

Northern Kentucky Cooperative for Educational Services, Inc.

**Financial Statements with Supplementary Information
June 30, 2020 with
Independent Auditors' Report**

DRAFT 10-21-2020

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

June 30, 2020

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Independent Auditors' Report

To the People of Kentucky
Honorable Andy Beshear
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Dr. Jason E. Glass, Commissioner, Department of Education
Jay Hartz, 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, 2020, 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, 2020 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 statement of activities by program is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying statement of activities by program and 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*, are presented for purposes of additional analysis and is also 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, 2020**

Assets

Current Assets

| | |
|-----------------------------------|--------------|
| Cash and cash equivalents | \$ 1,358,629 |
| Grant funds receivable | 354,001 |
| Accounts receivable | 80,494 |
| Prepaid expenses and other assets | <u>9,157</u> |

Total current assets 1,802,281

Property and equipment, net

1,677,671

Total assets

\$ 3,479,952

Liabilities and Net Assets

Current Liabilities

| | |
|-----------------------------------|---------------|
| Current portion of long-term debt | \$ 17,030 |
| Accounts payable | 18,479 |
| Accrued expenses | <u>57,150</u> |

Total current liabilities

92,659

Non-current Liabilities

| | |
|--|----------------|
| Accrued sick leave | 48,998 |
| Long-term debt, net of current portion | <u>293,899</u> |

Total non-current liabilities

342,897

Total liabilities

435,556

Net Assets

| | |
|---|---------------|
| Net assets without donor restrictions | 2,995,398 |
| Net assets designated for sick leave earned | <u>48,998</u> |

Total net assets

3,044,396

Total liabilities and net assets

\$ 3,479,952

See accompanying notes to financial statements

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Activities
Year Ended June 30, 2020**

Revenue, gains and other support

| | |
|---|-----------|
| VI receipts | \$ 28,084 |
| Other income - without donor restrictions | 550 |
| Memberships | 218,169 |
| Slots/tuition | 1,552,619 |
| Interest | 15,473 |
| Registrations | 33,230 |
| Local grant receipts | 496,025 |
| Sponsorships | 8,210 |
| Refunds and reimbursements | 15,011 |
| Purchasing rebates | 75,641 |
| Indirect costs receipts | 466,699 |
| Rent | 40,831 |
| SEEK funds/ADA | 175,259 |
| Misc. revenues | 71,972 |
| Donations/contributions | 5,000 |
| State receipts | 1,695,468 |
| Federal receipts | 1,840,957 |
| Total revenue, gains and other support | 6,739,198 |

Expenses

| | |
|------------------------|-----------|
| Personnel | 3,759,215 |
| Fringe | 734,362 |
| Professional services | 271,085 |
| Contracted service | 74,331 |
| Repair and maintenance | 211,052 |
| Insurance | 39,318 |
| Office expense | 169,174 |
| Program expenses | 697,629 |
| Depreciation | 66,149 |
| Other expenses | 501,718 |
| Total expenses | 6,524,033 |

Change in net assets 215,165

Net assets, beginning of year 2,829,231

Net assets, end of year \$ 3,044,396

See accompanying notes to financial statements

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Functional Expenses
Year Ended June 30, 2020**

| | Cooperative Programs | Operating | Total |
|------------------------------|---------------------------------|------------------|--------------|
| Salaries and benefits | | | |
| Personnel | \$ 3,359,468 | \$ 399,747 | \$ 3,759,215 |
| Fringe | 670,787 | 63,575 | 734,362 |
| Total salaries and benefits | 4,030,255 | 463,322 | 4,493,577 |
| Other expenses | | | |
| Professional services | 204,896 | 66,189 | 271,085 |
| Contracted services | 69,254 | 5,077 | 74,331 |
| Repairs and maintenance | 152,328 | 58,724 | 211,052 |
| Insurance | 24,551 | 14,767 | 39,318 |
| Office expense | 139,834 | 29,340 | 169,174 |
| Program expenses | 656,551 | 41,078 | 697,629 |
| Depreciation | 3,870 | 62,279 | 66,149 |
| Other expenses | 491,479 | 10,239 | 501,718 |
| Total other expenses | 1,742,763 | 287,693 | 2,030,456 |
| Total expenses | \$ 5,773,018 | \$ 751,015 | \$ 6,524,033 |

