

Report to Governance on the Results of the Annual Independent Audits

Board of Education of Jefferson County, Kentucky

For the Year Ended June 30, 2021

DEANDORTON

Board of Education of Jefferson County, Kentucky

Board of Education, Members of the Audit & Risk Management Advisory Committee,
and other Members of Management
Board of Education of Jefferson County, Kentucky

We are pleased to present this report related to our audit engagements for the Board of Education of Jefferson County, Kentucky (the District) as of and for the year ended June 30, 2021. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process, as well as other matters that we believe may be of interest to you. Our audit engagements do not relieve management or those charged with governance of their responsibilities.

This information is intended solely for the information and use of the Board of Education, members of the Audit & Risk Management Advisory Committee, and members of management of the District, and is not intended to be, and should not be, used by anyone other than these specific parties.

It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to the District. We received excellent cooperation and assistance from management and staff with respect to access to records, supporting documentation and responses to inquiries. No limitations were imposed on our audit procedures or the extent of our audits.

Meet the Team



Jim Tencza, CPA, CIA, CGMA
Director



Simon Keemer, CPA, CGMA, ACA
Director



Megan Crane, CPA
Associate Director
Financial Statement Audit
and Single Audit



Andrew Harris, CPA
Manager
Single Audit



Tori Montgomery, CPA
Supervisor
Financial Statement Audit



Curtis Applebaum
Lead Auditor
School Activity Fund Audits

Overview of Audit Engagements

We expect to issue the following:

Annual Comprehensive Financial Report

- An unmodified opinion on the District's financial statements for the year ended June 30, 2021, with emphasis of matter for the adjustment to net position at the beginning of the fiscal year related to accounting for the liabilities, and deferred inflows and deferred outflows of resources related to the Kentucky Teacher's Retirement System (KTRS). See further information in Note N in the financial statements.

Single Audit

- An unmodified report on compliance and on internal control over financial reporting based on an audit of the District's financial statements in accordance with *Government Auditing Standards*.
- An unmodified report on compliance for each major program, internal control over compliance, and report on the schedule of expenditures of federal awards required by the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* at 2 CFR 200 (Uniform Guidance).

School Activity Fund Financial Statements

- An unmodified opinion over the fiduciary net position of the Jefferson County Board of Education Elementary School Activity Funds as of June 30, 2021.
- An unmodified opinion over the fiduciary net position of the Jefferson County Board of Education Middle School Activity Funds as of June 30, 2021.
- An unmodified opinion over the fiduciary net position of the Jefferson County Board of Education High School Activity Funds as of June 30, 2021.

Auditor Communications

AREA	COMMENTS
<p>Our Responsibilities With Regard to the Financial Statement and Compliance Audits Under:</p> <ul style="list-style-type: none">• U.S. Generally Accepted Auditing Standards• <i>Government Auditing Standards</i>, issued by the Comptroller General of the United States• <i>Kentucky Public School Districts' Audit Contract and Requirements</i> prescribed by the Kentucky State Committee for School District Audits <p>Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which have been described in our arrangement letter dated July 6, 2021.</p>	<p>Our responsibilities have been described in our arrangement letter dated July 6, 2021.</p> <p>Our responsibilities, as also stated in our auditors' report, are summarized as follows:</p> <ul style="list-style-type: none">• Our audits were conducted in accordance with all relevant audit standards.• Our audits were designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.• An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected and performed are dependent upon our professional judgment based on our assessment of the risks of material misstatement and our consideration of internal control.

Auditor Communications

AREA	COMMENTS
Our Responsibilities, continued	<ul style="list-style-type: none">• Our consideration of internal control was for the purpose of designing audit procedures and not for the purpose of expressing an opinion on the effectiveness of internal controls. Accordingly, we express no such opinion.• Our audits also included assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.
Overview of the Planned Scope And Timing Of The Audits	We performed the audits according to the planned scope and timing previously communicated to you in our letter dated September 7, 2021, regarding the nature, timing and extent of our audit procedures, and identified significant risks.

