DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS

FINANCIAL STATEMENTS
(with Independent Auditors' Report thereon)

For the Year Ended June 30, 2011

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
FINANCIAL STATEMENTS
Year ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board Members
Doniphan County Education Cooperative No. 616
Troy, Kansas

We have audited the accompanying financial statements of Doniphan County Education Cooperative No. 616, Troy, Kansas, as of and for the year ended June 30, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Cooperative's financial statements for the year ended June 30, 2010. In our report dated August 18, 2010, we expressed an unqualified opinion on the financial statements in accordance with the cash basis and budget laws of the State of Kansas and an adverse opinion on the financial statements in accordance with generally accepted accounting principles (see Note 1).

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards and guidance 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, Doniphan County Education Cooperative No. 616, Troy, Kansas, has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which 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 the Doniphan County Education Cooperative No. 616, Troy, Kansas, as of June 30, 2011, or the changes in its financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of Doniphan County Education Cooperative No. 616, Troy, Kansas, as of June 30, 2011, and its cash receipts and expenditures, and budgetary comparisons, taken as a whole, for the year then ended, on the basis of accounting described in Note 1.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cooperative's financial statements as a whole. The schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, on the basis of accounting described in Note 1, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the Board Members and committees thereto, management, federal awarding agencies, the Kansas State Department of Education, and the Kansas Division of Accounts and Reports and is not intended and should not be used by anyone other than these specified parties.

Kramer & Associates CPAs, L.L.C.

Kramer & Associates CPAs, LLC
Leavenworth, Kansas
September 21, 2011

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Year ended June 30, 2011

Funds	Beginning unencumbered cash balance	Prior year canceled encumbrances	Cash receipts	Expenditures	Ending unencumbered cash balance	Outstanding encumbrances and accounts payable	Ending cash balance
Governmental type funds:							
General fund	$ 723,144	$ –	$1,931,466	$1,896,037	$ 758,573	$ 108	$ 758,681
Special revenue funds:							
Grant funds	19,991	–	465,503	485,494	–	–	–
Total reporting entity (excluding agency fund)	$ 743,135	$ –	$2,396,969	$2,381,531	$ 758,573	$ 108	$ 758,681

Composition of cash:

Checking	$ 758,181
Checking - agency accounts	41,635
Petty cash	500
Total cash	800,316
Less agency funds	(41,635)
Total reporting entity (excluding agency funds)	$ 758,681

The accompanying notes are an integral part of the financial statements.

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended June 30, 2011

Funds	Original budget	Adjustment for qualifying budget credits	Total budget for comparison	Expenditures chargeable to current year	Variance - over (under)
Governmental type funds:					
General fund	$ 2,665,269	$ —	$ 2,665,269	$ 1,896,037	$ 769,232

The accompanying notes are an integral part of the financial statements.

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
GENERAL FUND*
Year ended June 30, 2011

		Current year		
	Prior year actual	Actual	Budget	Variance - over (under)
Cash receipts:				
Participating districts' contributions	$ 600,000	$ 540,000		
State aid:				
Special education services aid passed through participating districts	1,312,744	1,344,411		
Federal aid:				
Medicaid reimbursement	21,387	25,692		
Interest	4,044	4,753		
Revenue from other local source	25,042	16,610		
Total cash receipts	1,963,217	1,931,466		
Expenditures and transfers subject to budget:				
Instruction	1,229,086	1,072,090	$ 1,619,894	$ 547,804
Student support services	300,869	389,374	442,750	53,376
Instructional support staff	52,619	50,305	70,065	19,760
General administration	237,884	295,101	273,950	(21,151)
Operations and maintenance	18,309	15,270	27,100	11,830
Student transportation services	73,227	73,897	126,285	52,388
Other support services	–	–	105,225	105,225
Adjustment for qualifying budget credits:				
Reimbursements	–	–	–	–
Total expenditures and transfers subject to budget	1,911,994	1,896,037	$ 2,665,269	$ 769,232
Receipts over (under) expenditures	51,223	35,429		
Unencumbered cash, beginning of year	671,921	723,144		
Unencumbered cash, end of year	$ 723,144	$ 758,573		

* This fund is not statutorily required to be budgeted. See Note 2a.

