

**NORTH CENTRAL KANSAS SPECIAL EDUCATION
COOPERATIVE INTERLOCAL NO. 636**

Financial Statements With Independent Auditors' Report

For the Year Ended June 30, 2011

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
Financial Statements With Independent Auditors' Report
For the Year Ended June 30, 2011

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Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

North Central Kansas Special Education Cooperative Interlocal No. 636

Phillipsburg, Kansas

We have audited the accompanying financial statements of **North Central Kansas Special Education Cooperative Interlocal No. 636**, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of **North Central Kansas Special Education Cooperative Interlocal No. 636's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit Guide* 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 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 opinions.

As described more fully in Note 1, **North Central Kansas Special Education Cooperative Interlocal No. 636**, has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, whose practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, 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 **North Central Kansas Special Education Cooperative Interlocal No. 636**, as of June 30, 2011, or the changes in its financial position for the year then ended. Further, **North Central Kansas Special Education Cooperative Interlocal No. 636** has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

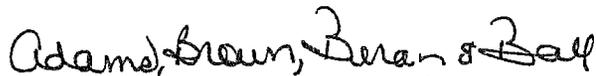
In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of **North Central Kansas Special Education Cooperative Interlocal No. 636**, as of June 30, 2011, and their respective cash receipts and disbursements and budgetary results for the year then ended on the basis of accounting described in Note 1.

North Central Kansas Special Education Cooperative Interlocal No. 636

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2011, on our consideration of **North Central Kansas Special Education Cooperative Interlocal No. 636'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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **North Central Kansas Special Education Cooperative Interlocal No. 636's** financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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 not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and is 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.


ADAMS, BROWN, BERAN AND BALL, CHTD.
Certified Public Accountants

October 12, 2011

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
 Summary of Cash Receipts, Expenditures, and Unencumbered Cash
 For the Year Ended June 30, 2011

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Fund Categories							
Special Revenue Funds							
Coop Special Education Fund	\$ 2,005,731	-	7,217,661	7,034,415	2,188,977	451,669	2,640,646
Parents As Teachers Fund	-	-	72,971	72,971	-	5,538	5,538
Gifts and Grants Fund	-	-	4,800	4,800	-	-	-
Professional Development Fund	10,580	-	18,120	28,700	-	-	-
Total Reporting Entity	\$ 2,016,311	-	7,313,552	7,140,886	2,188,977	457,207	2,646,184
Composition of Cash							
						Checking Accounts	\$ 1,085,070
						Certificates of Deposit	1,561,114
						Total Reporting Entity	\$ 2,646,184

The notes to the financial statements are an integral part of this statement.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
 Summary of Expenditures - Actual and Budget
 For the Year Ended June 30, 2011

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year Budget	Variance Over (Under)
Governmental Fund Categories					
Special Revenue Funds					
Coop Special Education Fund	\$ 8,022,180	-	8,022,180	7,034,415	(987,765)
Parents As Teachers Fund	73,386	-	73,386	72,971	(415)
Gifts and Grants Fund	4,800	-	4,800	4,800	-
Professional Development Fund	28,700	-	28,700	28,700	-

The notes to the financial statements are an integral part of this statement.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
Coop Special Education Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended June 30, 2011
(With Comparative Actual Totals for the Prior Year Ended June 30,2010)