See accompanying notes to financial statements

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Cash Flows
Year Ended June 30, 2020**

Cash flows from operating activities

Change in net assets \$ 215,165

Adjustments to reconcile change in net assets

to net cash from operating activities:

Depreciation 66,150

Changes in:

Accounts receivable 13,624

Grants receivable (10,987)

Prepaid expenses (9,157)

Accounts payable (4,602)

Accrued sick leave 20,591

Accrued expenses 48,163

Net cash provided by operating activities 338,947

Cash flows from investing activities

Purchases of property and equipment (20,800)

Net cash used in investing activities (20,800)

Cash flows from financing activities

Principal payments on long-term debt (21,419)

Net cash used in financing activities (21,419)

Net change in cash and cash equivalents 296,728

Cash and cash equivalents, beginning of year 1,061,901

Cash and cash equivalents, end of year \$ 1,358,629

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 that provides special education services jointly with local school districts and other education agencies; provides professional development programs for its members and other members of the education-related community; maintains relationships with other Kentucky cooperatives in order to provide centralized purchasing for member districts; coordinates and administers federal programs for participating local school districts; and serves as a fiscal agent for local, state, and federal programs.

Program Descriptions

Regional School Program

The Cooperative was instrumental in the development of a Regional School Program (RSP) serving school age students who have a variety of complex needs in the region. RSP is a collaborative effort among local school districts and is the umbrella to six programs: Northern Kentucky Learning Academy, Phoenix Program, Challenge Program (descriptions to follow). RSP functions through the cooperative, located in Cold Spring, utilizing an Advisory Board. The Advisory Board consists of the Directors of Special Education from each participating district, the Executive Director of NKCES, and administration from Regional School Programs. The Advisory Board meets quarterly throughout the year to discuss topics such as costs, budgets, policies, procedures, transitions, alignment with Kentucky's educational standards, and implementation of special education procedures. Funding for RSP is received from the Commonwealth of Kentucky based on Average Daily Attendance and from slot tuition paid by participating districts to cover excess costs.

Northern Kentucky Learning Academy

The NKY Learning Academy is an alternative school program that serves students in grades 6-12. The NKY Learning Academy is designed to serve students who have demonstrated significant barriers to learning in the typical and traditional school setting. Students have access to full term courses and the opportunity to recover credits from previous terms. During the 2019-2020 school year, three districts participated in The NKY Learning Academy.

Phoenix Program

The Phoenix Program serves students in grades K-12. The Phoenix Program provides a placement on a continuum of services for students in participating districts with an Individual Educational Plan (IEP). The program provides a high degree of structure in self-contained classrooms within the alternative setting. The Phoenix Program is designed to serve students who have demonstrated significant barriers to learning in the typical and traditional school setting and have also been identified as having specialized individual needs in order for them to reach their highest potential. During the 2019-2020 school year, eleven districts participated in the Phoenix Program.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

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

Program Descriptions (Continued)

Challenge Program

The Challenge Program serves students in grades K-12. The Challenge Program provides a placement on a continuum of services for students in participating districts with an IEP. The program provides self-contained classrooms within the alternative setting. The Challenge Program specializes in working with students who have moderate and severe disabilities. The program is designed to have a high degree of structure, schedules based on the individual student needs, and a low student-to-staff ratio in order to provide appropriate services for each student. Students in the program participate in community-based learning in addition to the classroom. During the 2019-2020 school year, six districts participated in the Challenge Program.

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 the prior fiscal year. Working collaboratively with member school districts, KDE, and other regional cooperatives and with a focus on equity, achievement, and integrity, the Cooperative uses these funds in an effort to improve educational outcomes for students with disabilities.

OVR Transition

Through a Memorandum of Agreement (MOA), the Cooperative contracts with the Office of Vocational Rehabilitation (OVR), an agency of the Commonwealth of Kentucky, to facilitate pre-employment transition services to students considered potentially eligible for vocational rehabilitation because of disabilities and other disadvantages. To meet its obligations under the MOA, the Cooperative has hired a full-time employee who is responsible for planning and implementing various student trainings and conferences that focus on the pre-employment needs of such students, while providing additional resources for their teachers and caregivers.

