

**Southwest Kansas Area Cooperative,
District Number 613
Ensign, KS**

June 30, 2018

Southwest Kansas Area Cooperative, District Number 613
 Ensign, KS
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 For the Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Kansas Area Cooperative, District Number 613
Ensign, KS

We have audited the accompanying Summary Statement of Receipts, Expenditures and Unencumbered Cash of Southwest Kansas Area Cooperative, District Number 613, as of and for the year ended June 30, 2018, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U. S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by Southwest Kansas Area Cooperative, District Number 613, Ensign, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U. S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Southwest Kansas Area Cooperative, District Number 613 as of June 30, 2018, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Southwest Kansas Area Cooperative, District Number 613 as of June 30, 2018, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Other Matters

Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of expenditures - actual and budget (budgeted funds only), schedule of receipts and expenditures - actual and budget (where applicable) (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. 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 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the regulatory required supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the regulatory basis financial statement of Southwest Kansas Area Cooperative, District Number 613, taken as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statement.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the Southwest Kansas Area Cooperative, District Number 613'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 solely 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 effectiveness of the Southwest Kansas Area Cooperative, District Number 613's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Southwest Kansas Area Cooperative, District Number 613's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dirks, Anthony & Duncan LLC". The script is cursive and fluid.

Dirks, Anthony & Duncan, LLC
Certified Public Accountants

December 21, 2018

**Southwest Kansas Area Cooperative, District Number 613
Ensign, KS**

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Southwest Kansas Area Cooperative, District Number 613
 Ensign, KS
 Summary of Receipts, Expenditures and Unencumbered Cash
 Regulatory Basis
 For the Year Ended June 30, 2018

Fund	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 10,638,340	\$ 14,582,245	\$ 14,234,739	\$ 10,985,846	\$ 39,068	\$ 11,024,914
<u>Special Purpose Funds:</u>						
Targeted Improvement Plan	-	76,691	76,691	-	-	-
Preschool Grants	-	79,576	79,576	-	-	-
VI B Federal Flow Thru	-	2,226,584	2,226,584	-	-	-
Total Reporting Entity (Excluding Agency Funds)	<u>\$ 10,638,340</u>	<u>\$ 16,965,096</u>	<u>\$ 16,617,590</u>	<u>\$ 10,985,846</u>	<u>\$ 39,068</u>	<u>\$ 11,024,914</u>

Composition Of Cash

Sunflower Bank; Dodge City, Kansas

Demand Deposits \$ 3,079

Commerce Bank; Garden City, Kansas

Demand Deposits 3,620,966

Self Insurance Fund 388,445

Capital Markets Group 7,400,869

Total Cash 11,413,359

Agency Funds - Per Schedule 3 (388,445)

Total Reporting Entity (Excluding Agency Funds) \$ 11,024,914

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

SOUTHWEST KANSAS AREA COOPERATIVE, DISTRICT NUMBER 613

Notes to the Financial Statement

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Southwest Kansas Area Cooperative, District Number 613 (Cooperative), Ensign, Kansas operates as a municipal corporation in accordance with the laws of the State of Kansas. The Cooperative is governed by a fourteen-member board of directors. The governing board is composed of one school district board member from each of the member districts. Board members are elected by member school district. Member school districts include USD 220 Ashland, USD 459 Bucklin, USD 102 Cimarron-Ensign, USD 482 Dighton, USD 443 Dodge City, USD 225 Fowler, USD 477 Ingalls, USD 227 Hodgeman County, USD 483 Kismet-Plains, USD 226 Meade, USD 219 Minneola, USD 303 Ness City, USD 381 Spearville and USD 106 Western Plains. The Cooperative provides a wide range of student support services for students with exceptionalities ages three through twenty-one. This regulatory financial statement presents Southwest Kansas Area Cooperative, District Number 613.

Regulatory Basis Fund Types

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund – used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital Project and tax levies for long- term debt) that are intended for specified purposes.

Agency Fund – funds used to report assets held by the municipal reporting entity in a purely custodial capacity (payroll clearing fund, county treasurer tax collection accounts, etc.).

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

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 regulatory basis of accounting.

Budgetary Information

The Southwest Kansas Area Cooperative, District Number 613 prepares a budget under the Kansas cash basis and budget laws to determine assessments to member Cooperatives and other financial planning purposes.

The Kansas cash basis and budget laws permit transferring budgeted amounts between line items within an individual fund. However, such laws prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules 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 regulatory basis of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, 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 unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

SOUTHWEST KANSAS AREA COOPERATIVE, DISTRICT NUMBER 613

Notes to the Financial Statement

June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Southwest Kansas Area Cooperative, District Number 613 does not have authority to levy taxes. The Cooperative is funded by member assessments approved by the Cooperative's Board of Directors.