	Prior Year Actual	Current Year		Variance Over Under
		Actual	Budget	
Cash Receipts				
Local Sources				
Payments From Districts - Assessments	\$ 1,297,315	1,414,962	1,417,060	(2,098)
Payments From Districts - Flow-thru	3,854,249	3,970,521	3,841,245	129,276
Interest on Idle Funds	38,254	21,502	25,000	(3,498)
Other Revenue From Local Sources	13,963	61,797	39,000	22,797
State Aid				
Special Education Aid	150,350	157,173	126,680	30,493
Medicaid	177,022	213,229	170,000	43,229
Federal Aid				
Federal Grants	928,716	941,881	941,072	809
ARRA Funding	436,598	436,596	436,596	-
Total Cash Receipts	<u>6,896,467</u>	<u>7,217,661</u>	<u>6,996,653</u>	<u>221,008</u>
Expenditures				
Instruction	4,615,129	4,507,582	5,306,210	(798,628)
Student Support Services	1,798,969	1,739,249	1,902,880	(163,631)
Instructional Support Staff	-	50,800	50,036	764
Administration	340,736	393,302	387,923	5,379
Operations and Maintenance	28,149	25,415	28,000	(2,585)
Vehicle Operation Services	158,442	147,242	181,500	(34,258)
Other Supplemental Services	133,434	170,825	165,631	5,194
Total Expenditures	<u>7,074,859</u>	<u>7,034,415</u>	<u>8,022,180</u>	<u>(987,765)</u>
Cash Receipts Over (Under) Expenditures	(178,392)	183,246		
Unencumbered Cash - Beginning	<u>2,184,123</u>	<u>2,005,731</u>		
Unencumbered Cash - Ending	<u>\$ 2,005,731</u>	<u>2,188,977</u>		

The notes to the financial statements are an integral part of this statement.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
Parents As Teachers Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended June 30, 2011
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Local Sources				
Payments From Districts	\$ 28,182	996	996	-
State Aid				
Parent Education Program	43,357	71,975	72,390	(415)
Total Cash Receipts	<u>71,539</u>	<u>72,971</u>	<u>73,386</u>	<u>(415)</u>
Expenditures				
Student Support Services	54,956	55,906	58,792	(2,886)
Instructional Support Staff	15,505	15,987	13,516	2,471
Other Supplemental Services	1,078	1,078	1,078	-
Total Expenditures	<u>71,539</u>	<u>72,971</u>	<u>73,386</u>	<u>(415)</u>
Cash Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash - Beginning	-	-		
Unencumbered Cash - Ending	\$ <u>-</u>	<u>-</u>		

The notes to the financial statements are an integral part of this statement.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636

Gifts and Grants Fund

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended June 30, 2011

(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Dane G. Hansen Foundation	\$ 4,800	4,800	4,800	-
Expenditures				
Instruction	4,800	4,354	3,650	704
General Administration	-	446	250	196
Vehicle Operation Services	-	-	900	(900)
Total Expenditures	<u>4,800</u>	<u>4,800</u>	<u>4,800</u>	<u>-</u>
Cash Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash - Beginning	-	-		
Unencumbered Cash - Ending	\$ <u>-</u>	<u>-</u>		

The notes to the financial statements are an integral part of this statement.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
Professional Development Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended June 30, 2011
(With Comparative Actual Totals for the Prior Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Cash Receipts				
Local Sources				
Other Revenue From Local Sources	\$ 39,975	18,120	18,119	1
State Aid				
Professional Development Aid	2,000	-	-	-
Total Cash Receipts	41,975	18,120	<u>18,119</u>	<u>1</u>
Expenditures				
Instructional Support Staff	32,973	28,700	<u>28,700</u>	<u>-</u>
Cash Receipts Over (Under) Expenditures	9,002	(10,580)		
Unencumbered Cash - Beginning	1,578	10,580		
Unencumbered Cash - Ending	\$ <u>10,580</u>	<u>-</u>		

The notes to the financial statements are an integral part of this statement.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Central Kansas Special Education Cooperative Interlocal No. 636 (the Cooperative), has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to 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 following is a summary of such significant policies.

Reporting Entity

North Central Kansas Special Education Cooperative Interlocal No. 636 is a municipal corporation governed by an elected board. The Board is composed of one member from the Board of Education of each school district that is a member of the Cooperative. The Cooperative receives funding from local, state and federal government sources and must comply with the requirements of these funding sources.

The financial statements of the Cooperative consist of all the funds of the Cooperative and governmental entities that are considered to be controlled by or dependent upon the Cooperative. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The Cooperative has no component units.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from those estimates.

Basis of Presentation – Fund Accounting

The accounts of the Cooperative are organized and operated on the basis of funds. In governmental accounting, a fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the Cooperative for the year ended June 30, 2011.