The accompanying notes are an integral part of the financial statements.

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
GRANT FUNDS *
Year ended June 30, 2011

	Prior year actual	Current year actual
Cash receipts:		
Federal aid:		
Early childhood aid	$ 22,225	$ 22,225
Early childhood aid - ARRA	6,652	6,652
Title VI-B	328,248	278,686
Title VI-B - ARRA	157,940	157,940
Total cash receipts	515,065	465,503
Expenditures:		
Instruction	336,500	485,494
Student support services	157,324	–
General administration	1,250	–
Total expenditures	495,074	485,494
Receipts over (under) expenditures	19,991	(19,991)
Unencumbered cash, beginning of year	–	19,991
Unencumbered cash, end of year	$ 19,991	$ –

* This fund is not statutorily required to be budgeted. See Note 2a.

The accompanying notes are an integral part of the financial statements.

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTUAL
AGENCY FUNDS
Year ended June 30, 2011

	Beginning cash balance	Cash receipts	Cash disbursements	Ending cash balance
Agency fund:				
Flexible Spending	$ 42,669	$ 55,359	$ 56,393	$ 41,635
Total agency fund	$ 42,669	$ 55,359	$ 56,393	$ 41,635

The accompanying notes are an integral part of the financial statements.

1. Summary of significant accounting policies

a. Reporting entity

Doniphan County Education Cooperative No. 616, Troy, Kansas, (Cooperative) is a municipal corporation governed by an elected five-member board. These financial statements present Doniphan County Education Cooperative No. 616, Troy, Kansas, (the primary government). The Cooperative serves three Unified School Districts: USD No. 111 Doniphan West, USD No. 114 Riverside, and USD No. 429 Troy, in the area of Special Education Services. There are no component units.

b. Reimbursed expenses

Certain expenditures are classified as reimbursed expenses. The purpose of these expenditures is payment for goods and services in which fees are collected and such expenditures are exempt from the budget law under K.S.A. 79-2934. There were no reimbursements noted for the year ended June 30, 2011.

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria:

1. the related disbursement was made in the current year on behalf of the payee,
2. the item paid for was directly identifiable as having been used by or provided to the payee, and
3. the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

c. Basis of accounting

1. 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 payable 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 is charged in the fund from which the transfer is made.

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.

c. Basis of accounting (continued)

2. 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, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

d. Cash and investments

Cash consists of checking accounts, savings accounts, and certificates of deposit.

Cash balances in all funds are considered in determining the amount to be invested and further, unless specifically designated, all investment income is credited to the general fund.

e. Inventories and prepaid expenses

Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase, as required by state statutes.

f. Fund descriptions

In governmental 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.

f. Fund descriptions (continued)

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

1. Governmental funds

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

b. Special revenue funds - to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

2. Fiduciary funds

a. Trust and agency funds - to account for assets held by the Cooperative in a trustee capacity or as an agent for individuals, other governmental units, private organizations, and/or other funds. Agency funds are custodial in nature and do not involve measurement of operations.

g. Prior year partial comparative information

The financial statements include prior year partial comparative information. Such information does not include all of the information required for a presentation in conformity with the Kansas prescribed basis of accounting. Accordingly, such information should be read in conjunction with the Cooperative's financial statements for the year ended June 30, 2010, from which such partial information was derived.

2. Stewardship, compliance, and accountability

a. Budgetary information

The Cooperative is not subject to statutory budget requirements. The Cooperative prepares an expenditure budget for operating purposes only.

b. Compliance with Kansas statutes

The Cooperative was undersecured for two months of the year at Bendena State Bank (K.S.A. 9-1402).

Management is not aware of any other statutory violations for the period covered by audit.

3. Deposits and investments

As of June 30, 2011, the Cooperative had no 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, 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 bank 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. All deposits were legally secured at June 30, 2011.

At June 30, 2011, the Cooperative's carrying amount of deposits was $800,316 and the bank balance was $879,935. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $250,000 was covered by federal depository insurance and the remaining $629,935 was collateralized with securities held by the pledging financial institution's agents in the Cooperative's name.

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.