NOTE 2 – 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, 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. All deposits were legally secured at June 30, 2018.

At year end the carrying amount of the Cooperative's deposits, including certificates of deposit, was \$11,024,914. The bank balance was \$12,074,020. The bank balance was held by two banks resulting in a concentration of credit risk. The bank balance was covered by federal depository insurance and pledged securities 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.

NOTE 3 – RETIREMENT PLAN

General Information about the 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. 74-4901, et. Seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or before July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contribution are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

SOUTHWEST KANSAS AREA COOPERATIVE, DISTRICT NUMBER 613

Notes to the Financial Statement

June 30, 2018

NOTE 3 – RETIREMENT PLAN, CONTINUED

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate with a 0% moratorium for the period of July 1, 2017 through September 30, 2017 for the Death and Disability Program) was 10.81% for the fiscal year ended June 30, 2017. The actuarially determined employer contribution rate was 12.01% for the fiscal year ended June 30, 2018. Per 2016 House Substitute for Senate Bill 161, Section 98(a)(1), state general fund and expanded lottery act revenue funds for employer contributions to KPERS were deferred. The amount deferred for school contributions was \$92,917,091 for the fiscal year ended June 30, 2016 and the anticipated repayments per SB249 were nullified per HB2052 during fiscal year 2017.

The State of Kansas contribution to KPERS for all school municipalities for the year ending June 30, 2017, received as of June 30th was \$304,596,361. Per 2017 Senate Substitute for House Bill 2052, Section 37(a), state general fund employer contributions to KPERS was decreased by \$64,130,234 for the fiscal year ended June 30, 2017. Section 43(17) of the bill also stipulates that repayments of the reduced contributions are to be amortized over twenty years at a level dollar amount commencing in the fiscal year 2018. The level dollar amount was computed to be \$6.4 million dollars per year.

Net Pension Liability

At June 30, 2018, the Cooperative's proportionate share of the collective net pension liability reported by KPERS was \$651,068. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The Cooperative's proportion of the net pension liability was based on the ratio of the Cooperative's contribution to KPERS, relative to the total employer and non-employer contributions of the State/School subgroup within KPERS for the fiscal year ended June 30, 2017. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in the financial statement.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

NOTE 4 – OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

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 premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

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.

Compensated Absences

For the year ended June 30, 2018, there was no centralized Certified Staff Handbook enforceable by the Board. The compensated absences being utilized by the certified staff was unofficially adopted by management.

At the beginning of each fiscal year the board revises and adopts the Para educator and licensed staff handbook. The compensated absences for these two handbooks are as follows:

Sick Leave. Sick leave is available for the use of personal illness or injury, immediate family illness, medical appointments and pregnancy or childbirth. Full-time Para educators, working 30 or more hours a week, begin the school year with 7 hours. The Paras then receive 5 additional hours each month they physically work up to the max of 47 hours accumulated for that school year. Part-time Paras have their sick leave prorated. All Paras with continuous employment with the Cooperative may accumulate up to 180 hours of sick leave. Licensed staff is given nine days of sick leave based on the months of hiring. Sick leave can accumulate up to 100 days.

SOUTHWEST KANSAS AREA COOPERATIVE, DISTRICT NUMBER 613

Notes to the Financial Statement

June 30, 2018

NOTE 4 – OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS, CONTINUED

Family and Medical Leave. Para educators are eligible for unpaid family and medical leave upon the completion of 12 months of service in the district.

Emergency Leave. A leave of an emergency nature, other than sickness or injury, for Licensed staff may be granted if approved 2 days in advance by the Director. The potential reduction in pay is determined by the Director. Para educators do not receive emergency leave days.

Death Leave. Licensed staff will not receive a reduction in salary for absences as a result of death in the immediate family unless the absences exceeds 5 school days. Para educators do not receive death leave.

Personal Leave. Licensed staff is given 3 days of personal leave per contract year and it does not accrue. At the end of the contract year, the remainder of personal leave is added to the staff member's sick leave balance. Para educators do not receive personal leave.

Academic Leave. Licensed staff are allowed one day a year to take academic examinations or to receive an academic degree with no deduction from salary or sick leave. Para educators do not receive academic leave.

Holiday Pay. Para educators will receive one paid day for winter break and one day for spring break if the Para physical works the last scheduled day before the holiday and the first scheduled day following the holiday.

Termination Benefits. Upon termination, Para educators forfeit all unused sick leave. A licensed staff retiring with full retirement with 100 accumulated sick days will receive a lump sum payment of \$2,000. Resigning licensed staff with 100 accumulated sick leave days will receive a lump sum payment of \$500.

