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Commerce Bank Building ■ 718 Main ■ Suite 224

P.O. Box 1186 ■ Hays, Kansas 67601

Certified  
Public  
Accountants

November 19, 2012

To the Board of Directors and Management  
**North Central Kansas Special Education Cooperative**  
Phillipsburg, Kansas

### Management Letter

In planning and performing our audit of the financial statements of **North Central Kansas Special Education Cooperative Interlocal No. 636** as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control 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 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 following deficiency in the Cooperative's internal control to be a material weakness.

- **North Central Kansas Special Education Cooperative Interlocal No. 636** does not have proper segregation of duties necessary to establish a good system of internal control. We understand that the size of the Cooperative's accounting and administrative staff and related budget constraints preclude management from hiring additional personnel to achieve proper segregation of duties. However, limited segregation can and should be implemented to reduce the risk of errors or fraud. Where possible, duties should be segregated. Involvement by the Board can also mitigate the risks of error or fraud. The Board should remain involved in the financial affairs of the Cooperative to provide oversight and independent review functions.

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 following deficiency in the Cooperative's internal control to be a significant deficiency.

**North Central Kansas Special Education Cooperative Interlocal No. 636**

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- Statement on Auditing Standard No. 115 (SAS No. 115) requires client personnel responsible for the accounting and reporting function to have the necessary skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or when preparing financial statements. Due to the limited size of the Cooperative, it is not practical to hire fully qualified staff to the extent that they possess all the skills in order to apply generally accepted accounting principles when preparing financial statements, including relevant note disclosures. It is important to note the accounting personnel of the Cooperative are not expected to have this kind of knowledge. In order to obtain the necessary knowledge, the personnel would have to obtain extensive and continuous training, which is not feasible.

We would like to express our appreciation for the opportunity to perform the June 30, 2012 audit for **North Central Kansas Special Education Cooperative Interlocal No. 636** and to the employees for the cooperation and assistance given to us during the audit.

This communication is intended solely for the information and use of management, the Board of Directors, others within the organization, State of Kansas, and applicable federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Adams, Brown, Beran & Ball*

**ADAMS, BROWN, BERAN & BALL, CHTD.**

Certified Public Accountants



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November 19, 2012

To the Board of Directors  
**North Central Kansas Special Education Cooperative Interlocal No. 636**  
Phillipsburg, Kansas

### **Governance Letter**

We have audited the financial statements of **North Central Kansas Special Education Cooperative Interlocal No. 636** for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Government Auditing Standards and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 14, 2010. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by **North Central Kansas Special Education Cooperative Interlocal No. 636** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements With Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial

**North Central Kansas Special Education Cooperative Interlocal No. 636**

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November 19, 2012

statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 19, 2012.

*Management Consultations With Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Audit Recommendations*

We wish to communicate to the governing body recommendations that we discussed with management to improve operational or administrative efficiencies and for improving internal control.

- We recommend that the Cooperative work with an advisor who is familiar with the regulatory requirements coming into effect in the near future as a result of the Patient Protection and Affordable Care Act. Employers will have additional reporting requirements, and there are new limits established for salary reduction plans for pay years starting after 2013.

This information is intended solely for the use of the board of directors and management of **North Central Kansas Special Education Cooperative Interlocal No. 636** and is not intended to be and should not be used by anyone other than these specified parties.

*Adams, Brown, Beran & Ball*

**ADAMS, BROWN, BERAN & BALL, CHTD.**

Certified Public Accountants

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

Financial Statements With Independent Auditors' Report

For the Year Ended June 30, 2012

**NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636**  
Financial Statements With Independent Auditors' Report  
For the Year Ended June 30, 2012

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## 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, 2012, 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, 2012, or the changes in its 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 each fund of **North Central Kansas Special Education Cooperative Interlocal No. 636**, as of June 30, 2012, and their respective cash receipts and disbursements and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, 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 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 & Ball*

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

November 19, 2012



**NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636**  
 Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
 For the Year Ended June 30, 2012

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
<b>Governmental Fund Category</b>							
<b>Special Revenue Funds</b>							
Coop Special Education Fund	\$ 2,188,977	-	7,404,880	7,426,454	2,167,403	492,153	2,659,556
Parents As Teachers Fund	-	-	73,578	73,578	-	1,853	1,853
Gifts and Grants Fund	-	-	4,800	4,800	-	-	-
Professional Development Fund	-	-	30,800	30,800	-	-	-
<b>Total Reporting Entity</b>	<u>\$ 2,188,977</u>	<u>-</u>	<u>7,514,058</u>	<u>7,535,632</u>	<u>2,167,403</u>	<u>494,006</u>	<u>2,661,409</u>
		<b>Composition of Cash</b>	Checking Accounts			\$	507,639
			Certificates of Deposit				<u>2,153,770</u>
		<b>Total Reporting Entity</b>				\$	<u>2,661,409</u>