4. Long-term debt

a. Changes in long-term liabilites for the Cooperative for the year ended June 30, 2011, were as follows:

Issue	Interest rate	Date of issue	Amount of issue	Date of final maturity	Balance beginning of year	Additions	Reductions /payments	Balance end of year	Interest paid
Capital leases:									
2008 Ford Escape	4.00%	08/09/2010	$16,900	08/09/2013	$ –	$ 16,900	$ (4,994)	$ 11,906	$ 495
Total long-term debt					$ –	$ 16,900	$ (4,994)	$ 11,906	$ 495

b. Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Year ended June 30,								
	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2031	Total
Principal:									
Capital lease:									
2008 Ford Escape	$ 5,136	$ 5,820	$ 950	$ –	$ –	$ –	$ –	$ –	$ 11,906
Total principal	5,136	5,820	950	–	–	–	–	–	11,906
Interest:									
Capital lease:									
2008 Ford Escape	353	167	48	–	–	–	–	–	568
Total interest	353	167	48	–	–	–	–	–	568
Total principal and interest payments	$ 5,489	$ 5,987	$ 998	$ –	$ –	$ –	$ –	$ –	$ 12,474

5. Interfund transfers

There were no operating transfers for the year ended June 30, 2011.

6. Defined benefit plan

a. 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.

b. Funding policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6% for employees hired after July 1, 2009. 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 currently contributes 8.57% of covered payroll for fiscal year 2010, and 9.17% of covered payroll for fiscal year 2011.

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, 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 Cooperative for the years ending June 30, 2011, 2010, and 2009 were $155,238, $147,137, and $140,136, respectively.

7. Other post employment benefits

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.

8. Compensated absences

The Cooperative policy regarding sick pay is to accrue days for teachers up to a maximum of 50 days. If a teacher has accumulated more than 50 days, the teacher is paid for days over 50 at the rate of $25 per day. When a tenured teacher leaves the Cooperative, the teacher is paid for all sick days at $25 per day. Sick leave for non-certified personnel may accumulate up to a maximum of 15 days. Per management, at June 30, 2011, the liability for sick and vacation pay was immaterial in amount.

9. Commitments

The Cooperative leases a building in Troy, Kansas for office space. The term of the lease is for a period of one year commencing August 1 and terminating July 31 of the subsequent year. The required monthly payment is $1,000 with annual renewal terms.

ADDITIONAL INFORMATION

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

Year ended June 30, 2011

Federal Grantor/ pass-through grantor/program title	Federal CFDA number	Program or award amount	Beginning unencumbered cash balance	Cash receipts	Expenditures	Ending unencumbered cash balance	Outstanding encumbrances	Ending cash balance
U.S. Department of Education								
Passed through Kansas Department of Education:								
Special education cluster:								
Special education grants to states	84.027	$ 278,686	$ 19,991	$ 278,686	$ 298,677	$ –	$ –	$ –
Special education grants to states, Recovery Act	84.391	157,940	–	157,940	157,940	–	–	–
Special education - preschool grants	84.173	22,225	–	22,225	22,225	–	–	–
Special education - preschool grants, Recovery Act	84.392	6,652	–	6,652	6,652	–	–	–
Total U.S. Department of Education		465,503	19,991	465,503	485,494	–	–	–
Total federal assistance		$ 465,503	$ 19,991	$ 465,503	$ 485,494	$ –	$ –	$ –

*Note 1 on page 16 is an integral part of this Schedule of Expenditures of Federal Awards.

See Independent Auditors' Report

DONIPHAN COUNTY EDUCATION COOPERATIVE NO. 616, TROY, KANSAS
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

1. Basis of accounting

a. Statutory basis of accounting

The statutory basis of accounting, as used in the preparation of this schedule of expenditures of federal awards, 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 payable 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 is charged in the fund from which the transfer is made.

The Cooperative has adopted a resolution in accordance with K.S.A. 75-1120a(c) to waive reporting in accordance with accounting principles generally accepted in the United States of America, which allows the Cooperative to utilize the statutory basis of accounting.

b. 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, and cash and unencumbered cash balances.

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 accounting principles generally accepted in the United States of America.