Governmental Fund Categories

Special Revenue Funds - to account for the proceeds of specific revenue sources that are legally restricted to expenditure for a specified purpose.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payables and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Cooperative has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the Cooperative to use the statutory basis of accounting.

Departure From Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash 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 accounting principles generally accepted in the United States of America, 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. Capital assets that account for the land, buildings, and equipment owned by the Cooperative are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget.

- a. Preparation of the budget for the succeeding fiscal year on or before August 1st.
- b. Publication in local newspaper on or before August 5th, of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least 10 days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such amendments this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the Cooperative for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unused budget expenditure authority lapses at year-end.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Deposits and Investments

The cooperative follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the summary of cash receipts, expenditures, and unencumbered cash.

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, or in an adjoining county if such institution has been designated as an official depository, 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. The Cooperative has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Cooperative's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Cooperative has no investment policy that would further limit its investment choices.

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 did not use peak depository coverage. All deposits were legally secured at June 30, 2011.

At June 30, 2011, the Cooperative's carrying amount of deposits was \$2,646,184 and the bank balance was \$2,738,062. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$751,500 was covered by federal depository insurance and \$983,623 was collateralized with securities held by the pledging financial institutions' agents in the Cooperative's name. The Cooperative was unsecured at People's State Bank by \$250,000 and First National Bank and Trust of Phillipsburg by \$752,939.

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. The Cooperative had no investments at June 30, 2011.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The Cooperative has formal sick leave and annual leave policies for employees, which vary based on the employee's position.

The director and assistant director each receive 70 days of non-cumulative sick leave each year and 20 days of annual leave. The clerk and treasurer receive 10 sick days that may accumulate to 60 days. They also receive 15 days of annual leave.

Certified and licensed employees, other than the director and assistant director, receive 10 days of sick leave per year that may accumulate to 75 days. At the completion of each school year, each employee will be paid \$30 per day for each day in excess of 75. Certified and licensed employees will also receive three non-cumulative personal days.

Paraeducators and other non-certified staff, who work a minimum of 30 hours a week during the school year, will receive 8 days of sick leave per year that may accumulate to 300 hours. These employees will also be granted one personal day a year. If employed full-time and has more than 10 years consecutive experience, the employee will receive one additional day of personal leave. A potential liability for accumulated sick leave was \$676,912 as of June 30, 2011.

All employees of the Cooperative shall be granted four days of non-cumulative bereavement leave each year. Upon termination of employment, employees are not paid for accumulated sick leave of less than 75 days. All sick leave days above 75 are paid out at the end of each year at a rate of \$30 per day. The annual leave and personal leave for all employees are non-cumulative, therefore, the cost of accumulated leave payable at June 30, 2011 was \$0.

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 66603-3869) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4% and 6% (if hired on or after July 1, 2009) of covered salary. 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. The State currently contributes 9.17% of covered payroll. These contribution requirements are established by KPERs and are periodically revised. The State of Kansas' contributions to KPERs for all public school employees for the years ending June 30, 2011, 2010, and 2009, were \$253,834,044, \$248,468,186, and \$242,277,363, respectively, equal to the required contributions for each year as set forth by the legislature. The amounts attributable to the District for the years ending June 30, 2011, 2010, and 2009 were \$400,124, \$374,113, and \$337,161, respectively.

Early Retirement Benefit/Deferred Compensation Plan

For a two year window that ended June 30, 2006, the Cooperative offered an early retirement package to certified staff members with at least 10 consecutive years of service with the Cooperative and who have met the KPERs retirement criteria. The early retirees are eligible to receive a percentage of their ending salary for five years. A deferred compensation plan under Internal Revenue Code 403(b) is available for these

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636

Notes to Financial Statements

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

employees only. The amount of the benefit expensed for the year ended June 30, 2011 was \$4,082.

Health Savings Account

Each certified employee and full-time classified employee has the option of participating in the Health Savings Account established by the Cooperative. All contributions to the account come from the employee and no contributions from the Cooperative are made.