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, 2012

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year Budget	Variance Over (Under)
<b>Governmental Fund Category</b>					
<b>Special Revenue Funds</b>					
Coop Special Education Fund	\$ 8,209,400	-	8,209,400	7,426,454	(782,946)
Parents As Teachers Fund	73,578	-	73,578	73,578	-
Gifts and Grants Fund	4,800	-	4,800	4,800	-
Professional Development Fund	30,800	-	30,800	30,800	-

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, 2012

(With Comparative Actual Totals for the Prior Year Ended June 30, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Local Sources				
Payments From Districts - Assessments	\$ 1,414,962	1,545,569	1,545,569	-
Payments From Districts - Flow-thru	3,970,521	4,443,208	4,456,988	(13,780)
Interest on Idle Funds	21,502	19,338	15,000	4,338
Other Revenue From Local Sources	61,797	52,237	3,500	48,737
State Aid				
Special Education Aid	157,173	171,602	180,394	(8,792)
Medicaid	213,229	244,789	160,000	84,789
Federal Aid				
Federal Grants	941,881	928,137	928,137	-
ARRA Funding	436,596	-	-	-
<b>Total Cash Receipts</b>	<u>7,217,661</u>	<u>7,404,880</u>	<u>7,289,588</u>	<u>115,292</u>
<b>Expenditures</b>				
Instruction	4,507,582	4,967,027	5,378,456	(411,429)
Student Support Services	1,739,249	1,609,742	1,936,309	(326,567)
Instructional Support Staff	50,800	110,186	112,696	(2,510)
Administration	393,302	367,305	424,939	(57,634)
Operations and Maintenance	25,415	33,467	28,500	4,967
Vehicle Operation Services	147,242	171,156	181,500	(10,344)
Other Supplemental Services	170,825	167,571	147,000	20,571
<b>Total Expenditures</b>	<u>7,034,415</u>	<u>7,426,454</u>	<u>8,209,400</u>	<u>(782,946)</u>
<b>Cash Receipts Over (Under) Expenditures</b>	183,246	(21,574)		
<b>Unencumbered Cash - Beginning</b>	<u>2,005,731</u>	<u>2,188,977</u>		
<b>Unencumbered Cash - Ending</b>	\$ <u>2,188,977</u>	<u>2,167,403</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, 2012

(With Comparative Actual Totals for the Prior Year Ended June 30, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Local Sources				
Payments From Districts	\$ 996	-	-	-
State Aid				
Parent Education Program	71,975	73,578	73,578	-
<b>Total Cash Receipts</b>	72,971	73,578	73,578	-
<b>Expenditures</b>				
Student Support Services	55,906	57,020	58,231	(1,211)
Instructional Support Staff	15,987	15,210	14,000	1,210
Other Supplemental Services	1,078	1,348	1,347	1
<b>Total Expenditures</b>	72,971	73,578	73,578	-
<b>Cash Receipts Over (Under) Expenditures</b>	-	-		
<b>Unencumbered Cash - Beginning</b>	-	-		
<b>Unencumbered Cash - Ending</b>	\$ -	-		

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, 2012

(With Comparative Actual Totals for the Prior Year Ended June 30, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Dane G. Hansen Foundation	\$ 4,800	4,800	4,800	-
<b>Expenditures</b>				
Instruction	4,354	4,251	4,200	51
General Administration	446	549	250	299
Vehicle Operation Services	-	-	350	(350)
<b>Total Expenditures</b>	4,800	4,800	4,800	-
<b>Cash Receipts Over (Under) Expenditures</b>	-	-		
<b>Unencumbered Cash - Beginning</b>	-	-		
<b>Unencumbered Cash - Ending</b>	\$ -	-		

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, 2012

(With Comparative Actual Totals for the Prior Year Ended June 30, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Local Sources				
Other Revenue From Local Sources	\$ 18,120	30,800	30,800	-
<b>Expenditures</b>				
Instructional Support Staff	28,700	30,800	30,800	-
<b>Cash Receipts Over (Under) Expenditures</b>	(10,580)	-		
<b>Unencumbered Cash - Beginning</b>	10,580	-		
<b>Unencumbered Cash - Ending</b>	\$ -	-		

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, 2012

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## **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**

The Cooperative 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 these 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, 2012.

### **Governmental Fund Category**

**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, 2012

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**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 1<sup>st</sup>.
- b. Publication in local newspaper on or before August 5<sup>th</sup> of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15<sup>th</sup>, but at least 10 days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25<sup>th</sup>.

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 budget amendments for 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, 2012

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**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, 2012.

At June 30, 2012, the Cooperative's carrying amount of deposits was \$2,661,409 and the bank balance was \$2,772,211. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$500,935 was covered by federal depository insurance and \$2,271,276 was collateralized with securities held by the pledging financial institutions' 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. The Cooperative had no investments at June 30, 2012.

**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 for the director and 25 days for the assistant director. The clerk and treasurer receive 10 days of sick leave that may accumulate to 60 days. They also receive 20 days of annual leave.

**NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636**  
Notes to Financial Statements  
June 30, 2012

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 up to four 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 consecutive years of experience, the employee will receive one additional day of personal leave. A potential liability for accumulated sick leave was \$667,707 as of June 30, 2012.

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, 2012 was \$0.

**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.

**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 9.77% of covered payroll, 18.96% for non-licensed KPERS retirees and 22.96% for licensed KPERS retirees. 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, 2012, 2011, and 2010, were \$298,635,383, \$253,834,044, and \$248,468,186, 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, 2012, 2011, and 2010 were \$341,739, \$400,124, and \$374,113, respectively.

**Education Assistance**

Certified employees are eligible for graduate hour reimbursement 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 a masters degree, an employee will be reimbursed \$65 up to 30 hours.

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

Notes to Financial Statements

June 30, 2012

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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, 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.

**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.

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

Notes to Financial Statements

June 30, 2012

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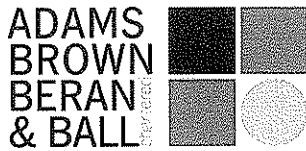
**NOTE 6 – OPERATING LEASES**

**North Central Kansas Special Education Cooperative Interlocal No. 636** entered into a lease agreement in 2011 for a postage meter machine. Operating leases do not give rise to property rights or lease obligations and therefore, the result of this lease agreement is not reflected in the Cooperative's financial statements. Future scheduled payments are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 1,980
2014	1,980
2015	1,980
2016	1,980
<b>Total</b>	<b><u>\$ 7,920</u></b>

On January 1, 2012 the Cooperative entered into an office lease agreement with PCCF Landholdings, LLC for the use of the portion of the second floor office space of the building located at 205 F Street in Phillipsburg, Kansas. Also included in the lease agreement is a small portion of storage area in the northwest corner of the basement for unused equipment. The initial term of this lease is from the beginning date of January 1, 2012 and ending on May 31, 2014. Lease payments are to be made in advance on the first day of each quarter by the lessee. Operating leases do not give rise to property rights or lease obligations and therefore, the result of this lease agreement is not reflected in the Cooperative's financial statements. Future scheduled payments are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 3,900
2014	1,950
<b>Total</b>	<b><u>\$ 5,850</u></b>



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Certified  
Public  
Accountants

**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, 2012, and have issued our report thereon dated November 19, 2012. 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**

Management of **North Central Kansas Special Education Cooperative Interlocal No. 636** is responsible for establishing and maintaining effective 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 deficiencies, 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 a certain deficiency 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 (2012-1) to be a material weakness.

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 2012-2)

#### **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 November 19, 2012.

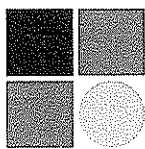
**North Central Kansas Special Education Cooperative Interlocal No. 636's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **North Central Kansas Special Education Cooperative Interlocal No. 636's** response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

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

*Adams, Brown, Beran & Ball*

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

November 19, 2012



Certified  
Public  
Accountants

**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, 2012. **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 programs 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, 2012.

**Internal Control Over Compliance**

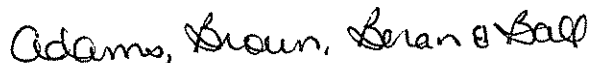
Management of **North Central Kansas Special Education Cooperative Interlocal No. 636** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing 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, Board of Directors, others within the entity, federal awarding agencies and pass-through entities 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

November 19, 2012



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

Supplementary Information

1

**NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued: Unqualified

Internal control over financial reporting

• Material weakness identified?	<u>X</u>	Yes	<u>          </u>	No
• Significant deficiency identified?	<u>X</u>	Yes	<u>          </u>	No
• Noncompliance material to financial statements noted?	<u>          </u>	Yes	<u>X</u>	No

**FEDERAL AWARDS**

Internal control over major programs:

• Material weakness identified?	<u>          </u>	Yes	<u>X</u>	No
• Significant deficiency identified?	<u>          </u>	Yes	<u>X</u>	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?

<u>          </u>	Yes	<u>X</u>	No
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants

Dollar threshold used to distinguish between Type A  
Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

<u>          </u>	Yes	<u>X</u>	No
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**NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE INTERLOCAL NO. 636**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**A. Material Weakness in Internal Control**

**2012-1**

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**

**2012-2**

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, 2012

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**2012-2 (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, 2012

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No material findings or questioned costs for the year ended June 30, 2011 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, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass- through Number	Federal Expenditures
<b>U.S. Department of Education</b>			
Passed Through Kansas State Department of Education			
<b>IDEA Cluster</b>			
Special Education - Grants to States	84.027	703-5010	\$ 882,067
Special Education - Preschool Grants	84.173	703-5010	<u>46,070</u>
<b>Total Expenditures of Federal Awards</b>			<b>\$ <u>928,137</u></b>

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, 2012

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**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*.