

**SOUTHEAST KANSAS SPECIAL  
EDUCATION INTERLOCAL #637  
PITTSBURG, KANSAS**

Statutory Basis Financial Statement and  
Independent Auditors' Report with  
Supplemental Information and  
Federal Compliance Section

For the Fiscal Year Ended June 30, 2012

**SOUTHEAST KANSAS SPECIAL EDUCATION INTERLOCAL #637  
PITTSBURG, KANSAS**

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# Diehl Banwart Bolton

*Certified Public Accountants P.A.*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Southeast Kansas Special Education Interlocal #637  
Pittsburg, Kansas 66762

We have audited the accompanying Summary of the Cash Receipts, Expenditures and Unencumbered Cash of the Southeast Kansas Special Education Interlocal #637, Pittsburg, Kansas, as of June 30, 2012, and for the fiscal year then ended. This financial statement is the responsibility of management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States, and the **Kansas Municipal Audit Guide**. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Interlocal prepares its financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting practices generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the Interlocal's policy to prepare its financial statement on the basis of accounting discussed in the preceding paragraph, the financial statement referred to in the first paragraph does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Southeast Kansas Special Education Interlocal #637, Pittsburg, Kansas, as of June 30, 2012, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended.

Board of Education  
Southeast Kansas Special Education Interlocal #637  
Pittsburg, Kansas

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the cash and unencumbered cash balances of Southeast Kansas Special Education Interlocal #637, Pittsburg, Kansas, as of June 30, 2012, and its aggregate cash receipts and expenditures for the year then ended, on the basis of accounting described in Note 1.

In accordance with **Government Auditing Standards**, we have also issued reports dated November 21, 2012, on our consideration of the Interlocal's internal control structure and on its compliance with certain provisions of laws, regulations, contracts and grants. These reports are an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The accompanying supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Interlocal. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is also not a required part of the financial statement of the Interlocal. The supplemental schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. This information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement itself, 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 statement taken as a whole.

*Diehl Banwart Bolton CPAs PA*

DIEHL, BANWART, BOLTON, CPAs PA

November 21, 2012  
Pittsburg, Kansas

**SOUTHEAST KANSAS  
SPECIAL EDUCATION INTERLOCAL #637**

**Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Fiscal Year Ended June 30, 2012**

Funds	Beginning Unencumbered Cash Balances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balances	Plus	
					Encumbrances and Accounts Payable	Cash Balances June 30, 2012
GOVERNMENTAL TYPE FUNDS						
Special Revenue Funds						
Special Education	\$3,816,282.58	\$17,450,496.53	\$18,585,974.54	\$2,680,804.57	\$18,376.63	\$2,699,181.20
Targeted Improvement	-	95,795.00	95,795.00	-	1,212.87	1,212.87
Life Career Skills	881.44	4,581.41	4,301.00	1,161.85	-	1,161.85
Interlocal Revolving Fund	-	800.00	800.00	-	-	-
Mini Grants	5,189.46	6,980.00	9,204.49	2,964.97	1,652.21	4,617.18
Pritchett Grant	4,608.64	-	2,850.00	1,758.64	-	1,758.64
Vocational Technical	-	15,110.55	15,110.55	-	10,286.55	10,286.55
Total Reporting Entity	\$3,826,962.12	\$17,573,763.49	\$18,714,035.58	\$2,686,690.03	\$31,528.26	\$2,718,218.29
Composition of Cash						
				General Checking Account.....		(\$476,196.19)
				Payroll Liabilities.....		(954,706.06)
				Petty Cash.....		1,000.00
				Sweep Account.....		4,148,120.54
				Total Cash		\$2,718,218.29

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

**SOUTHEAST KANSAS SPECIAL EDUCATION INTERLOCAL #637  
PITTSBURG, KANSAS**

**NOTES TO THE FINANCIAL STATEMENT  
For the Fiscal Year Ended June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statement of Southeast Kansas Special Education Interlocal #637 (Interlocal), has been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Interlocal's accounting policies follow. Note 1 describes how the Interlocal's accounting policies differ from accounting principles generally accepted in the United States of America.

**Reporting Entity**

The Interlocal is a municipal corporation governed by an elected thirteen-member board. Each board member represents a member Unified School District. This financial statement presents the Interlocal (the primary government). The Interlocal has developed criteria to determine whether outside agencies, with activities which benefit the members of the Interlocal, should be included within its financial reporting entity. These criteria include but are not limited to, whether the Interlocal exercises financial accountability, selection of governing authority, designation of management, ability to significantly influence operations, scope of public service and special financing relationships. Based on the above criteria, the Interlocal has determined that no outside agency meets the criteria; therefore, no outside agency has been included as a component unit in these financial statements.

