

**TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS**

AUDIT REPORT

June 30, 2012

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

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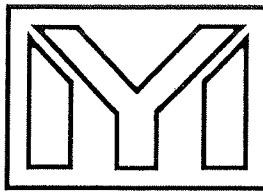
TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

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YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
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American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

INDEPENDENT AUDITOR'S REPORT

Tri-County Special Education
Cooperative No. 607
Independence, Kansas

We have audited the accompanying statutory basis financial statements of the individual funds of the Tri-County Special Education Cooperative No. 607, Independence, Kansas, as of and for the year ended June 30, 2012, as listed in the table of contents. These statutory basis financial statements are the responsibility of Tri-County's management. Our responsibility is to express an opinion on these statutory basis 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 opinion.

As described in Note A-3, the Cooperative prepared these statutory basis financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the statutory basis financial statements of the differences between the regulatory basis of accounting 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 statutory basis 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 Tri-County Special Education Cooperative No. 607, Independence, Kansas, as of June 30, 2012, or changes in financial position or cash flows thereof for the year then ended.

Also, in our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each of the various funds of Tri-County Special Education Cooperative No. 607, Independence, Kansas, as of June 30, 2012, and their respective cash receipts and expenditures and budgetary results for such funds for the year then ended on the basis of accounting described in Note A-3.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2013 on our consideration of the Cooperative'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the statutory basis financial statements of Tri-County Special Education Cooperative taken 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 statutory basis financial statements. The Schedule of Findings and Questioned Costs and Summary Schedule of Prior Audit Findings are presented for the purpose of additional analysis and are not a required part of the statutory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory basis 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 taken as a whole, on the basis of accounting described in Note A-3.


YERKES & MICHELS, CPA, LLC

January 30, 2013

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH

For the Fiscal Year Ended June 30, 2012

Fund	Beginning Unencumbered Cash Balance July 1, 2011	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance June 30, 2012	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance June 30, 2012
Governmental Type Funds:							
General Fund	\$ 2,503,243.10	-	\$ 9,565,132.19	\$ 9,954,556.46	\$ 2,113,818.83	\$ 235,234.65	\$ 2,349,053.48
Special Revenue Funds:							
Inservice Fund	33,227.05	-	50,010.00	72,472.61	10,764.44	7,500.00	18,264.44
SPECTRA Fund	1,070,843.06	-	1,585,512.86	1,803,358.24	852,997.68	8,245.00	861,242.68
SEK Academy General Fund	98,388.12	-	312,880.74	358,310.05	52,958.81	403.90	53,362.71
Facilities Budget Fund		-	500,000.00	8,403.71	491,596.29		491,596.29
Continuous Improvement Grant Fund	15,887.26	-	70,872.00	74,053.68	12,705.58	7,914.75	20,620.33
Tri-Co Fund	30,923.58	-	48,602.42	47,601.46	31,924.54		31,924.54
Total Reporting Entity	\$ 3,752,512.17	\$ -	\$ 12,133,010.21	\$ 12,318,756.21	\$ 3,566,766.17	\$ 259,298.30	\$ 3,826,064.47

Composition of Cash

FIRST FEDERAL SAVINGS AND LOAN,
INDEPENDENCE, KANSAS
Certificate of Deposit #01-01061382

COMMUNITY NATIONAL BANK, INDEPENDENCE, KANSAS

Checking Account - Operating #1919128791	\$ 2,499,045.66
Checking Account - Petty Cash #1919128790	1,500.00
Checking Account - Operating #1919162804	385,822.12
Checking Account - Tri-Co #1919128793	31,924.54
Certificate of Deposit #41573	317,785.02
	<u>3,236,077.34</u>

Total

\$ 589,987.13

\$ 3,826,064.47

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

SUMMARY OF EXPENDITURES -
ACTUAL AND BUDGET

For the Fiscal Year Ended June 30, 2012

<u>Fund</u>	<u>Approved Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year Budget</u>	<u>Variance Over (Under)</u>
Governmental Type Funds:					
General Fund	\$ 10,355,094.48	\$ -	\$ 10,355,094.48	\$ 9,954,556.46	\$ (400,538.02)
Special Revenue Funds:					
Inservice Fund	59,497.60		59,497.60	72,472.61	12,975.01
SPECTRA Fund	1,949,476.63		1,949,476.63	1,803,358.24	(146,118.39)
SEK Academy General Fund	400,984.36		400,984.36	358,310.05	(42,674.31)
Facilities Budget Fund	100,000.00		100,000.00	8,403.71	(91,596.29)
Continuous Improvement Grant Fund	77,948.48		77,948.48	74,053.68	(3,894.80)

