

A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas

Financial Statements
and
Supplemental Information

with Report of Independent Auditor
For the Year Ended June 30, 2010

A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas
Special Financial Statements
For the Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas

We have audited the accompanying financial statements of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, management. 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effect on the financial statements of the differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

The financial statements referred to above include only the primary government of the Cooperative, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the Cooperative's legal entity. The financial statements do not include the financial data of any legally separate component units which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Cooperative's primary government.

In our opinion, because of the Cooperative's policy to prepare its financial statements on the basis of accounting discussed in the preceding two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas as of June 30, 2010, or changes in financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, as of June 30, 2010, and the revenues it received and expenditures it paid for the year then ended, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2011, on our consideration of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas statutory basis financial statements. The information identified in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the statutory basis financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the statutory basis financial statements of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas. This supplemental information has been subjected to the auditing procedures applied in the audit of the statutory basis financial statements, and, in our opinion, is fairly stated, in all material respects in relation to the statutory basis financial statements taken as a whole, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the governing body and management of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, and for filing with the Kansas Department of Education, the Kansas Department of Administration, Division of Accounts and Reports, the cognizant federal agency, and other federal audit agencies. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Respectfully Submitted,

Schlotterbeck and Burns, LLC

April 6, 2011

A.N.W. Special Education Cooperative No. 603
 Summary of Cash Receipts, Expenditures, and Unencumbered Cash
 For the Year Ended June 30, 2010

Statement 1

		<u>Beginning Unencumbered Cash Balance</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
Governmental Type Funds:							
General		\$ 1,865,855	12,317,038	10,516,863	3,666,030	8,887	3,674,917
Total Primary Government	(1)	<u>1,865,855</u>	<u>12,317,038</u>	<u>10,516,863</u>	<u>3,666,030</u>	<u>8,887</u>	<u>3,674,917</u>
Composition of Cash:							
Cash and Cash Items on Hand							30
Demand Deposits							3,679,274
Petty Cash Advance							700
Less: Agency Funds per Statement 4							(5,087)
Total Primary Government	(1)						<u>3,674,917</u>

(1) Excluding Agency Funds

See accompanying notes to financial statements

A.N.W. Special Education Cooperative No. 603
 Summary of Expenditures - Actual and Budget
 (Budgeted Funds Only)
 For the Year Ended June 30, 2010

	<u>Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental Type Funds:			
General	\$ 12,345,722	10,516,863	1,828,859
Totals	<u>12,345,722</u>	<u>10,516,863</u>	<u>1,828,859</u>