Auditor Communications

AREA	COMMENTS
<p>Accounting Policies and Practices</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District.</p> <p>Under generally accepted accounting principles, in certain circumstances, management may elect among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p>	<ul style="list-style-type: none">• The District did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.• We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.• We did not identify any significant unusual transactions.• Note N: The District recorded an adjustment to net position at the beginning of the fiscal year related to the allocation of the liabilities, deferred outflows of resources and deferred inflows of resources of KTRS as follows:<ul style="list-style-type: none">• The School Food Services Fund and other nonmajor enterprise funds net position was increased by approximately \$31,137,000 and \$399,000, respectively.• On the District-wide financial statements, the Governmental Activities net position was decreased and the Business-Type Activities net position was increased by approximately \$31,536,000.

Auditor Communications

AREA	COMMENTS
Significant Accounting Policies The disclosures are neutral, consistent and clear. Certain disclosures are particularly sensitive because of their significance to the users of the financial statements.	Significant accounting policies are described in Note A to the financial statements. The most sensitive disclosures affecting the financial statements are: <ul style="list-style-type: none">• Note B – Cash, Cash Equivalents, and Investments• Note E – Long-Term Liabilities• Note F – Retirement Plans• Note H – Postemployment Benefits• Note N – Changes to Certain Beginning Balances
Management Judgments And Accounting Estimates Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates.	The most notable estimates affecting the financial statements are: <ul style="list-style-type: none">• Depreciation and useful lives of capital assets (see note A)• Sick leave accrual (see note E)• Workers compensation (see note E)• Pension and OPEB related estimates (management uses reports from CERS and KTRS for balances included in the financial statements) We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Auditor Communications

AREA	COMMENTS
Audit Adjustments and Uncorrected Misstatements Professional standards require us to accumulate all factual, judgmental and projected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management, and request their correction.	<p>There were no audit adjustments made to the original trial balances presented to us to begin our audits.</p> <p>We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.</p>
Departure From the Auditors' Standard Report	<p>In light of the adjustment to net position at the beginning of the fiscal year (see above and note N to the financial statements), we will include an emphasis-of-matter paragraph in the auditors' report as follows:</p> <p>Emphasis of Matter</p> <p>As discussed in Note N to the financial statements, the District restated its net position as of July 1, 2020. The restatement related to a change in the method of allocating the expense, deferred inflows, deferred outflows, and net liability for the Kentucky Teacher's Retirement System's OPEB plan. Our opinions are not modified with respect to this matter.</p>

Auditor Communications

AREA	COMMENTS
<p>Other Information in Documents Containing Audited Financial Statements</p> <p>Our responsibility for other information in documents containing the District’s audited financial statements is contained within the “Other Matters” section of the auditors’ report.</p> <p>Note: GASB 98 replaces the term “comprehensive annual financial report” with “annual comprehensive financial report” but does not otherwise establish new accounting and financial reporting requirements. GASB 98 is effective for fiscal years ending after December 15, 2021. Earlier application is encouraged. The District has chosen to early adopt GASB 98.</p>	<p>The District prepares an Annual Comprehensive Financial Report (ACFR).</p> <p>Included within the Financial Section of the ACFR is the following:</p> <ul style="list-style-type: none">• Management’s Discussion and Analysis (MD&A)• Require Supplementary Information (RSI)<ul style="list-style-type: none">• Budgetary comparison information for the General and Special Revenue funds• Various Pension and OPEB schedules and information• Supplementary Information (SI)<ul style="list-style-type: none">• Budgetary comparison information for other funds• Combining financial statements for the nonmajor funds <p>We do not express an opinion or provide any assurance on the MD&A, RSI or budgetary comparison information in the SI because the limited procedures we perform on the information does not provide us with sufficient evidence to express an opinion or provide any assurance.</p> <p>We provide an “in relation to” opinion for the combining financial statements in the SI.</p>

Auditor Communications

AREA	COMMENTS
Other Information in Documents Containing Audited Financial Statements, continued	<p>The ACFR also includes Introductory and Statistical sections which are not subject to our audit procedures, and accordingly, we do not express an opinion or provide any assurance on them.</p> <p>To our knowledge, the 2021 audited financial statements for the District are not included in any other document.</p>
Disagreements With Management	<p>We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.</p>
Consultations With Other Independent Accountants	<p>We are not aware of any consultations management had with other accountants about accounting or auditing matters.</p>
Significant Issues Discussed With Management	<p>No significant issues arising from the audit were discussed or were the subject of correspondence with management.</p>