SEE NOTE B1 REGARDING BUDGETARY INFORMATION

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended June 30, 2012

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

GENERAL FUND

	Prior Year <u>Actual</u>	<u>CURRENT YEAR</u>		Variance Over Under <u>(Under)</u>
		<u>Actual</u>	<u>Budget</u>	
CASH RECEIPTS				
School Districts	\$ 2,392,031.60	\$ 2,631,234.83	\$ 2,631,235.00	\$ (0.17)
USD's-State Pass Thru Funds	4,306,069.00	5,022,362.00	5,151,890.00	(129,528.00)
Federal Funds	1,725,863.00	1,685,980.00	1,645,145.00	40,835.00
ARRA Funds	1,067,700.00	-	-	-
Interest	19,076.68	8,221.43	25,000.00	(16,778.57)
Reimbursement of Expense	170,827.31	181,459.09	-	181,459.09
Miscellaneous	9,387.75	34,725.89	85,000.00	(50,274.11)
Donations	1,107.34	1,148.95	-	1,148.95
Transfers	-	-	-	-
TOTAL CASH RECEIPTS	\$ 9,692,062.68	\$ 9,565,132.19	\$ 9,538,270.00	\$ 26,862.19
EXPENDITURES				
Instruction	\$ 6,141,138.54	\$ 7,111,267.60	\$ 7,662,474.33	\$ (551,206.73)
ARRA Salaries	1,097,938.41	-	-	-
Student Support Services	1,199,082.05	1,461,312.62	1,665,731.06	(204,418.44)
Instructional Support Staff	39,240.50	36,812.72	39,860.90	(3,048.18)
Central Administration	617,087.41	609,160.84	654,377.98	(45,217.14)
Operations and Maintenance	87,539.13	70,522.96	102,343.41	(31,820.45)
Student Transportation Services	185,219.25	176,086.16	221,306.80	(45,220.64)
Food Service	3,276.61	9,393.56	9,000.00	393.56
Facilities and Construction	6,985.07	-	-	-
Transfers	-	480,000.00	-	480,000.00
TOTAL EXPENDITURES	\$ 9,377,506.97	\$ 9,954,556.46	\$ 10,355,094.48	\$ (400,538.02)
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 314,555.71	\$ (389,424.27)		
UNENCUMBERD CASH, BEGINNING	2,188,687.39	2,503,243.10		
UNENCUMBERED CASH, ENDING	\$ 2,503,243.10	\$ 2,113,818.83		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended June 30, 2012

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

INSERVICE FUND

	Prior Year Actual	CURRENT YEAR		Variance Over Under
		Actual	Budget	
CASH RECEIPTS				
Federal Funds	\$ 50,000.00	\$ 50,000.00	\$ 50,000.00	\$ -
Miscellaneous		10.00	5,000.00	(4,990.00)
TOTAL CASH RECEIPTS	<u>\$ 50,000.00</u>	<u>\$ 50,010.00</u>	<u>\$ 55,000.00</u>	<u>\$ (4,990.00)</u>
EXPENDITURES				
Instruction	\$ 15,856.30	\$ 11,604.87	\$ 18,000.00	\$ (6,395.13)
Student Support Services	35,181.32	37,575.42	37,247.60	327.82
Central Administration	3,531.78	3,292.32	4,250.00	(957.68)
Transfers		20,000.00		20,000.00
TOTAL EXPENDITURES	<u>\$ 54,569.40</u>	<u>\$ 72,472.61</u>	<u>\$ 59,497.60</u>	<u>\$ 12,975.01</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (4,569.40)	\$ (22,462.61)		
UNENCUMBERD CASH, BEGINNING	<u>37,796.45</u>	<u>33,227.05</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 33,227.05</u>	<u>\$ 10,764.44</u>		