See accompanying notes to financial statements

General Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended June 30, 2010

(With Comparative Actual Totals for the Prior Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance Favorable (Unfavor)
		Current Year Actual	Budget	
Cash Receipts				
Revenue from Local Sources				
Member District Contributions	\$ 2,165,000	2,265,000	2,265,000	
Member District State Aid Contributions	6,379,448	5,421,825	5,467,450	(45,625)
Other Payments from Districts	41,538	51,349		51,349
Interest on Investments	15,710	5,982	25,000	(19,018)
Other Revenue From Local Sources	44,088	55,011		55,011
Total Revenue from Local Sources	<u>8,645,784</u>	<u>7,799,167</u>	<u>7,757,450</u>	<u>41,717</u>
Revenue from State Sources				
Mentor Teacher Program	4,500	5,100		5,100
Revenue from Federal Sources				
Federal Financial Assistance ARRA		853,345	697,904	155,441
Title VI-B Flow-Through		2,656,793	1,367,402	1,289,391
Title VI-B Continuous Improvement Grant		108,754	54,347	54,407
Title VI-B Preschool Grant		145,032	68,920	76,112
Medicaid Title XIX	541,474	748,847		748,847
Total Revenue from Federal Sources	<u>541,474</u>	<u>4,512,771</u>	<u>2,188,573</u>	<u>2,324,198</u>
Total Cash Receipts	<u>9,191,758</u>	<u>12,317,038</u>	<u>9,946,023</u>	<u>2,371,015</u>
Expenditures and Transfers				
Instruction				
Certified Salaries	1,791,800	1,244,308	1,584,049	339,741
Non-Certified Salaries	1,917,210	2,022,028	3,131,259	1,109,231
Health Insurance	408,446	476,589	473,000	(3,589)
Social Security	272,976	244,064	339,653	95,589
Unemployment Compensation	6,879	4,724	22,715	17,991
Worker's Compensation	37,899	44,022	93,701	49,679
Other Employee Benefits			3,943	3,943
Instructional Program Improvement Services	182,019	207,441	185,000	(22,441)
Audio Visual Services			800	800
Computer Services			4,000	4,000
Other Equipment Services			3,500	3,500
Telephone	6,411	7,503	16,612	9,109
Tuition	98,936	81,413	125,000	43,587
In-District Travel	116,590	121,972	100,000	(21,972)
Out-of-District Travel	2,469	2,461	5,000	2,539
General Supplies and Materials	52,704	57,214	96,000	38,786
Other Supplies and Materials	1,873	1,828	2,500	672
Other Food Costs	4,486	4,157	12,000	7,843
Periodicals	360	221	500	279
Textbooks	11,829	9,353	31,000	21,647
Software	10,040	12,118	32,000	19,882
Testing Supplies and Materials	15,898	16,359	19,000	2,641
Miscellaneous Supplies	300	164	3,400	3,236
Furniture and Fixtures	121	439	16,000	15,561
Audio-Visual	1,145	1,952	2,600	648
Computers & Related Equipment	18,127	81,517	95,000	13,483
Other Equipment	18,514	9,870	25,000	15,130
Other			749,762	749,762
Total Instruction	<u>4,977,032</u>	<u>4,651,717</u>	<u>7,172,994</u>	<u>2,521,277</u>
Support Services				
Certified Salaries	1,392,007	1,358,859	1,600,095	241,236
Non-Certified Salaries	221,763	226,220	222,886	(3,334)
Social Security	120,675	118,076	142,997	24,921
Unemployment Compensation	3,174	2,242	11,134	8,892
Vehicles (Including school buses)			8,000	8,000
Total Support Services	<u>1,737,619</u>	<u>1,705,397</u>	<u>1,985,112</u>	<u>279,715</u>

See accompanying notes to financial statements

General Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended June 30, 2010

(With Comparative Actual Totals for the Prior Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance Favorable (Unfavor)
		Current Year Actual	Budget	
General Administration				
Certified Salaries	\$ 290,237	290,236	290,235	(1)
Non-Certified Salaries	191,999	194,704	194,172	(532)
Health Insurance	41,312	52,113	33,480	(18,633)
Social Security	34,438	34,562	36,846	2,284
Unemployment Compensation	915	660	2,926	2,266
Accounting	3,747	3,787	7,200	3,413
Collective Bargaining			2,000	2,000
Legal Services	4,473	4,919	32,750	27,831
Medical Services	2,676	2,046	4,000	1,954
Data Processing Services	3,881	3,647	5,000	1,353
Computer Services			5,000	5,000
Cooling Services			1,500	1,500
Electrical Services			1,000	1,000
Heating Services			3,000	3,000
Office Machine Services	2,700	2,880	4,000	1,120
Plumbing Services			1,000	1,000
Other Building Services			1,495	1,495
Other Equipment Services			2,500	2,500
Liability Insurance	5,733	4,540	6,000	1,460
Property Insurance	3,065	3,843	9,000	5,157
Surety Bonds	200	200	150	(50)
Other Insurance Services		5	1,000	995
Postage	7,428	7,095	12,500	5,405
Telephone	38,148	34,500	40,700	6,200
Printing and Binding	4,214	1,663	3,000	1,337
In-District Travel	6,978	9,193	15,000	5,807
Out-of-District Travel	106,821	105,398	52,000	(53,398)
Office Supplies	4,399	4,908	6,500	1,592
Books and Periodicals	1,441	1,439	3,200	1,761
Furniture and Fixtures	4,500	1,744	4,500	2,756
Computers & Related Equipment			7,500	7,500
Other Equipment	3,483	2,993	5,000	2,007
Total General Administration	<u>762,788</u>	<u>767,075</u>	<u>794,154</u>	<u>27,079</u>
Operations and Maintenance				
Part-Time Non-Certified Salaries	12,955	10,964	12,000	1,036
Social Security	531	459	918	459
Unemployment Compensation	15	9		(9)
Snow Removal Services		1,320	200	(1,120)
Lawn Care	2,537	2,774	2,500	(274)
Pest Control	448	456	1,500	1,044
Repairs and Maintenance	14,703	14,507	25,500	10,993
Other Building Services		1,073	1,500	427
Rentals/Leases	31,988	16,393	26,000	9,607
Energy	10,398	10,856	14,700	3,844
Heating	28,824	29,345	40,198	10,853
Total Operations and Maintenance	<u>102,399</u>	<u>88,156</u>	<u>125,016</u>	<u>36,860</u>