**Basis of Presentation - Fund Accounting**

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

The following types of funds comprise the financial activities of the Interlocal:

**GOVERNMENTAL FUNDS**

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

Basis of Presentation - Special Financial Statement

This financial statement is presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transfer, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an inter-fund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, 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.

The Interlocal 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 municipality to use the statutory basis of accounting.

Departures 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, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue, 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 accounting principles generally accepted in the United States of America. In addition, the General Fixed Assets Account Group that accounts for the land, buildings and equipment owned by the Southeast Kansas Special Education Interlocal #637 is not recorded.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the special revenue funds (unless specifically exempted by statute). The statutes provide for the adoption of the final budget on or before August 25. The Interlocal can amend the adopted budget at any time.

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 as supplemental information for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the cash basis of accounting, modified further by the recording of accounts payable and encumbrances. Revenues are recognized when cash is received. Expenditures include cash disbursements, accounts payable and encumbrances. Encumbrances are commitments of the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A legal operating budget is not required for the following Special Revenue Funds: Life Career Skills Revolving, Interlocal Revolving, Mini Grants, Pritchett Grant, and Targeted Improvement.

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.

**Compensated Absences**

Employees may accrue from 10 to 12 days of sick leave each year. An employee may accumulate up to 120 days of sick leave. At retirement the Interlocal pays \$45 per day of accumulated unused sick leave of certified employees that qualify under the early retirement program. Classified employees are paid \$25 per day of accumulated sick leave under the early retirement plan. No other payments are made for unused sick leave.

The Interlocal determines a liability for compensated absences when the following conditions are met:

1. The Interlocal's obligation relating to the employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated and is material to the financial statements.

In accordance with the above criteria, the Interlocal has not recorded a liability for sick pay or vacation pay.

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Compliance with Kansas Statutes**

The financial statement has been prepared in order to show compliance with the cash basis and budget laws of Kansas. As shown the Interlocal was in apparent compliance with all cash basis and budget laws of Kansas.

3. **CASH IN BANK AND DEPOSITORY SECURITY**

K.S.A. 9-1401 establishes the depositories which may be used by the Interlocal. The statute requires banks eligible to hold the Interlocal's funds have a main or branch bank in the county in which the Interlocal is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Interlocal has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Interlocal'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 Interlocal has no investment policy that would further limit its investment choices.



### 3. CASH IN BANK AND DEPOSITORY SECURITY (Continued)

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Interlocal's deposits may not be returned to it. State statutes require the Interlocal'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%. All deposits were legally secured at June 30, 2012.

At June 30, 2012 the Interlocal's carrying amount of deposits was \$2,718,198.29 and the bank balance was \$5,035,746.36. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000.00 was covered by federal depository insurance, \$4,785,746.36 was collateralized with securities held by the pledging financial institutions' agents in the amount of \$5,845,234.90 in the Interlocal's name.

The Interlocal did not have any investments during the year.

### 4. PENSION PLAN

#### Plan Description

The Interlocal participates in 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, Kansas 66603) or by calling 1-888-275-5737.

#### Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for all employees hired before July 1, 2009. For employees hired after July 1, 2009 the contribution rate is 6% of covered salary. Member-employee's 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. For the fiscal year ending June 30, 2012, Kansas contributed 9.77% of covered payroll. These contribution requirements are established by KPERS and are periodically reviewed.

Kansas's employer contribution to KPERS for all school municipality employees for the years ending June 30, 2012, 2011, and 2010, was \$298,635,383, \$253,834,044, and \$248,468,186, respectively, equal to the statutory required contribution for each year.

**5. POST EMPLOYMENT BENEFITS**

**Retirement**

A professional certified employee is eligible for early retirement if such person: (a) is currently a professional certified employee of the Interlocal; (b) will be at least 55 years of age on or before June 30 of the retiring year; (c) has 10 years or more of service with the Interlocal. Retirement is entirely voluntary and at the discretion of an eligible employee. Retirement benefits are 15% of the annual salary in the primary teaching contract for the final year of service for 5 years plus \$45 per day of accumulated unused sick leave. The Interlocal funds these benefits on a pay as you go basis. The early retirement benefits are paid by making contributions to a section 403(b) Plan. For the year ended June 30, 2012, the Interlocal contributed \$196,692 to the plan. As of June 30, 2012, the Interlocal has employees eligible for early retirement that if they retired would be eligible for benefits of approximately \$1,803,467. In addition, as detailed in Note 9, the Interlocal owes an additional \$493,034 to former employees that have already retired.