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended June 30, 2012

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

SPECTRA FUND

	Prior Year Actual	CURRENT YEAR		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
SEK Educational Service Center	\$ 552,262.29	\$ 645,370.71	\$ 597,500.00	\$ 47,870.71
USD's-Tuition	239,203.16	239,203.15	239,203.00	0.15
USD's-State Pass Thru Funds	969,570.00	700,416.00	798,152.00	(97,736.00)
Transfers	25,000.00			-
Miscellaneous		523.00		523.00
TOTAL CASH RECEIPTS	<u>\$ 1,786,035.45</u>	<u>\$ 1,585,512.86</u>	<u>\$ 1,634,855.00</u>	<u>\$ (49,342.14)</u>
EXPENDITURES				
Student Support Services	\$ 1,918,135.69	\$ 1,742,597.77	\$ 1,866,862.84	\$ (124,265.07)
Central Administration	49,758.46	38,294.73	57,613.79	(19,319.06)
Capital Outlay	40,163.65	22,465.74	25,000.00	(2,534.26)
TOTAL EXPENDITURES	<u>\$ 2,008,057.80</u>	<u>\$ 1,803,358.24</u>	<u>\$ 1,949,476.63</u>	<u>\$ (146,118.39)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (222,022.35)	\$ (217,845.38)		
UNENCUMBERD CASH, BEGINNING	<u>1,292,865.41</u>	<u>1,070,843.06</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 1,070,843.06</u>	<u>\$ 852,997.68</u>		

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended June 30, 2012

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

SEK ACADEMY GENERAL FUND

	Prior Year Actual	CURRENT YEAR		Variance Over Under
		Actual	Budget	
CASH RECEIPTS				
USD's-State Pass Thru Funds	\$ 191,492.00	\$ 148,810.00	\$ 209,656.00	\$ (60,846.00)
Federal Funds	25,000.00	50,000.00	50,000.00	-
School Districts	114,000.00	114,000.00	114,000.00	-
Other	464.31	70.74		70.74
TOTAL CASH RECEIPTS	\$ 330,956.31	\$ 312,880.74	\$ 373,656.00	\$ (60,775.26)
EXPENDITURES				
Instruction	\$ 225,009.19	\$ 228,955.29	\$ 243,310.90	\$ (14,355.61)
Institutional Support	148,955.21	128,275.45	156,423.46	(28,148.01)
Food Service	262.75	972.31	750.00	222.31
Repairs	779.05	107.00	500.00	(393.00)
TOTAL EXPENDITURES	\$ 375,006.20	\$ 358,310.05	\$ 400,984.36	\$ (42,674.31)
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (44,049.89)	\$ (45,429.31)		
UNENCUMBERED CASH, BEGINNING	142,438.01	98,388.12		
UNENCUMBERED CASH, ENDING	\$ 98,388.12	\$ 52,958.81		

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended June 30, 2012

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

FACILITIES BUDGET FUND

	Prior Year Actual	CURRENT YEAR		Variance Over Under
		Actual	Budget	
CASH RECEIPTS				
Federal Funds	\$ -	\$ -		\$ -
Transfers		500,000.00		500,000.00
Other				-
TOTAL CASH RECEIPTS	\$ -	\$ 500,000.00	\$ -	\$ 500,000.00
EXPENDITURES				
Repairs	\$ -	\$ 8,403.71	\$ 100,000.00	\$ (91,596.29)
Other				-
TOTAL EXPENDITURES	\$ -	\$ 8,403.71	\$ 100,000.00	\$ (91,596.29)
RECEIPTS OVER (UNDER) EXPENDITURES	\$ -	\$ 491,596.29		
UNENCUMBERED CASH, BEGINNING	-	-		
UNENCUMBERED CASH, ENDING	\$ -	\$ 491,596.29		

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended June 30, 2012

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

CONTINUOUS IMPROVEMENT GRANT FUND

CURRENT YEAR

	Prior Year <u>Actual</u>	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS				
USD's-State Pass Thru Funds	\$ -	\$ -		\$ -
Federal Funds	70,872.00	70,872.00	70,872.00	-
State Grant	2,000.00			-
Miscellaneous				-
TOTAL CASH RECEIPTS	<u>\$ 72,872.00</u>	<u>\$ 70,872.00</u>	<u>\$ 70,872.00</u>	<u>\$ -</u>
EXPENDITURES				
Instruction	\$ 64,910.40	\$ 71,610.13	\$ 75,948.48	\$ (4,338.35)
Contracted Social Work Service	32,757.35	2,443.55	2,000.00	443.55
Transfers	25,000.00			-
TOTAL EXPENDITURES	<u>\$ 122,667.75</u>	<u>\$ 74,053.68</u>	<u>\$ 77,948.48</u>	<u>\$ (3,894.80)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (49,795.75)	\$ (3,181.68)		
UNENCUMBERED CASH, BEGINNING	<u>65,683.01</u>	<u>15,887.26</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 15,887.26</u>	<u>\$ 12,705.58</u>		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