See accompanying notes to financial statements

General Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended June 30, 2010

(With Comparative Actual Totals for the Prior Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance Favorable (Unfavor)
		Current Year Actual	Budget	
Student Transportation				
Certified Salaries	\$ 145,373	146,511	186,220	39,709
Social Security	11,053	11,104	14,153	3,049
Unemployment Compensation	277	215	1,117	902
Other Equipment Services	12,381	11,968	12,000	32
Rentals/Leases	85,361	71,892	90,000	18,108
Other Sources of Student Transportation Services	1,450	1,697	1,000	(697)
Fleet Insurance	7,439	8,700	8,700	
Parts	19,745	15,957	17,000	1,043
Tires	3,767	4,373	5,000	627
Motor Fuel	44,990	44,836	70,000	25,164
Total Student Transportation	<u>331,836</u>	<u>317,253</u>	<u>405,190</u>	<u>87,937</u>
Title VI-B Flow Through				
Certified Salaries	1,735,267	1,589,379	1,228,279	(361,100)
Non-Certified Salaries	161,561	27,389		(27,389)
Social Security	140,300	118,597	131,120	12,523
Unemployment Compensation	3,568	2,277	10,455	8,178
General Supplies and Materials	500	164	3,890	3,726
Other Food Costs	226	68	300	232
Audio-Visual			5,000	5,000
Other Miscellaneous Expenditures	28,095	23,299	32,976	9,677
Total Title VI-B Flow Through	<u>2,069,517</u>	<u>1,761,173</u>	<u>1,412,020</u>	<u>(349,153)</u>
ARRA Federal Funds				
Certified Salaries		722,117		(722,117)
Social Security		48,681		(48,681)
Other Employee Benefits		826		(826)
Total ARRA Federal Funds		<u>771,624</u>		<u>(771,624)</u>
Special Vocational Program				
Certified Salaries	208,889	258,544	202,714	(55,830)
Non-Certified Salaries	51,549	61,501	69,478	7,977
Social Security	19,268	23,640	22,333	(1,307)
Unemployment Compensation	416	422	1,396	974
Other Employee Benefits	55	33	385	352
Instructional Program Improvement Services	395			
Rentals/Leases	45,445	34,911	36,000	1,089
Fleet Insurance	5,387	4,738	9,700	4,962
Telephone	7,384	6,332	7,500	1,168
Staff Travel			500	500
In-District Travel	10,337	8,081	9,000	919
General Supplies and Materials	490	87	3,500	3,413
Vehicles (Including school buses)	17,584	15,016	16,000	984
Computers & Related Equipment			1,000	1,000
Other Equipment		1,133	300	(833)
Total Special Vocational Program	<u>367,199</u>	<u>414,438</u>	<u>379,806</u>	<u>(34,632)</u>
Inservice				
Certified Salaries	9,170	8,776	15,000	6,224
Social Security	667	671	1,530	859
Unemployment Compensation	18	13		(13)
Instructional Program Improvement Services	28,960	25,984	42,900	16,916
In-District Travel	8,805	4,586	11,000	6,414
Out-of-District Travel			1,000	1,000
Total Inservice	<u>47,620</u>	<u>40,030</u>	<u>71,430</u>	<u>31,400</u>
Total Expenditures and Transfers	<u>10,396,010</u>	<u>10,516,863</u>	<u>12,345,722</u>	<u>1,828,859</u>
Receipts Over (Under)				
Expenditures and Transfers	(1,204,252)	1,800,175		
Unencumbered Cash, Beginning	3,070,107	1,865,855		
Unencumbered Cash, Ending	<u>1,865,855</u>	<u>3,666,030</u>		

See accompanying notes to financial statements

A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas
Agency Funds
Statement of Cash Receipts and Disbursements
For the Year Ended June 30, 2010

<u>Fund</u>	Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
B&G Building Trades Project	\$ 12,135	20,518	21,575	11,078
Cats-Can-Do Building Trades Project	3,447	10,628	10,742	3,333
Payroll Clearing	(162)	3,466,999	3,476,161	(9,324)
Total Agency Funds	<u>15,420</u>	<u>3,498,145</u>	<u>3,508,478</u>	<u>5,087</u>

See accompanying notes to financial statements

A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas
Notes to Financial Statements
June 30, 2010

Note 1 Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the Cooperative for the year of 2010:

Governmental Funds:

General Fund--to account for all unrestricted resources except those required to be accounted for in another fund.