Professional Development

The Cooperative coordinates multiple trainings and activities for member schools and others. Occasionally, there is a small fee charged for these events to cover the cost of supplies, guest speakers, and other needed items. Registration fees and expenses incurred as a result of these trainings are run through this account.

Special Ed PD

The Cooperative coordinates multiple trainings and activities for member schools and others in the area of special education. Occasionally, there is a fee charged for these events to cover the cost of supplies, guest speakers, and other needed items. Registration fees and expenses incurred as a result of these trainings are run through this account. All excess funds are spent on the IDEA Program.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

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

Program Descriptions (Continued)

WHS Crusade for Children

This grant is provided by the WHAS Crusade for Children Advisory Panel and provides funds to purchase assistive technology items that will be available for use by students with special needs, including vision impairments, in the sixteen public school districts in Northern Kentucky through an established loan library at the Cooperative.

Family Resource and Youth Service Centers

Through a Memorandum of Agreement, the Cooperative serves as the fiscal agent for finances related to the compensation and benefits for employees of the Division of Family Resource and Youth Services Centers (DFRYSC) as well as for expenses related to training school district employees responsible for overseeing the Family Resource and Youth Centers (FRYSC) operated statewide. DFRYSC is an agency of the Commonwealth of Kentucky that directs the efforts of these school-based centers to help academically at-risk students succeed in school by helping to minimize or eliminate non-cognitive barriers to learning. In 2019-2020, the sources for funding such activities were approximately 77% from state funds and 23% from Federal funds.

English Learner (ESL Local)

The Cooperative's English Learner (EL) program was created to assist member school districts with the special needs of students whose primary language is other than English. The program's goals are as follows: to help English learners achieve academic success and to ensure that districts are in compliance with state and federal guidelines regarding English Learners. To provide support to member districts, NKCES employs two EL program consultants. The EL consultants screen potential EL students; create Program Service Plans (PSP's) using stakeholder input; assist teachers with PSP implementation; provide direct services to students; administer the state EL assessment; monitor students who have exited the program and re-designated as fully English proficient; offer professional development opportunities and consultation to school employees; and provide general guidance to districts. The program is funded largely by participating school district contributions and somewhat by federal grants made available by the Kentucky Department of Education to those districts but assigned to the Cooperative.

Department for Aging and Independent Living

Through a Memorandum of Agreement, the Cooperative serves as the fiscal agent for state-funded finances related to the compensation and benefits for employees of the Department for Aging and Independent Living (DAIL). DAIL is an agency of the Commonwealth of Kentucky that coordinates a statewide health and safety program targeting Kentucky's senior population and their caregivers.

Grants Consortium

In 2019-2020, thirteen member districts participated in the Grants Consortium. Funded by special membership dues paid by participating districts, the purpose of this unit is to find and apply for eligible grants. Grant writing workshops are also provided to those districts.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

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

Program Descriptions (Continued)

N. KY Integrated Arts Education Grant

NKIAE is a project funded by the U.S. Department of Education's *Professional Development for Arts Educators* Grant. The project plans and provides Professional Learning in Arts Integration to educators in the Northern Kentucky region. Arts Integration is an approach to teaching which connects an art form and another subject area to meet student need and increase student engagement and understanding. Through a Memorandum of Understanding between the Cooperative and Ludlow Independent Schools, recipient of the grant funds, NKCES provides operational and financial management to effectively implement the project.

Drug Free Communities Grant

Through a Memorandum of Agreement with the Substance Abuse and Mental Health Services Administration (SAMHSA), the cooperative serves as the fiscal agent of the Drug Free Community Support Program Grant. The primary purpose of the DFC Program is to work with the Campbell County Drug Free Alliance to strengthen collaboration among community entities and reduce substance use among youth.

NKYEC

Through a Memorandum of Agreement with the Northern Kentucky Youth Education Council (NKYEC), the cooperative serves as the fiscal agent of the NKYEC Grant. The primary purpose of the NKYEC is to serve as a catalyst for collaboration, change, and progress to attain regional education goals in seven Northern Kentucky districts.

