by federal and state authorities. The Organization believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

Use of Estimates

The preparation of financial statements 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 the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through TBD, which is the date the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2016 consisted of the following:

Equipment	\$ 266,121
Building	1,583,331
Land	<u>200,000</u>
	2,049,452
Less accumulated depreciation	<u>(684,262)</u>
	<u><u>\$ 1,365,190</u></u>

NOTE 3 ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2016 this amount totaled approximately \$19,290 for those employees with twenty-seven or more years of experience or fifty-nine and a half years old.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 4 RETIREMENT PLAN

The Organization's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous

Plan Description

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits Provided

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 4 RETIREMENT PLAN (Continued)

Contributions

Required contributions by the employee are based on the following tier:

	Required contribution
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The contribution requirement for CERS for the year ended June 30, 2016, was \$199,186, which consisted of \$150,969 from the Organization and \$48,217 from the employees. The contributions have been contributed in full for fiscal year 2016.

General information about the Teachers' Retirement System of the State of Kentucky

Plan Description

Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits Provided

For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 4 RETIREMENT PLAN (Continued)

Benefits Provided (Continued)

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes. Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.4% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to KTRS. The contribution requirement for KTRS for the year ended June 30, 2016, was \$371,214, which consisted of \$127,775 from the District and \$243,439 from the employees. The contributions have been contributed in full for fiscal year 2016.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan Description

In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 4 RETIREMENT PLAN (Continued)

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy

In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

NOTE 5 CONTINGENT LIABILITY

The Organization is a participant in the Kentucky School Board Insurance Trust in which the Organization purchases general liability and workers' compensation insurance. As of June 4, 2014, the Organization has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$20,927. The contingent liability has been paid off as of June 30, 2015.

SUPPLEMENTARY INFORMATION

DRAFT 11-01-2016

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Statement of Activities by Program

	Operations	Grants Consortium	WHS Crusade for Children	RSP	ESL Local	NKU Regional Consultant	Professional Development	Special Ed PD	Flow Thru
Income									
Unrestricted income	\$ 520,518	\$ 77,433	\$ 4,755	\$ 1,328,062	\$ 63,000	\$ 55,168	\$ 17,514	\$ 91,344	\$ -
Restricted receipts	(5,492)	-	-	-	-	-	-	-	-
Total income	<u>515,027</u>	<u>77,433</u>	<u>4,755</u>	<u>1,328,062</u>	<u>63,000</u>	<u>55,168</u>	<u>17,514</u>	<u>91,344</u>	<u>-</u>
Expense									
Personnel	168,297	67,633	-	862,942	70,399	40,800	-	-	-
Fringe	37,571	3,380	-	95,955	3,061	10,282	-	-	-
Professional services	57,217	1,991	151	72,463	1,903	-	-	18,800	-
Contracted services	17,162	-	-	23,263	-	-	-	-	-
Repairs/maintenance	42,216	15	4,692	65,090	-	-	-	451	-
Insurance	10,828	-	-	21,761	-	-	-	-	-
Office expense	30,844	4,735	3,721	20,416	2,667	-	1,128	962	-
Program expenses	17,850	3,099	-	134,544	1,593	-	8,618	59,084	-
Depreciation	63,359	-	-	-	-	-	-	-	-
Other expenses	10,684	0	356	192,288	5,600	4,087	764	7,057	845
Total expense	<u>456,027</u>	<u>80,853</u>	<u>8,920</u>	<u>1,488,722</u>	<u>85,222</u>	<u>55,168</u>	<u>10,511</u>	<u>86,354</u>	<u>845</u>
Net income	<u>\$ 59,000</u>	<u>\$ (3,420)</u>	<u>\$ (4,165)</u>	<u>\$ (160,660)</u>	<u>\$ (22,222)</u>	<u>\$ -</u>	<u>\$ 7,003</u>	<u>\$ 4,989</u>	<u>\$ (845)</u>

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Activities by Program
(Continued)**