Fiduciary Funds:

Trust and Agency Funds--to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include (a) Expendable Trust Funds, (b) Nonexpendable Trust Funds, (c) Pension Trust Funds and (d) Agency Funds.

Note 2 Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

These financial statements are presented in compliance with the cash-basis and budget laws of Kansas. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances--that is, commitments related to unperformed (executory) contracts for goods or services.

Note 3 Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a statement of revenues on the cash basis and expenditures on a modified accrual basis further modified by the inclusion of encumbrances. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities.

Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. In addition, General Fixed Assets that account for the land, buildings, and equipment owned by the Cooperative are not recorded. However, the Cooperative has waived these requirements under the authority of K.S.A. 75-1120(a).

A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas
Notes to Financial Statements
June 30, 2010

Note 4 Budget

The Cooperative is not subject to the Kansas Budget Law, as they are not the primary taxing authority for the Cooperative. Each of the eight member school districts holds the taxing authority for funds paid to the Cooperative. The Cooperative adopts an annual budget for the General Fund for managerial purposes. The budget comparisons on Statement 2 and 3 reflect this internal managerial budget.

Note 5 Compliance with Kansas Statutes

Compliance with Kansas Cash Basis Law

No violations.

Compliance with Kansas Depository Security Law

No violations.

Note 6 Liabilities

Defined Benefit Pension Plan

Plan Description. The Cooperative contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% or 6% of covered salary, depending on date of employment. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas contributed 8.57% of covered payroll during the period covered by this report. These contribution requirements are established by KPERS and are periodically revised. Kansas' contributions to KPERS for all Kansas public school employees for the years ending June 30, 2010, 2009, and 2008 were \$248,468,186, \$242,277,363, and \$220,815,154, respectively, equal to the required contributions for each year.

Sick Leave

The Cooperative sick leave policy allows crediting each employee with twelve days sick leave per year up to a maximum of ninety days. At the time the employee voluntarily leaves the service of the Cooperative, if they have fifteen years of service or more, they are compensated for a portion of these unused days. There are two options to compute the compensation.

Option A: If the employee is not yet eligible to retire under KPERS, they can receive 20% of their daily salary per day for up to 80 days of their unused sick leave.

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Humboldt, Kansas
Notes to Financial Statements
June 30, 2010

Option B: If the employee is eligible to retire under KPERS, they can receive compensation for up to 80 days of their unused sick leave at the rate of \$125 per day. The amount of days to be paid is based on a variable percentage, based on the length of time the employee continues to work past the date they are eligible to retire under KPERS and is shown on the schedule below:

<u>Years of Kpers Eligibility</u>	<u>Percent of unused sick leave days eligible for compensation (maximum of 80 days)</u>
1	20%
2	20%
3	30%
4	40%
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

Retiring employees may receive a lump sum payment or have the benefit paid to them in monthly payments of not more than \$150 per month until the benefit has been fully paid.

As of June 30, 2010, the maximum potential liability under Option A of the Cooperative's plan (employees who were eligible to receive this payment, but are still employed) is \$118,293.

At June 30, 2010, the Cooperative had one employee who had actually retired under Option B. As a result, the Cooperative will be paying a total of \$5,000 to this employee in the 2010-2011 fiscal year. In addition to this, there were nine employees who could have retired under Option B, but had not chosen to do so as of June 30, 2010. If these employees had retired, the liability under Option A would have been reduced to \$90,081 and the Cooperative would have been required to pay up to an additional \$35,988 in the 2010-2011 fiscal year.