Title III EL

The NKCES Title III Consortium ensures that ELs can participate meaningfully and equally in educational programs and services. The EL Consultants (in the local EL Program districts) and/or district staff (in Beechwood and Williamstown) use the students' Home Language Surveys which are administered to all students during enrollment to identify potential EL students using the SEA criteria. The EL Consultants and/or district staff provide training for content teachers on research-based sheltered language instruction for English Learners. The EL Consultants and/or district staff work to ensure that EL students in each district have equal opportunities to meaningfully participate in all curricular and extracurricular activities. They also work to avoid unnecessary segregation of EL students. Additionally, they work with content teachers to meet the needs of EL students who opt out of language assistance programs by using sheltered language strategies in their classrooms. While the EL Consultants provide direct services only to students whose districts participate in the local program, they are available to provide PD in all of the districts in the NKCES Title III Consortium

VI Teacher

In 2019-2020, four member districts participated in the VI Teacher Program. Funded by membership dues paid by participating districts, the purpose of the program is to deliver services for visually impaired students.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

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

Program Descriptions (Continued)

PERS Effectiveness Coach

Through a Memorandum of Agreement (MOA), the Kentucky Department of Education contracts with the Cooperative to provide a Leadership Development Coordinator to provide leadership, support, and service to develop effective principals in Kentucky.

NKU Regional Consultant

Through a Memorandum of Agreement (MOA), Northern Kentucky University contracts with the Cooperative to provide a Leadership Development Coordinator to provide leadership, support, and service to develop effective principals in Kentucky.

2Rev

This Grant Agreement is between 2 Revolutions, LLC ("2 Rev") and the Northern Kentucky Cooperative for Educational Services. The intent of this microgrant is to initiate an innovative professional learning experience using the LearnNext resources. The Cooperative fulfilled this intent by launching an interview-style podcast with invited guest educators who are experts in related areas from the sixteen school districts. This podcast has provided professional learning and PLN development to our region without time or geographical restraints.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Cooperative is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which are available for use in general operations and not subject to donor restrictions; and net assets with donor restrictions, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents

The Cooperative considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2020, cash equivalents consisted primarily of money market accounts. The Cooperative maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Amounts exceeding the federally insured limits are covered by a collateral agreement, and the collateral is held in the Cooperative's name by the safekeeping department of a third-party commercial bank. The Cooperative has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

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

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 Cooperative 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 Cooperative'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 Cooperative has used reasonable collection efforts and deems them uncollectible. Based on this criteria, no allowance for doubtful accounts has been provided at June 30, 2020 since the Cooperative 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, 2020, there were no donated services that were incurred during the year.

Income Taxes

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

The Cooperative's IRS Form 990 is subject to review and examination by federal and state authorities. The Cooperative 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.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Certain costs have been allocated among the program and operating categories based upon estimates of the resources used by various activities. The most significant allocations were salaries and related expenses, which were allocated based on time and effort.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

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

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.

Effect of Adopting New Accounting Standard

During fiscal year 2020, the Organization adopted the Financial Accounting Standards Board ("FASB") 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarified and improved previous guidance about whether a transfer of assets is a contribution or an exchange transaction. The standard clarified how an entity determined whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resource transferred. The standard also required that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier of a promisor's obligation to transfer assets. The ASU has been applied using the modified prospective basis for all grants and contracts that were not completed as of July 1, 2019.

New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contract with customers. This standard will be effective for the Cooperative's year ending June 30, 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating, which will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Cooperative's year ending June 30, 2022.

The Cooperative is currently in the process of evaluating the impact of adoption of these ASUs on the financial statements.

Subsequent Events

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

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2020 consisted of the following:

| | |
|-------------------------------|---------------------|
| Equipment | \$ 277,421 |
| Building | 2,105,338 |
| Land | <u>200,000</u> |
| | 2,582,759 |
| Less accumulated depreciation | <u>(905,088)</u> |
| | <u>\$ 1,677,671</u> |

NOTE 3 ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System or from the County Employees Retirement System, certified and classified employees will receive from the Cooperative an amount equal to 30% of the value of accumulated sick leave. At June 30, 2020 this amount totaled approximately \$48,998 for those employees who are probably eligible to retire from those retirement systems.