**Participation in Group Health Insurance Plan**

As provided by K.S. A. 12-5040, retired employees are eligible to participate in the Interlocal's group health insurance plan until they have reached the age of 65. While each retiree pays the full amount of the applicable premium, conceptually, the Interlocal is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Interlocal 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 Interlocal under this program.

**6. RISK MANAGEMENT**

The Interlocal is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The Interlocal continues to carry commercial insurance for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**7. REIMBURSED EXPENSES**

The Interlocal records reimbursable expenditures in the fund which makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

**8. CONTINGENCIES**

The Interlocal receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass through aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the Special Education Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the Interlocal at June 30, 2012.

9. **LONG-TERM OBLIGATIONS**

At June 30, 2012, the Interlocal was committed to making the following payments to retired employees:

<u>Year Ended June 30</u>	<u>Required Payments</u>
2013	\$ 174,085
2014	136,431
2015	93,062
2016	55,032
2017	34,424
	<u>\$ 493,034</u>

10. **SUBSEQUENT EVENTS**

Subsequent events have been evaluated through the date of the Independent Auditors' Report as shown on page 2 of the financial statements. There are no subsequent events recognized in these financial statements or no other subsequent events disclosed in the notes to the financial statements.

## **SUPPLEMENTAL INFORMATION**

**SOUTHEAST KANSAS  
SPECIAL EDUCATION INTERLOCAL #637**

Summary Schedule of Expenditures - Actual and Budget (Budgeted Funds Only)  
For the Fiscal Year Ended June 30, 2012

Funds	Certified Budget	Adjustment to Comply with Legal Maximum	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures		Variance - Favorable (Unfavorable)
					Charged to Current Year Budget		
GOVERNMENTAL TYPE FUNDS							
Special Revenue Funds							
Special Education	\$18,958,593.00	-	-	\$18,958,593.00	\$18,585,974.54		\$372,618.46
Vocational Technical	15,000.00	-	-	15,000.00	15,110.55		(110.55)
	<u>\$18,973,593.00</u>						

**SOUTHEAST KANSAS  
SPECIAL EDUCATION INTERLOCAL #637  
SPECIAL EDUCATION**

Schedule of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2012

	Current Year		Variance - Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Local Sources			
Charges for services	\$3,737,695.00	\$3,737,692.00	\$3.00
Interest on idle funds	10,510.34	19,000.00	(8,489.66)
Other	25,366.75	17,405.00	7,961.75
State Sources			
State aid	10,428,163.00	11,027,154.00	(598,991.00)
Federal Sources			
Medicaid revenue	627,916.44	880,000.00	(252,083.56)
Early childhood	82,262.00	82,262.00	-
Early childhood ARRA	-	-	-
Title VI B ARRA	-	-	-
Title VI B	2,538,583.00	2,538,583.00	-
Total Cash Receipts	<u>17,450,496.53</u>	<u>\$18,302,096.00</u>	<u>(\$851,599.47)</u>
Expenditures			
Instruction	16,754,679.87	\$16,372,919.00	(\$381,760.87)
Support Services			
Student Support	896,288.49	876,321.00	(19,967.49)
Special Area Admin. Services	577,387.13	578,290.00	902.87
Other Support Services	67,162.51	304,654.00	237,491.49
Transportation	28,673.98	25,000.00	(3,673.98)
Operations and Maintenance	261,782.56	801,409.00	539,626.44
Total Expenditures	<u>18,585,974.54</u>	<u>\$18,958,593.00</u>	<u>\$372,618.46</u>
Receipts Over (Under) Expenditures	(1,135,478.01)		
Unencumbered Cash, Beginning	<u>3,816,282.58</u>		
Unencumbered Cash, Ending	<u>\$2,680,804.57</u>		

**SOUTHEAST KANSAS**  
**SPECIAL EDUCATION INTERLOCAL #637**  
**LIFE CAREER SKILLS REVOLVING**  
Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2012