Auditor Communications

AREA	COMMENTS
Significant Difficulties Encountered In Performing The Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Difficult or Contentious Matters That Required Consultation	We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.
Internal Control and Compliance Matters	<p>Internal control findings will be discussed later in this report.</p> <p>We will also separately communicate significant deficiencies and material weaknesses in internal control over financial reporting and any compliance findings identified during our audit of the financial statements and major awards, as required by <i>Government Auditing Standards</i> and the Uniform Guidance.</p>
Management Representations	We will request certain representations from management that will be included in the management representation letter dated November 9, 2021.

Internal Control Findings Definitions

Internal control deficiencies are defined as follows:

- Internal control deficiency – 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, financial statement misstatements on a timely basis.
 - *Deficiency in design:* A control necessary to meet the control objective is missing, or when an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.
 - *Deficiency in operation:* A properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.
- Material weakness – A deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis
- Significant deficiency – 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.

Internal Control Findings

- Material weaknesses – None identified
- Significant deficiencies
 - Prior year finding related to interpretation and accounting for debt discounts and premiums in accordance with GASB 65 has been remediated
 - Prior year finding related to interpretation and accounting for OPEB liabilities in accordance with GASB 75 will be reworded in a current year finding due to the adjustment to net position at the beginning of the fiscal year related to KTRS
- Other internal control deficiencies
 - Collateral for bank accounts: Bank has investments necessary to collateralize the JCPS bank account amounts in excess of FDIC insurance, but collateral is not fully compliant with Kentucky Revised Statute requirements

Summary of School Activity Funds Audits

- Audit approach, risk assessment and scope of school activity funds audited
- We expect to issue unmodified opinions
- Minor findings noted – 31 in the current year (in-person learning for a quarter of the year)
- Findings noted in prior year – 198 (in-person learning for three quarters of the year)
- Overall assessment of school-level accounting and areas for improvement

Summary of Single Audit

- Major programs audited:
 - CFDA 21.019: Coronavirus Relief Funds (COVID-19 related funds)
 - CFDA 84.027: Special Education
 - CFDA 84.048: Career and Technical Education
 - CFDA 84.425: Education Stabilization Funds (COVID-19 related funds)
- We expect to issue an unmodified opinion
- No findings noted
- Will be issued when Compliance Supplement Addendum is issued (extension to December 15, 2021)

Upcoming GASB Standards

- No. 87, *Leases* (and associated standards/implementation guide)
 - All leases, other than short terms leases, will be recognized as a lease liability and a right-of-use (ROU) asset on the financial statements
 - Can be challenging to identify all leases within an entity for the required accounting analysis
 - Effective for the District for year ended June 30, 2022 (delay from GASB No. 95)
- No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*
 - Interest during the construction period is expensed, not capitalized
 - Effective for the District for year ended June 30, 2022 (delay from GASB No. 95)

Upcoming GASB Standards, continued

- No. 91, *Conduit Debt Obligations*
 - Changes disclosures related to conduit debt
 - Effective for the District for the year ended June 30, 2023
- No. 92, *Omnibus 2020*
- No. 93, *Replacement of IBORs*
- No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Upcoming GASB Standards, continued

- No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*
 - SBITA is a contract that conveys control of the right to use another party's information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction
 - Essentially uses the same rules as within GASB 87 for leases
 - Effective for the District for year ended June 30, 2023
- No. 97, *Component Units and IRS Code 457 Deferred Compensation Plans*

A photograph of four business professionals in an office setting. A man with glasses and a beard is seated at a table, holding a document and looking towards a woman standing next to him. The woman is gesturing with her hand while speaking. Two other people are seated at the table, looking towards the man. The scene is dimly lit, with a blue overlay on the left side. The text 'Questions?' is written in white on the blue overlay.

Questions?

DEANDORTON

Thank you

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