For the Year Ended June 30, 2012

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

TRI-CO FUND

	Prior Year Actual	Current Year Actual
	<u> </u>	<u> </u>
CASH RECEIPTS		
Construction Projects	\$ 37,731.52	\$ 41,123.94
Cookie Sales	3,418.26	3,793.02
Crafts	-	-
Reimbursements and Miscellaneous	3,302.79	3,685.46
	<u> </u>	<u> </u>
TOTAL CASH RECEIPTS	\$ 44,452.57	\$ 48,602.42
	<u> </u>	<u> </u>
EXPENDITURES		
Construction Projects	\$ 44,894.02	\$ 39,767.87
Cookies	3,564.72	4,094.76
Crafts	731.61	455.29
Reimbursements and Miscellaneous	3,604.81	3,283.54
	<u> </u>	<u> </u>
TOTAL EXPENDITURES	\$ 52,795.16	\$ 47,601.46
	<u> </u>	<u> </u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (8,342.59)	\$ 1,000.96
UNENCUMBERED CASH, BEGINNING	<u>39,266.17</u>	<u>30,923.58</u>
UNENCUMBERED CASH, ENDING	<u>\$ 30,923.58</u>	<u>\$ 31,924.54</u>

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

Tri-County Special Education Cooperative No. 607 is a municipal corporation governed by an appointed seven-member board. The statutory basis financial statements include the transactions of the primary government.

The Cooperative's summary of cash receipts, expenditures and unencumbered cash includes the accounts of all the Cooperative's operations. The Cooperative's major operation is to provide services to exceptional children ranging in age from birth to 21 years. The administrative office is centrally located and supported by seven Unified School Districts through a cooperative inter-local agreement. The scope of the entity for financial reporting purposes is designed as those funds for which the Cooperative has oversight responsibility and is primarily accountable. Fiscal management responsibility is control of the collection and disbursement of funds. The Cooperative is governed by a board consisting of one representative from each of the seven participating school districts.

2. 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 Tri-County Special Education Cooperative for the year ending June 30, 2012.

Governmental Funds:

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

Special Revenue Funds--to account for the proceeds of specific revenue sources legally restricted to expenditure for specified purposes.

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

3. BASIS OF ACCOUNTING

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 years' accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and expenditure would be charged in the fund from which the transfer is made.

The Cooperative passed a Resolution dated July 13, 2011, to waive the annual requirement of generally accepted accounting principles and fixed asset accounting for the year ended June 30, 2012, in conformity with K.S.A. 75-1120 (c) (1).

4. DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. BUDGETARY INFORMATION

The budgetary process for Tri-County Special Education Cooperative is different from that of a Unified School District. Tri-County does not receive any local tax money directly. They prepare a budget which is approved by the Board, but not required to be published. Their main source of funds is from the Unified School Districts, which are members of the Cooperative, State of Kansas, and federal funding. Any local tax money received comes through the member Unified School Districts and is part of those Districts' published budget.

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. COMPLIANCE WITH KANSAS STATUTES AND OTHER FINANCE RELATED LEGAL MATTERS

Management is not aware of any violations of compliance with Kansas Statutes or violations of other finance related legal matters.

NOTE C - DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the Cooperative. The statute requires banks eligible to hold the Cooperative's funds have a main or branch bank in the county in which the Cooperative is located and the banks provide an acceptable rate of return of 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%. All deposits were legally secured at June 30, 2012.

At year-end the carrying amount of the Cooperative's deposits, including certificates of deposit, was \$3,826,064.47. The bank balance was \$4,804,780.01. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance \$500,000 was covered by FDIC insurance, and \$4,304,780.01 was collateralized by pledged securities held by the pledging financial institution's agents in the Cooperative's name.

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

At June 30, 2012, the Cooperative had no investments.

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE D – LONG-TERM DEBT

For the fiscal year ended June 30, 2012 the Cooperative had no long-term debt or capital leases.