NOTE 4 RETIREMENT PLAN

The Cooperative's full-time employees are provided with one of two pension plans, based on each position's education or certification requirement. The County Employees Retirement System (CERS) covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System (KTRS) 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 teaching certificate or 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/>.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 4 RETIREMENT PLAN (CONTINUED)

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.

Contributions

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

| | <u>Required contribution</u> |
|--------|------------------------------|
| 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, 2020, was \$386,365, which consisted of \$313,624 from the Cooperative and \$72,741 from the employees. The contributions have been contributed in full for fiscal year 2020.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 4 RETIREMENT PLAN (CONTINUED)

General information about the Teachers' Retirement System of the Commonwealth of KY

Plan Description

Teaching certified employees of the Cooperative and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the Commonwealth 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://trs.ky.gov/financial-reports-information>.

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 or for some defined term, 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.

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.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 4 RETIREMENT PLAN (CONTINUED)

Benefits Provided (continued)

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, 2020, was \$471,376, which consisted of \$168,948 from the Cooperative and \$302,428 from the employees. The contributions have been contributed in full for fiscal year 2020.

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.

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.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 5 OPEB PLANS

General information about the Teachers' Retirement System OPEB Plan

Plan description

Teaching-certified employees of the Northern Kentucky Cooperative for Educational Services, Inc. are provided OPEBs through the Teachers' Retirement System of the State of Kentucky (TRS) – a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans.

Medical Insurance Plan

Plan description

In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits provided

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions

In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 5 OPEB PLANS (CONTINUED)

General information about the County Employees Retirement System Non-Hazardous OPEB Plan

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

CERS provides 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. See Note 4 for tier classifications.

Contributions

Required contributions by the employee are based on the tier disclosed in Note 4.

Life Insurance Plan

Plan description

TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

Benefits provided

TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions

In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Financial Statements (Continued)

NOTE 6 LONG-TERM DEBT

Long-term debt at June 30, 2020 consisted of the following:

| | |
|--|-------------------|
| Note payable to Heritage Bank; interest at 4.30%; monthly payments of principal and interest of \$2,540 through April 2034; unsecured. | \$ 310,929 |
| Less: current portion | <u>(17,030)</u> |
| Long-term portion | <u>\$ 293,899</u> |

Aggregate annual repayments of long-term debt will be:

| | |
|------------|-------------------|
| 2021 | \$ 17,030 |
| 2022 | 17,788 |
| 2023 | 18,579 |
| 2024 | 19,375 |
| 2025 | 20,362 |
| Thereafter | <u>217,795</u> |
| | <u>\$ 310,929</u> |

NOTE 7 LIQUIDITY AND AVAILABILITY

The Cooperative's total financial assets available are as follows as of June 30, 2020:

| | |
|-------------------------------------|---------------------|
| | <u>2020</u> |
| Cash | \$ 1,358,629 |
| Grant funds and accounts receivable | <u>434,495</u> |
| Total financial assets available | <u>\$ 1,793,124</u> |

The Cooperative regularly monitors liquidity required to meet its operating needs. The Cooperative maintains a goal to have cash on hand sufficient to cover 6 months of operating expenditures.

The Cooperative has various sources of liquidity at its disposal, including cash and accounts receivable. Federal/State grants are awarded at various times throughout the year and funds are drawn down as operational expenditures are incurred in the respective accounts. The Cooperative anticipates that grant revenue available to cover operating expenses of the grants in FY2021 will be \$4.6 million.

In addition to financial assets available to meet general expenditures over the next 12 months, the Cooperative operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures during that period. Refer to the statement of cash flows which identifies the sources and uses of the Cooperative's cash and shows positive cash generated by operations in FY2020.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 8 SUBSEQUENT EVENTS

The COVID-19 outbreak in the United States has caused business disruption through limited program activities. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the disruption. Therefore, the Cooperative expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