NOTE 5 – CLAIMS, JUDGEMENTS AND RISK MANAGEMENT

The Cooperative participates in federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Cooperative may be required to reimburse the grantor government. As of the date of this report, grant expenditures have not been audited, but the Cooperative believes that any disallowed expenditures or overpayments, if any, will not have a material effect on the individual governmental funds or the overall financial position of the Cooperative.

During the ordinary course of its operation the Cooperative is a party to various claims, legal actions and complaints. It is the opinion of the Cooperative's management and legal counsel that these matters are not anticipated to have a material impact on the Cooperative.

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Cooperative has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2015 to 2018, and there were no settlements that exceeded insurance coverage in the past three years.

NOTE 6 – SELF-FUNDED HEALTH INSURANCE FUND

Southwest Kansas Area Cooperative, District Number 613, participates in a self-insurance fund program for medical insurance, which covers full-time administration, licensed staff, Para educators, and office staff working at least seventeen and a half (17.5) hours per week. The plan also covers retired employees (K.S.A. 12-5040) who are individuals who have terminated employment with the Cooperative and is receiving retirement or disability benefit for services to the Cooperative when employment is terminated.

Premiums from the employees and the Cooperative are paid to the Health insurance bank account. The premiums are available to pay claims and administrative costs of the program by the third-party administrator (Meritain). The agreement to participate provides that the Cooperative will be self-sustaining through member's premiums. The Cooperative purchases secondary insurance (reinsurance), from Optum, for claims in excess of an annual stop loss deductible of \$50,000 per person.

SOUTHWEST KANSAS AREA COOPERATIVE, DISTRICT NUMBER 613

Notes to the Financial Statement

June 30, 2018

NOTE 7 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There were no budget or cash law violation for the year ending June 30, 2018.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report. Management's evaluation concluded that there was no subsequent event that is required to be recognized or disclosed in this financial statement.

Southwest Kansas Area Cooperative, District Number 613

Ensign, KS

Regulatory Required Supplemental Information

Southwest Kansas Area Cooperative, District Number 613

Ensign, KS

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Southwest Kansas Area Cooperative, District Number 613
 Ensign, KS
 Summary of Expenditures - Actual and Budget (Budgeted Funds Only)
 Regulatory Basis
 For the Year Ended June 30, 2018

<u>Fund</u>	<u>Certified Budget</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
General Fund	<u>\$ 16,583,834</u>	<u>\$ 16,583,834</u>	<u>\$ 14,234,739</u>	<u>\$ (2,349,095)</u>
	<u>\$ 16,583,834</u>	<u>\$ 16,583,834</u>	<u>\$ 14,234,739</u>	<u>\$ (2,349,095)</u>

SCHEDULE 2-1

Southwest Kansas Area Cooperative, District Number 613
 Ensign, KS
 General Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended June 30, 2018

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
Receipts			
Charges for Services	\$ 3,651,139	\$ 3,656,848	\$ (5,709)
Para Reimbursement	5,432	40,000	(34,568)
Interest	31,154	1,500	29,654
Orientation & Mobility Services	55,650	-	55,650
State Aid Flow Thru Districts	7,875,456	8,322,112	(446,656)
Early Childhood	15,260	20,000	(4,740)
Federal Aid - Special Education	2,226,584	2,226,584	-
Federal Aid - Preschool Special Education	79,576	79,576	-
Federal Aid - Targeted Improvement Plan	76,691	77,120	(429)
Medicaid	274,974	400,000	(125,026)
Payroll Tax Refund	29,631	-	29,631
Arrowhead West Reimbursement	192,464	200,000	(7,536)
Reimbursements	3 <u>68,234</u>	<u>-</u>	<u>68,234</u>
Total Receipts	<u>14,582,245</u>	<u>\$ 15,023,740</u>	<u>\$ (441,495)</u>
Expenditures			
Instruction	10,635,238	14,588,237	(3,952,999)
Student Support Service	1,513	-	1,513
Instructional Staff Support	54,504	134,200	(79,696)
General Administration	1,377	-	1,377
Special Area Administration Services	814,274	883,897	(69,623)
School Administration	9,792	-	9,792
Operation and Maintenance	95,484	730,000	(634,516)
Student Transportation	179,572	247,500	(67,928)
Student Transportation - Monitoring	51,396	-	51,396
Vehicle Operation Services	6,401	-	6,401
Vehicle Servicing and Maintenance	2,337	-	2,337
Transfer to VI B Flow Thru	2,226,584	-	2,226,584
Transfer to Preschool	79,576	-	79,576
Transfer to Targeted Improvement Plan	<u>76,691</u>	<u>-</u>	<u>76,691</u>
Total Expenditures	<u>14,234,739</u>	<u>\$ 16,583,834</u>	<u>(2,349,095)</u>
Receipts Over (Under) Expenditures	347,506		<u>\$ 1,907,600</u>
Unencumbered Cash, July 1	<u>10,638,340</u>		
Unencumbered Cash, June 30	<u>\$ 10,985,846</u>		