NOTE E – DEFINED BENEFIT PENSION PLAN

Plan description. The Cooperative participates in the Kansas Public Employees Retirement System (KPERs) a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4701, *et seq.* KPERs provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4% of covered salary. Member-employees' contributions are withheld by their employer and paid to KPERs according to provisions of section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas currently contributes 9.77% of covered payroll. These contribution requirements are established by KPERs and are periodically revised. Kansas' contributions to KPERs for all Kansas public school employees for the years ending June 30, 2012, 2011, and 2010, were \$298,635,383, \$253,834,044, and \$248,468,186, respectively, equal to the required contributions as set forth by the State legislature for each year.

NOTE F - COMPENSATED ABSENCES - EMPLOYEE VACATION AND SICK PAY

A. Sick Leave

The board will provide sick leave of ten (10) days at the beginning of the contract year for all certified staff. The sick leave will be credited on the first day taught and will be prorated if a staff member is employed for less than full time or a complete year. Leaves of less than one half day will be counted as one half day, more than one half day will be counted as one full day. Sick leave can accumulate to fifty (50) days for a maximum of sixty (60) days of usable sick leave per school term. If the staff member does not have fifty (50) days accumulated leave, the days remaining at the end of the contract year will be credited to accumulated leave and carried to the next contract year. The ten (10) days granted under the Temporary Leave fund (see next paragraph) must be used before any accumulated leave may be used. Sick leave may be used for sickness, disability, and bereavement.

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

B. Temporary Leave

A Temporary Leave Fund will be established for each certified staff member with fifty (50) accumulated sick leave days prior to the current contract year for \$750.00 (10 @\$75.00 per day). Each absence, sick leave and bereavement leave, will cause a reduction to be charged to the fund. The amount remaining in the fund at the end of the contract year will be paid on or before the June 24th paycheck, provided the staff member has accumulated leave of fifty (50) days remaining. Temporary leave days (10) per school term for those eligible must be charged before a staff member can draw on accumulated leave.

C. Personal Leave

Personal business leave must be requested in advance and on the proper form provided by the Director. Two (2) days personal business leave will be allowed for all certified/licensed staff each year. Certified/licensed staff may not take personal business leave on the day preceding or the day following a holiday or during the first and last week of school except under extenuating circumstances and with the Director's approval. For employees with five (5) or more years of experience, one (1) unused personal leave day per year can be added to the following year with a total accumulation not to exceed three (3) personal leave days. Teachers that have at least five years continuous employment with Tri-County Special Education Interlocal #607 will be paid \$75.00 for one (1) unused personal leave as long as they began the school year with three (3) accumulated days of personal leave, and have not used over one of those days by the end of the school year.

D. Vacation

Employees with 12 month contracts earn vacation according to the following schedule:

<u>Years of Service</u>	<u>Vacation Earned</u>
1-2	1 week
3-7	2 weeks
8-14	3 weeks
15 & over	4 weeks

The liability for accrued sick leave, temporary leave, personal leave and vacation days is not reflected on the financial statements. Neither the actual or estimated liability was available at June 30, 2012. The cost of vacation and sick pay are recognized as expenditures when paid.

NOTE G - RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Cooperative carries commercial insurance. Settlements of claims have not exceeded coverage during the past three fiscal years.

TRI-COUNTY SPECIAL EDUCATION
COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE H – FLEXIBLE BENEFIT PLAN (I.R.C. SECTION 125)

The Board adopted a salary-reduction flexible benefit plan under Section 125 of the Internal Revenue Code. All full time employees of the Cooperative are eligible to participate in the plan beginning the first day of the month following employment. Each employee may elect to reduce his or her salary to purchase benefits through the plan. Currently benefits offered through the plan involve health insurance, cancer insurance, childcare expenses and unreimbursed medical expenses.

NOTE I – OTHER POST EMPLOYMENT BENEFITS

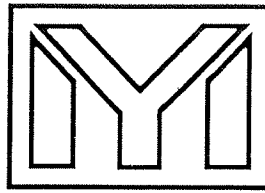
Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost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

NOTE J – USE OF ESTIMATES

The preparation of statutory basis financial statements required management to make estimates and assumptions that affect the reported amounts of expenditures during the audit period, encumbrances outstanding and disclosure of contingencies at the end of the audit period. Actual results could differ from the estimates.

NOTE K – CONTINGENT LIABILITIES

Management of the Cooperative and its Legal Counsel are not aware of any litigation involving the Cooperative at this time.