DRAFT 10-21-2020

SUPPLEMENTARY INFORMATION

DRAFT 10-21-2020

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Statement of Activities by Program
Year Ended June 30, 2020**

| | Operations | Grants Consortium | WHS Crusade for Children | RSP | ESL Local | NKU Regional Consultant | Professional Development |
|-----------------------|------------------|----------------------|-----------------------------|-------------------|-------------------|----------------------------|-----------------------------|
| Income | | | | | | | |
| Unrestricted income | \$ 834,201 | \$ 81,992 | \$ 2,212 | \$ 1,629,973 | \$ 114,044 | \$ 81,933 | \$ 15,980 |
| Restricted receipts | - | - | - | - | - | - | - |
| Total income | <u>834,201</u> | <u>81,992</u> | <u>2,212</u> | <u>1,629,973</u> | <u>114,044</u> | <u>81,933</u> | <u>15,980</u> |
| Expense | | | | | | | |
| Personnel | 399,747 | 60,712 | - | 968,638 | 100,031 | 57,458 | 7,808 |
| Fringe | 63,575 | 5,931 | - | 116,001 | 5,557 | 18,406 | 2,216 |
| Professional services | 66,189 | 504 | - | 92,545 | 998 | - | 3,410 |
| Contracted services | 5,077 | - | - | 2,617 | 80 | - | 3,875 |
| Repairs/maintenance | 58,724 | 2,473 | 2,007 | 98,079 | 107 | - | - |
| Insurance | 14,767 | - | - | 24,551 | - | - | - |
| Office expense | 29,340 | 969 | 205 | 23,324 | 1,028 | - | 1,176 |
| Program expenses | 41,078 | 3,790 | - | 8,216 | 2,208 | - | 151 |
| Depreciation | 62,279 | - | - | 3,870 | - | - | - |
| Other expenses | 10,239 | 7,613 | - | 167,749 | 8,801 | 6,069 | - |
| Total expense | <u>751,015</u> | <u>81,992</u> | <u>2,212</u> | <u>1,505,590</u> | <u>118,810</u> | <u>81,933</u> | <u>18,636</u> |
| Net income (loss) | <u>\$ 83,186</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 124,383</u> | <u>\$ (4,766)</u> | <u>\$ -</u> | <u>\$ (2,656)</u> |

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Statement of Activities by Program (Continued)
Year Ended June 30, 2020

| | VI Teacher | FRYSC State | OVR Transition | PERS Effectiveness Coach | DAIL | FRYSC - Fed | IDEA |
|-----------------------|---------------|----------------|-------------------|--------------------------------|------------------|----------------|------------------|
| Income | | | | | | | |
| Unrestricted income | \$ 28,084 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Restricted receipts | - | 798,927 | 164,921 | 124,148 | 925,821 | 218,937 | 1,199,412 |
| Total income | <u>28,084</u> | <u>798,927</u> | <u>164,921</u> | <u>124,148</u> | <u>925,821</u> | <u>218,937</u> | <u>1,199,412</u> |
| Expense | | | | | | | |
| Personnel | 20,158 | 555,122 | 74,618 | 89,741 | 613,429 | 32,175 | 596,213 |
| Fringe | 6,049 | 37,618 | 31,903 | 24,961 | 197,141 | 9,944 | 162,317 |
| Professional services | - | - | 37,351 | - | - | - | 22,754 |
| Contracted services | - | - | - | - | 4,500 | - | 358 |
| Repairs/maintenance | 54 | - | 5,054 | - | - | - | 42,076 |
| Insurance | - | - | - | - | - | - | - |
| Office expense | 897 | - | 3,268 | - | - | - | 68,706 |
| Program expenses | 860 | 133,557 | 1,665 | - | - | 156,914 | 215,885 |
| Depreciation | - | - | - | - | - | - | - |
| Other expenses | - | 72,630 | 12,228 | 9,176 | 81,507 | 19,904 | 91,660 |
| Total expense | <u>28,018</u> | <u>798,927</u> | <u>166,087</u> | <u>123,878</u> | <u>896,577</u> | <u>218,937</u> | <u>1,199,969</u> |
| Net income (loss) | <u>\$ 66</u> | <u>\$ -</u> | <u>\$ (1,166)</u> | <u>\$ 270</u> | <u>\$ 29,244</u> | <u>\$ -</u> | <u>\$ (557)</u> |