Long-Term Lease Purchase Agreements

At June 30, 2010, the Cooperative is obligated under a master lease purchase agreement for the acquisition of vehicles. Ownership of the leased assets transfers to the Cooperative at the end of the lease term (after a final payment of \$1). A schedule of changes in the Cooperative's lease purchase agreements outstanding is presented below:

Principal balance, July 1, 2009	\$ 168,971
Additions	53,321
Payments	(116,388)
Principal balance, June 30, 2010	<u>105,904</u>
Total interest paid 2009-10	<u>5,420</u>

A schedule of payments due subsequent to June 30, 2010 is presented below:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010-11	\$ 81,362	3,132	84,494
2011-12	24,542	236	24,778
Total	<u>105,904</u>	<u>3,368</u>	<u>109,272</u>

A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas
Notes to Financial Statements
June 30, 2010

Note 7 Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the Cooperative. The statute requires banks eligible to hold the Cooperative's funds have a main or branch bank in the county in which the Cooperative is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage.

K.S.A. 12-1675 allows the Cooperative to deposit idle funds in time deposits-open accounts, and certificates of deposit with allowable financial institutions; and to invest idle funds in U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool.

The Cooperative held no investments at June 30, 2010 and held no investments throughout the year.

Concentration of credit risk. State statutes place no limit on the amount the Cooperative may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. State statutes require the Cooperative's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Cooperative has not designated any peak periods.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Cooperative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

At June 30, 2010, the carrying amount of the Cooperative's deposits was \$3,679,274 and the bank balance was \$3,085,738. Due to changes in FDIC regulations during 2008, including the FDIC's Temporary Liquidity Guarantee Program, the entire bank balance of the Cooperative was secured by FDIC coverage.

Note 8 Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Cooperative expects such amounts, if any, to be immaterial.

Note 9 Economic Dependency

The State of Kansas provides general financial aid to the Cooperative to cover normal operating expenditures. This state aid is passed through the eight member districts by the State and represents 43.9% of the total operating budget for the Cooperative. In addition, the Cooperative receives Federal aid which is passed through the State of Kansas. The amounts received during 2009-10 amounted to 36.6% of the Cooperative's operating budget.

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S & B

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

Board of Directors
A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas

We have audited the statutory basis financial statements of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, as of and for the year ended June 30, 2010, and have issued our report thereon dated April 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas internal control over financial reporting.

A 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas statutory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing body and management of the A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, and for filing with the Kansas Department of Education, the Kansas Department of Administration, Division of Accounts and Reports, the cognizant federal agency, and other federal audit agencies. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Respectfully Submitted,

Schlotterbeck and Burns, LLC

April 6, 2011

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas

Compliance

We have audited the compliance of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, management. Our responsibility is to express an opinion on A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas 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. Our audit does not provide a legal determination on A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas compliance with those requirements.

In our opinion, A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body and management of the A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, and for filing with the Kansas Department of Education, the Kansas Department of Administration, Division of Accounts and Reports, the cognizant federal agency, and other federal audit agencies. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Respectfully Submitted,

Schlotterbeck and Burns, LLC

April 6, 2011

A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the special purpose financial statements of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas.
2. No reportable conditions relating to the audit of the financial statements are reported in the "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards".
3. No instances of noncompliance material to the financial statements of A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the "Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas expresses an unqualified opinion.
6. There were no findings relating to the major federal award programs for A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas, that are required to be reported in Part C of this Schedule.
7. The programs tested as major programs were: CFDA No. 84.027, 84.173 and 84.391 - all of which are in the Special Education Cluster of programs.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. A.N.W. Special Education Cooperative No. 603, Humboldt, Kansas was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None.

C. Findings and Questioned Costs - Major Federal Awards Program Audit

None.

A.N.W. Special Education Cooperative No. 603
Humboldt, Kansas
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education		
Passed through State Department of Education		
Special Education-Grants to States	84.027 \$	1,421,749 (1)
Special Education-Preschool Grants	84.173	68,920 (1)
Special Education-Grants to States, Recovery Act (ARRA)	84.391	<u>771,624 (1)</u>
 Total Federal Financial Assistance		 <u><u>2,262,293</u></u>

(1) These programs are considered to be a cluster and were considered to be a major program.

Note - Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of A.N.W. Special Education Coop. No. 603 and is presented on the cash basis of accounting, and accordingly, represents the total cash expended for each program. It does not include transactions that might be included using the modified accrual basis of accounting which is the basis used in the Cooperative's financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*.