	VI Teacher	FRYSC State	PERS Effectiveness Coach	Leadership Networks	DAIL	FRYSC - Fed	IDEA	OVR Transition	ESSC Grant Elem 13-14 1.0
Income									
Unrestricted income	\$ 144,442	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted receipts	-	544,545	89,514	110,098	508,795	171,526	916,326	48,764	283,407
Total income	<u>144,442</u>	<u>544,545</u>	<u>89,514</u>	<u>110,098</u>	<u>508,795</u>	<u>171,526</u>	<u>916,326</u>	<u>48,764</u>	<u>283,407</u>
Expense									
Personnel	88,081	410,416	78,626	57,368	380,359	36,855	504,051	-	10,005
Fringe	11,872	28,904	4,118	8,321	91,168	12,635	174,967	-	2,555
Professional services	191	-	-	-	205	-	35,521	11,178	-
Contracted services	-	-	-	-	7,000	-	-	-	304,221
Repairs/maintenance	-	-	-	-	-	-	1,402	-	-
Insurance	-	-	-	-	-	-	-	-	-
Office expense	295	-	-	16,992	-	-	52,735	28,551	14,330
Program expenses	3,119	65,055	-	19,262	-	109,648	64,538	5,400	3,147
Depreciation	-	-	-	-	-	-	-	-	-
Other expenses	8,285	40,351	6,619	8,155	24,005	12,692	69,705	3,612	3,136
Total expense	<u>111,844</u>	<u>544,727</u>	<u>89,363</u>	<u>110,098</u>	<u>502,737</u>	<u>171,831</u>	<u>902,919</u>	<u>48,741</u>	<u>337,395</u>
Net income	<u>\$ 32,598</u>	<u>\$ (182)</u>	<u>\$ 151</u>	<u>\$ -</u>	<u>\$ 6,058</u>	<u>\$ (305)</u>	<u>\$ 13,407</u>	<u>\$ 23</u>	<u>\$ (53,988)</u>

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Activities by Program
(Continued)**

	AWARE	ESSC Grant Ele Erlanger	DFC Youth Substance Prev	ESL Fed	School Academic Liaison	ESSC Grant Sec 1.0 12-13	Unclassified	TOTAL
Income								
Unrestricted income	\$ -	\$ 12,907	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,315,143
Restricted receipts	48,572	-	64,193	20,365	44,081	157,288	-	3,001,981
Total income	48,572	12,907	64,193	20,365	44,081	157,288	-	5,317,124
Expense								
Personnel	16,945	12,316	25,525	7,269	34,355	4,450	(539)	2,876,154
Fringe	660	591	7,646	1,913	6,461	1,214	-	503,275
Professional services	6,025	-	-	-	-	-	-	205,645
Contracted services	4,954	-	7,326	-	-	51,215	-	415,141
Repairs/maintenance	-	-	-	7,898	-	-	-	121,765
Insurance	-	-	-	-	-	-	-	32,589
Office expense	1,703	-	7,689	-	-	694	-	187,463
Program expenses	2,564	-	12,633	822	-	1,538	-	512,515
Depreciation	-	-	-	-	-	-	-	63,359
Other expenses	3,191	-	4,755	572	3,265	9,297	-	419,321
Total expense	36,043	12,907	65,575	18,474	44,081	68,408	(539)	5,337,227
Net income	\$ 12,528	\$ -	\$ (1,381)	\$ 1,891	\$ -	\$ 88,880	\$ 539	\$ (20,103)

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016**

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Education			
Direct Federal Program			
Fund for the Improvement of Education	84.215	S215E130420	\$ 337,395
Fund for the Improvement of Education	84.215	S215E120422	68,408
<i>Total CFDA 84.215</i>			<u>405,803</u>
Passed through Kentucky Department of Education			
IDEA Part B-Special Education Grants to States	84.027	38100004	902,919
Special Education State Personnel Development	84.323	H323A120007-14	44,081
English Language Acquisition Grants	84.365	S365A140017	18,474
Total Department of Education			<u>965,474</u>
Department of Health and Human Services			
Direct Federal Program			
Substance Abuse and Mental Health Services Projects of Regional National Significance	93.243	1H79SM062033-01	36,043
Drug-Free Communities Support Program Grants	93.276	1H79SP020833-01	65,575
Passed through Kentucky Cabinet for Health and Family Services			
Community-based Child Abuse Prevention Grants	93.590	730 1500001658 1	171,831
Total Department of Health and Human Services			<u>273,449</u>
Total Federal Awards			<u>\$ 1,644,726</u>