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Statement of Activities by Program (Continued)
Year Ended June 30, 2020

| | Title III EL | NKYEC | Arts Grant | 2Rev | DFC Youth Substance Prev | Special Ed PD | TOTAL |
|-----------------------|--------------|-----------|------------|---------|--------------------------------|---------------|--------------|
| Income | | | | | | | |
| Unrestricted income | \$ - | \$ 50,882 | \$ 315,578 | \$ - | \$ - | \$ 18,650 | \$ 3,173,529 |
| Restricted receipts | 13,274 | - | - | - | 120,229 | - | 3,565,669 |
| Total income | 13,274 | 50,882 | 315,578 | - | 120,229 | 18,650 | 6,739,198 |
| Expense | | | | | | | |
| Personnel | 8,324 | 45,173 | 83,934 | - | 45,934 | - | 3,759,215 |
| Fringe | 2,112 | 3,286 | 29,864 | - | 17,481 | - | 734,362 |
| Professional services | - | - | 38,080 | - | 504 | 8,750 | 271,085 |
| Contracted services | - | - | 36,951 | - | 20,750 | 123 | 74,331 |
| Repairs/maintenance | 2,340 | - | 54 | 84 | - | - | 211,052 |
| Insurance | - | - | - | - | - | - | 39,318 |
| Office expense | - | - | 9,576 | - | 19,234 | 11,451 | 169,174 |
| Program expenses | 265 | - | 117,253 | - | 8,045 | 7,742 | 697,629 |
| Depreciation | - | - | - | - | - | - | 66,149 |
| Other expenses | 261 | 2,423 | 166 | - | 9,047 | 2,245 | 501,718 |
| Total expense | 13,302 | 50,882 | 315,878 | 84 | 120,995 | 30,311 | 6,524,033 |
| Net income (loss) | \$ (28) | \$ - | \$ (300) | \$ (84) | \$ (766) | \$ (11,661) | \$ 215,165 |

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020**

| Federal Grantor / Pass-through Grantor / Program Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|--|------------------------------------|---|---------------------------------|
| Department of Education | | | |
| <i>Passed through Kentucky Department of Education</i> | | | |
| IDEA Part B-Special Education Grants to States | 84.027 | 38100004 | 1,198,952 |
| Vocational Rehabilitation Grants to States | 84.126 | PON2 531 1900000688 | 164,921 |
| English Language Acquisition Grants | 84.365 | S365A190017 | 11,646 |
| English Language Acquisition Grants | 84.365 | S365A180017 | 1,628 |
| Improving Teacher Quality State Grant | 84.367 | PON2 540 1900004147 | 123,878 |
| Total Department of Education | | | <u>1,501,025</u> |
| Department of Health and Human Services | | | |
| <i>Direct Federal Program</i> | | | |
| Drug-Free Communities Support Program Grants | 93.276 | 5H79SP020833-05 | 120,995 |
| <i>Passed through Kentucky Cabinet for Health and Family Services</i> | | | |
| Community-based Child Abuse Prevention Grants | 93.590 | PON2 730 1900004679 | 218,937 |
| Total Department of Health and Human Services | | | <u>339,932</u> |
| Total Federal Awards | | | <u><u>\$ 1,840,957</u></u> |

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2020

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 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.

NOTE 4 SUBRECIPIENTS

The Cooperative did not have any subrecipients during the year ended June 30, 2020.

**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**

To the People of Kentucky
Honorable Andy Beshear
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Dr. Jason E. Glass, Commissioner, Department of Education
Jay Hartz, Director, Legislative Research Commission
Board of Directors Northern Kentucky Cooperative for Educational Services, Inc.
Cold Spring, Kentucky

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, 2020, 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) as a basis for designing 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. 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.

**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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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**

To the People of Kentucky
Honorable Andy Beshear
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Dr. Jason E. Glass, Commissioner, Department of Education
Jay Hartz, Director, Legislative Research Commission
Board of Directors Northern Kentucky Cooperative for Educational Services, Inc.
Cold Spring, Kentucky

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, 2020. 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, 2020.

**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.

TBD

Crestview Hills, Kentucky

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2020**

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? _____ Yes X No

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? X Yes _____ No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters are reportable.

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, 2020**

No matters are reportable.

DRAFT 10-21-2020