	<u>Current Year Actual</u>
Cash Receipts	
Program receipts	<u>\$4,581.41</u>
Total Cash Receipts	<u>4,581.41</u>
Expenditures	
Support Services	
Operations and Maintenance	<u>4,301.00</u>
Total Expenditures	<u>4,301.00</u>
Receipts Over (Under) Expenditures	280.41
Unencumbered Cash, Beginning	<u>881.44</u>
Unencumbered Cash, Ending	<u><u>\$1,161.85</u></u>

**SOUTHEAST KANSAS**  
**SPECIAL EDUCATION INTERLOCAL #637**  
**INTERLOCAL REVOLVING FUND**  
Schedule of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2012

	Current Year Actual
Cash Receipts	
Local Sources	
Background check reimbursements	\$800.00
Total Cash Receipts	800.00
Expenditures	
Program Expenditures	800.00
Total Expenditures	800.00
Receipts Over (Under) Expenditures	-
Unencumbered Cash, Beginning	-
Unencumbered Cash, Ending	-



**SOUTHEAST KANSAS**  
**SPECIAL EDUCATION INTERLOCAL #637**  
**MINI GRANTS**  
Schedule of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2012

	<u>Current Year Actual</u>
Cash Receipts	
Smart start	-
Other	<u>6,980.00</u>
Total Cash Receipts	<u>6,980.00</u>
Expenditures	
Smart start expenditures	-
Other expenditures	<u>9,204.49</u>
Total Expenditures	<u>9,204.49</u>
Receipts Over (Under) Expenditures	(2,224.49)
Unencumbered Cash, Beginning	<u>5,189.46</u>
Unencumbered Cash, Ending	<u><u>\$2,964.97</u></u>

**SOUTHEAST KANSAS**  
**SPECIAL EDUCATION INTERLOCAL #637**  
**PRITCHETT GRANT**  
Schedule of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2012

	<u>Current Year Actual</u>
Cash Receipts	
Program receipts	<u>-</u>
Total Cash Receipts	<u>-</u>
Expenditures	
Program expenditures	<u>2,850.00</u>
Total Expenditures	<u>2,850.00</u>
Receipts Over (Under) Expenditures	(2,850.00)
Unencumbered Cash, Beginning	<u>4,608.64</u>
Unencumbered Cash, Ending	<u><u>\$1,758.64</u></u>

**SOUTHEAST KANSAS**  
**SPECIAL EDUCATION INTERLOCAL #637**  
**TARGETED IMPROVEMENT**  
Schedule of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2012

	<u>Current Year Actual</u>
Cash Receipts	
Federal Sources	
Federal aid	\$95,795.00
	<u>95,795.00</u>
Total Cash Receipts	<u>95,795.00</u>
Expenditures	
Instruction	14,793.40
Support Services	
Student Support	965.00
Instructional Support	80,036.60
General Administration	<u>-</u>
Total Expenditures	<u>95,795.00</u>
Receipts Over (Under) Expenditures	-
Unencumbered Cash, Beginning	<u>-</u>
Unencumbered Cash, Ending	<u><u>-</u></u>

**SOUTHEAST KANSAS**  
**SPECIAL EDUCATION INTERLOCAL #637**  
**VOCATIONAL TECHNICAL COOPERATIVE**  
Schedule of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2012

	Current Year		Variance - Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Local Sources			
District contributions	\$15,110.55	\$15,000.00	\$110.55
Total Cash Receipts	<u>15,110.55</u>	<u>\$15,000.00</u>	<u>\$110.55</u>
Expenditures			
Instruction	15,110.55	\$15,000.00	(\$110.55)
Total Expenditures	<u>15,110.55</u>	<u>\$15,000.00</u>	<u>(\$110.55)</u>
Receipts Over (Under) Expenditures	-		
Unencumbered Cash, Beginning	-		
Unencumbered Cash, Ending	<u>-</u>		

**SOUTHEAST KANSAS  
SPECIAL EDUCATION INTERLOCAL #637**

Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2012

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT RECEIVED	AMOUNT EXPENDED
<u>U.S. Department of Education</u>			
Passed Through the State of Kansas			
Department of Education:			
Special Education Grants to States	84.027	\$ 2,634,378	\$ 2,634,378
Special Education Preschool Grants	84.173	<u>82,262</u>	<u>82,262</u>
TOTALS		<u>\$ 2,716,640</u>	<u>\$ 2,716,640</u>

# Diehl Banwart Bolton

*Certified Public Accountants P.A.*

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## **INDEPENDENT AUDITOR'S 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**

Board of Education  
Southeast Kansas Special Education Interlocal #637  
Pittsburg, Kansas 66762

### **Compliance**

We have audited the compliance of Southeast Kansas Special Education Interlocal #637 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Interlocal's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the Interlocal's management. Our responsibility is to express an opinion on the compliance of the Interlocal based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Interlocal'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 on the Interlocal's compliance with those requirements.