Education Assistance

Certified employees are eligible for graduate hour reimbursements for each graduate hour after BA/BS degree up to 36 hours. The employee will be reimbursed at a rate of \$55 per graduate hour up to 36 hours. The employee will also be reimbursed \$975 if a masters certificate is obtained. For each college credit hour after the masters, an employee will be reimbursed \$65 up to 30 hours.

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the Cooperative allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the Cooperative is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been qualified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Cooperative makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The Premium is paid in full by the insured. There is no cost to the Cooperative under this program.

Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as expenditures approved in federal and state grant contracts.

Reimbursements

The Cooperative records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

NOTE 2 - LITIGATION

North Central Kansas Special Education Cooperative Interlocal No. 636 is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the funds of the Cooperative.

NOTE 3 - RISK MANAGEMENT

North Central Kansas Special Education Cooperative Interlocal No. 636 carries commercial insurance for risks of loss, including property, general liability, crime, inland marine, automobile, linebacker, and employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
Notes to Financial Statements
June 30, 2011

NOTE 4 - GRANTS AND SHARED REVENUES

North Central Kansas Special Education Cooperative Interlocal No. 636 participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Cooperative has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the Cooperative, any liability for reimbursement, which may arise as the result of the audits, is not believed to be material.

NOTE 5 – COMPARATIVE DATA

Comparative data for the prior year has been presented in Statement 3 in the accompanying financial statements in order to provide an understanding of changes in **North Central Kansas Special Education Cooperative Interlocal No. 636's** cash and unencumbered cash balances. However, complete comparative data (presentation of prior year totals in Statement 1) has not been presented since their inclusion would make the statement unduly complex and difficult to read.

NOTE 6 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Per K.S.A. 9-1402 and K.S.A. 9-1405, deposits with statutorily authorized financial institutions must be adequately secured. The Cooperative had deposits at two banks that were under secured at June 30, 2011.

NOTE 7 – OPERATING LEASE

North Central Kansas Special Education Cooperative Interlocal No. 636 has entered into a lease agreement for the postage meter machine. Future schedule payments to maturity are as follows:

Year	Amount
2012	\$ 1,980
2013	1,980
2014	1,980
2015	1,980
2016	1,980

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636

Supplementary Information



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**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**

To the Board of Directors

North Central Kansas Special Education Cooperative Interlocal No. 636

Phillipsburg, Kansas

We have audited the financial statements of **North Central Kansas Special Education Cooperative Interlocal No. 636** as of and for the year ended June 30, 2011, and have issued our report thereon dated October 12, 2011. The report on the audited financial statements was adverse because it was not presented in conformity with accounting principles generally accepted in the United States of America; however, it was unqualified as presented 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. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit Guide* 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 **North Central Kansas Special Education Cooperative Interlocal No. 636's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **North Central Kansas Special Education Cooperative Interlocal No. 636's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **North Central Kansas Special Education Cooperative Interlocal No. 636's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. (See 2011-A)

North Central Kansas Special Education Cooperative Interlocal No. 636

Page Two

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. (See 2011-B)

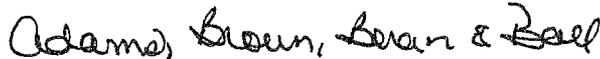
Compliance and Other Matters

As part of obtaining reasonable assurance about whether **North Central Kansas Special Education Cooperative Interlocal No. 636's** 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*.

We noted certain matters that we reported to management of **North Central Kansas Special Education Cooperative Interlocal No. 636** in a separate letter dated October 12, 2011.

North Central Kansas Special Education Cooperative Interlocal No. 636's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **North Central Kansas Special Education Cooperative Interlocal No. 636's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities, and for filing with the Kansas Department of Administration, Division of accounts and Reports, and is not intended to be and should not be used by anyone other than these specified parties.



ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

October 12, 2011



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors

North Central Kansas Special Education Cooperative Interlocal No. 636

Phillipsburg, Kansas

Compliance

We have audited **North Central Kansas Special Education Cooperative Interlocal No. 636's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **North Central Kansas Special Education Cooperative Interlocal No. 636's** major federal programs for the year ended June 30, 2011. **North Central Kansas Special Education Cooperative Interlocal No. 636's** major federal programs are identified in the summary of auditors' 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 program is the responsibility of **North Central Kansas Special Education Cooperative Interlocal No. 636's** management. Our responsibility is to express an opinion on **North Central Kansas Special Education Cooperative Interlocal No. 636's** 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 Kansas Municipal Audit Guide; 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 **North Central Kansas Special Education Cooperative Interlocal No. 636'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. Our audit does not provide a legal determination of **North Central Kansas Special Education Cooperative Interlocal No. 636's** compliance with those requirements.

In our opinion, **North Central Kansas Special Education Cooperative Interlocal No. 636** complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

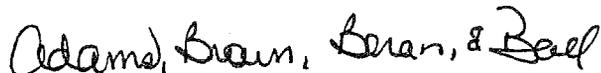
Management of **North Central Kansas Special Education Cooperative Interlocal No. 636** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **North Central Kansas Special Education Cooperative Interlocal No. 636's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 **North Central Kansas Special Education Cooperative Interlocal No. 636'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.

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 deficiencies, 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 management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and is not intended to be and should not be used by anyone other than these specified parties.



ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

October 12, 2011

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting

- Material weakness identified? X Yes No
- Significant deficiency identified? X Yes None reported
- Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness identified? Yes X No
- Significant deficiency identified? Yes X None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program
84.027	EHC Flo-Thru
84.173	Early Childhood Aid
84.391	ARRA Part B Special Education
84.392	ARRA Part B Special Education

Dollar threshold used to distinguish between Type A

Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

A. Material Weakness in Internal Control

2011-A

Criteria

Internal controls should be in place to ensure that employees do not have incompatible duties.

Condition

Proper segregation of duties does not exist in the accounting system.

Effect

Management may not become aware of the problems or irregularities within a timely manner.

Cause

The Organization is unable to hire additional personnel due to its size.

Recommendation

Procedures should be established and implemented where the Organization implements segregation of duties in the receipts and expenditures cycles and implements additional internal control.

Views of responsible officials and planned corrective actions

The Organization is aware that employees have incompatible duties; however, due to the size of the Organization, it would not be feasible to hire additional personnel.

B. Significant Deficiency in Internal Control

2011-B

Criteria

Client personnel responsible for the accounting and reporting function should have the necessary skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or when preparing financial statements.

Condition

Client personnel responsible for the accounting and reporting function do not have the necessary skills and knowledge to apply generally accepted accounting principles.

Effect

Financial transactions and financial statements may not properly reflect financial information in accordance with generally accepted accounting principles.

Cause

The Organization is unable to obtain the training necessary to obtain these skills due to its size and financial resources.

Recommendation

Continual training of accounting personnel should be implemented to ensure financial transactions and financial statements are being presented as accurately as possible.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

2011-B (continued)

Views of responsible officials and planned corrective actions

The Organization is aware that personnel responsible for the accounting and reporting function do not have the necessary skills and knowledge to apply generally accepted accounting principles. However, due to the size and financial resources of the Organization, it would not be feasible to obtain the necessary training.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No material findings or questioned costs are required to be disclosed under OMB Circular A-133.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

No material findings or questioned costs for the year ended June 30, 2010 are required to be disclosed under OMB Circular A-133.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass Through Number	Federal Expenditures
U.S. Department of Education			
Passed Through Kansas State Department of Education			
IDEA Cluster			
EHC Flo-Thru	84.027	703-5010	\$ 877,794
Early Childhood Aid	84.173	703-5010	50,922
ARRA Part B Special Education	84.391	703-5010	418,952
ARRA Part B Special Education	84.392	703-5010	<u>17,646</u>
Total Expenditures of Federal Awards			\$ <u>1,365,314</u>

See accompanying notes to schedule of expenditures of federal awards.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **North Central Kansas Special Education Cooperative Interlocal No. 636** and is presented on the 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 generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.