YERKES & MICHELS, CPA, LLC
CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
Carmen R. Duroni, CPA

Randy Hoffman

American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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**

Board of Education
Tri-County Special Education Cooperative No. 607
Independence, KS 67301

We have audited the statutory basis financial statements of Tri-County Special Education Cooperative No. 607, Independence, Kansas, as of and for the year ended June 30, 2012, and have issued our report thereon dated January 30, 2013. 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, and the *Kansas Municipal Audit Guide*.

Internal Control Over Financial Reporting

Management of Tri-County Special Education Cooperative No. 607 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Cooperative'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 Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 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.

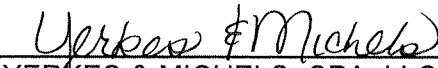
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

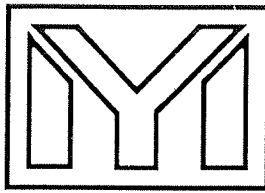
As part of obtaining reasonable assurance about whether the Cooperative's statutory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object 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 other matters that we reported to management of the Cooperative in a separate letter dated January 30, 2013.

This report is intended solely for the information and use of the Board of Education of the Tri-County Special Education Cooperative No. 607, Independence, Kansas, management, federal awarding agencies and pass through entities and for filing with the State of Kansas, Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


YERKES & MICHELS, CPA, LLC

January 30, 2013



YERKES & MICHELS, CPA, LLC
CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
Carmen R. Duroni, CPA

Randy Hoffman

American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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**

Independent Auditor's Report

Board of Education
Tri-County Special Education Cooperative No. 607
Independence, KS 67301

Compliance

We have audited Tri-County Special Education Cooperative No. 607, Independence, Kansas's compliance 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 Cooperative'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 programs is the responsibility of the Cooperative's management. Our responsibility is to express an opinion on the Cooperative'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 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*, and the *Kansas Municipal Audit Guide*. 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 Cooperative'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 Cooperative's compliance with those requirements.

In our opinion, Tri-County Special Education Cooperative No. 607, Independence, Kansas, 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.

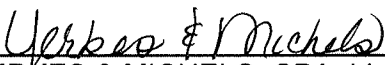
Internal Control Over Compliance

Management of Tri-County Special Education Cooperative No. 607, Independence, Kansas, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control over compliance with 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 the Cooperative'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 the Board of Education of Tri-County Special Education Cooperative No. 607, Independence, Kansas, management, and federal awarding agencies and pass-through entities and for filing with the State of Kansas, Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


YERKES & MICHELS, CPA, LLC

January 30, 2013

TRI-COUNTY SPECIAL EDUCATION COOPERATIVE NO. 607
 INDEPENDENCE, KS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2012

<u>Agency:</u>	<u>CFDA Number</u>	<u>Expenditures (Statutory Basis)</u>
U.S. Department of Education:		
Passed through the Kansas Department of Education:		
Special Education Cluster (IDEA)		
IDEA Title VI-Part B, IEP	84.027	\$ 1,738,033.00
IDEA Title VI-Part B, TIP	84.027	70,872.00
IDEA Title VI-Part B Preschool Grants	84.173	<u>47,947.00</u>
 Total Special Education Cluster		 <u>\$ 1,856,852.00</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u><u>\$ 1,856,852.00</u></u>

NOTE: This schedule 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. Cash disbursements are recognized when the cash balance of a fund is decreased. Expenditures include disbursements, accounts payable, and encumbrances.

TRI-COUNTY EDUCATION COOPERATIVE NO. 607
INDEPENDENCE, KANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

Section I - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the statutory basis financial statements of Tri-County Special Education Cooperative No. 607.
2. No significant deficiencies or material weaknesses relating to the audit of the statutory basis financial statements are reported in the 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*.
3. No instances of noncompliance material to the statutory basis financial statements of Tri-County Special Education Cooperative No. 607 were disclosed during the audit.
4. No significant deficiencies or material weaknesses, relating to the audit of the major federal award programs were reported in the 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.
5. The auditor's report on compliance expresses an unqualified opinion.
6. There are no findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as the major program is: Special Education Cluster (IDEA) CFDA #84.027 and #84.173.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Tri-County Special Education Cooperative No. 607 qualified as a low-risk auditee.

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

DEPARTMENT OF EDUCATION

Special Education Cluster (IDEA) - CFDA #84.027 and #84.173

No matters reported.

TRI-COUNTY SPECIAL EDUCATION COOPERATIVE NO. 607
INDEPENDENCE, KANSAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2012

There were no findings in the prior year audit, nor were there any unresolved findings from further preceding audit periods.