In our opinion, Southeast Kansas Special Education Interlocal #637 complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2012.

## Internal Control Over Compliance

The management of the Interlocal #637 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 the Interlocal's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 the Interlocal's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 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, by the entity's internal control.

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

The report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.

*Diehl Banwart Bolton CPA's PA*

DIEHL, BANWART, BOLTON, CPAs PA

November 21, 2012  
Pittsburg, Kansas

# Diehl Banwart Bolton

*Certified Public Accountants PA*

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE FINANCIAL STATEMENT IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education  
Southeast Kansas Special Education Interlocal #637  
Pittsburg, Kansas 66762

We have audited the financial statements of Southeast Kansas Special Education Interlocal #637 as of the year ended June 30, 2012, and have issued our report thereon dated November 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Interlocal's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Interlocal's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Interlocal's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (2012-1). 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 of those charged with governance.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Interlocal'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 that are required to be reported under *Government Auditing Standards*.

The Interlocal's response to the findings identified in our audit is described in the Corrective Action Plan. We did not audit the Interlocal's response and accordingly, we express no opinion on it.

We noted certain matters that we reported to Management of the Interlocal in a separate letter dated November 21, 2012.

This report is intended solely for the information and use of the governing body, management and 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.

*Diehl Banwart Bolton CPAs PA*

DIEHL, BANWART, BOLTON, CPAs PA

November 21, 2012  
Pittsburg, Kansas

**SOUTHEAST KANSAS SPECIAL EDUCATION INTERLOCAL #637  
PITTSBURG, KANSAS**

Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2012

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

**FINANCIAL STATEMENTS:**

Type of auditors' report issued:

- Adverse for departures from accounting principles generally accepted in the United States of America due to preparation of financial statements in accordance with the statutory basis of accounting.
- Unqualified opinion on the statutory basis financial statements.

Internal control over financial reporting:

- Material weakness(es) identified? \_ YES X NO
- Significant Deficiency(ies) identified that  
are not considered to be material weaknesses? NONE  
X YES \_ REPORTED

Noncompliance material to financial statements noted? \_ YES X NO

**FEDERAL AWARDS:**

Internal control over major programs:

- Material weakness(es) identified? \_ YES X NO
- Significant deficiency(ies) identified that  
are not considered to be material weaknesses? NONE  
\_ YES X 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 Circular A-133? \_ YES X NO

**IDENTIFICATION OF MAJOR PROGRAMS:**

<u>CFDA #</u>	<u>NAME OF PROGRAM</u>
84.027 & 84.173	IDEA Cluster

Auditee qualified as low-risk auditee? \_ YES X NO

## **SECTION II - FINANCIAL STATEMENT FINDINGS**

### **Significant Deficiency 2012- 1 Drafting Financial Statements**

Condition: As auditors, we provide significant assistance with adjusting entries, as well as determining which disclosures are required under generally accepted accounting standards and the statutory basis of accounting.

Criteria: Internal controls should be in place that provide a reasonable assurance that the financial statements are appropriate in form and contain the required disclosures.

Cause: Relying upon the independent auditors is a significant deficiency in internal controls as they can not be considered part of the Interlocal's internal control.

Effect: The Interlocal relies on independent auditors to determine the financial statements are in the correct form and include the proper disclosures.

Recommendation: None

Response: The Interlocal agrees with the finding. The Interlocal's response is in the attached Corrective Action Plan.

## **SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

# SEK Interlocal #637

SOUTHEAST KANSAS SPECIAL EDUCATION INTERLOCAL #637

June 30, 2012 Financial Statements

Corrective Action Plan

Audit Finding 2012-1

Interlocal #637 has always relied upon its auditors to provide significant assistance with adjusting entries and with determining which disclosures were required under the statutory basis of accounting. While Interlocal #637 understands that this is a significant deficiency in our internal controls, we believe it is the most cost effective manner for us to produce our financial statements. Our accounting staff concentrates on providing the reports needed for management and regulatory purposes. We believe it would be inefficient and cost prohibitive for our staff to attempt to stay current on all the disclosure requirements of the statutory basis of accounting. We do not plan on making any changes at this time. However, we will monitor this situation and periodically determine if it is cost effective for us to perform these functions.