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northern Kentucky Cooperative for Education Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

NOTE 2 INDIRECT COST RATE

Northern Kentucky Cooperative for Educational Services, Inc. has not elected to use the 10% de minimis cost rate allowed under Uniform Guidance.

DRAFT 11-01-2016



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Northern Kentucky Cooperative for Educational Services, Inc.
Cold Springs, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northern Kentucky Cooperative for Educational Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated TBD.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern Kentucky Cooperative for Educational Services, Inc.'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 Northern Kentucky Cooperative for Educational Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Northern Kentucky Cooperative for Educational Services, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2016-01, which we consider to be a significant deficiency.

**INDEPENDENT AUDITORS' 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
(Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northern Kentucky Cooperative for Educational Services, Inc.'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompany schedule of findings and questioned costs as items 2016-01.

Northern Kentucky Cooperative for Educational Services, Inc.'s Response to Findings

Northern Kentucky Cooperative for Educational Services, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Northern Kentucky Cooperative for Educational Services, Inc. response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barnes, Dennig & Co., Ltd.

TBD

Crestview Hills, Kentucky

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Northern Kentucky Cooperative for Educational Services, Inc.
Cold Springs, KY

Report on Compliance for Each Major Federal Program

We have audited Northern Kentucky Cooperative for Educational Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Northern Kentucky Cooperative for Educational Services, Inc.'s major federal programs for the year ended June 30, 2016. Northern Kentucky Cooperative for Educational Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Northern Kentucky Cooperative for Educational Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northern Kentucky Cooperative for Educational Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Northern Kentucky Cooperative for Educational Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Northern Kentucky Cooperative for Educational Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE
(Continued)**

Report on Internal Control over Compliance

Management of Northern Kentucky Cooperative for Educational Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northern Kentucky Cooperative for Educational Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northern Kentucky Cooperative for Educational Services, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Barnes, Dennig & Co., Ltd.

TBD

Crestview Hills, Kentucky

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None noted

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR Section 200.516(a)? _____ Yes X No

Identification of Major Programs

CFDA No.	Name of Federal Programs or Clusters
84.027	IDEA B – Special Education

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Schedule of Findings and Questioned Costs
(Continued)
Year Ended June 30, 2016**

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-01 Audit Adjustments

Criteria: The organization is responsible for establishing and maintained effective internal control over financial reporting

Condition and Context: During the course of the audit, we identified misstatements in the financial statements for the year under audit that were not initially identified by the organization's internal controls. Audit adjustments were necessary to correct the errors in the financial statements in order for the financial statements to be presented in accordance with GAAP. Those adjustments include the following:

- \$80,250 to increase accounts payable

Effect: Misstated financial statements

Cause: Lack of review on certain invoices and not adjusting for invoices received after year end.

Recommendation: Review of invoices received subsequent to year end to ensure all expenses incurred during the fiscal year are properly recorded in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions: NKCES agrees with the 2016 audit finding and will perform the necessary reviews of invoices around the end of the fiscal year in future periods. Upon discovery of the issue, steps were implemented to prevent and monitor these internal controls immediately.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters are reportable.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016**

Reference Number	Summary of Finding	Status
2015-01	– It was noted that the Organization should book depreciation expense in its accounting records and financial statements	
	Current year follow-up: During the course of the audit, it was noted that depreciation was recorded in the accounting records and in the financial statements.	
2015-02	– It was noted that the Organization should follow-up and resolve bank reconciliation differences.	
	Current year follow-up: During the course of the audit, it was noted that there were no bank reconciliation differences between the trial balance, general ledger and bank accounts.	

DRAFT 11-01-2016