SCHEDULE 2-2

Southwest Kansas Area Cooperative, District Number 613
 Ensign, KS
 Targeted Improvement Plan
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended June 30, 2018

Receipts	
State Aid	\$ -
Federal Aid Transferred from General Fund	<u>76,691</u>
Total Receipts	<u>76,691</u>
Expenditures	
Supervisor/Coordinator	46,250
Staff Development	18,373
Inservice Trips	8,472
Inservice Supplies	<u>3,596</u>
Total Expenditures	<u>76,691</u>
Receipts Over (Under) Expenditures	-
Unencumbered Cash, July 1	<u>-</u>
Unencumbered Cash, June 30	<u><u>\$ -</u></u>

SCHEDULE 2-3

Southwest Kansas Area Cooperative, District Number 613
 Ensign, KS
 Preschool Grants
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended June 30, 2018

Receipts	
State Aid	\$ -
Federal Aid Transferred from General Fund	<u>79,576</u>
Total Receipts	<u>79,576</u>
Expenditures	
Instruction	<u>79,576</u>
Total Expenditures	<u>79,576</u>
Receipts Over (Under) Expenditures	-
Unencumbered Cash, July 1	<u>-</u>
Unencumbered Cash, June 30	<u><u>\$ -</u></u>

Southwest Kansas Area Cooperative, District Number 613
 Ensign, KS
 VI B Federal Flow Thru
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended June 30, 2018

Receipts	
State Aid	\$ -
Federal Aid Transferred from General Fund	<u>2,226,584</u>
Total Receipts	<u>2,226,584</u>
Expenditures	
Instruction	<u>2,226,584</u>
Total Expenditures	<u>2,226,584</u>
Receipts Over (Under) Expenditures	-
Unencumbered Cash, July 1	<u>-</u>
Unencumbered Cash, June 30	<u>\$ -</u>

SCHEDULE 3

Southwest Kansas Area Cooperative, District Number 613
 Ensign, KS
 Agency Funds
 Schedule of Receipts and Disbursements
 For the Year Ended June 30, 2018

	<u>Beginning Cash Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Cash Balance</u>
Health Insurance Reserve	<u>\$ 464,033</u>	<u>\$ 787,013</u>	<u>\$ 862,601</u>	<u>\$ 388,445</u>
	<u><u>\$ 464,033</u></u>	<u><u>\$ 787,013</u></u>	<u><u>\$ 862,601</u></u>	<u><u>\$ 388,445</u></u>

**Southwest Kansas Area Cooperative, District Number 613
Ensign, KS**

**Southwest Kansas Area Cooperative, District Number 613
Ensign, KS**

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Dirks, Anthony & Duncan, LLC

Certified Public Accountants & Management Consultants

104 N. Main / P.O. Box 885 / Ulysses, KS 67880 / Phone: (620) 356-4951 / Fax: (620) 353-1018

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

Board of Directors
Southwest Kansas Area Cooperative, District Number 613
Ensign, KS

We have audited, in accordance with the 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, the financial statement of Southwest Kansas Area Cooperative, District Number 613, as of and for the year ended June 30, 2018, and the related notes to the financial statement, which collectively comprise Southwest Kansas Area Cooperative, District Number 613's basic financial statement and have issued our report thereon dated December 21, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered Southwest Kansas Area Cooperative, District Number 613's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Southwest Kansas Area Cooperative, District Number 613's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Kansas Area Cooperative, District Number 613'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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2018-001.

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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. 2018-002 and 2018-003.

Compliance and Other Matters

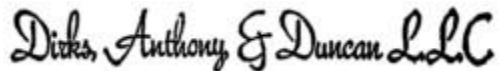
As part of obtaining reasonable assurance about whether Southwest Kansas Area Cooperative, District Number 613's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-002.

Southwest Kansas Area Cooperative, District Number 613's Response to Findings

Southwest Kansas Area Cooperative, District Number 613's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Southwest Kansas Area Cooperative, District Number 613's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dirks, Anthony & Duncan L.L.C." in a cursive script.

Dirks, Anthony & Duncan, LLC
Certified Public Accountants

December 21, 2018



Dirks, Anthony & Duncan, LLC

Certified Public Accountants & Management Consultants

104 N. Main / P.O. Box 885 / Ulysses, KS 67880 / Phone: (620) 356-4951 / Fax: (620) 353-1018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Southwest Kansas Area Cooperative, District Number 613
Ensign, KS

Report on Compliance for Each Major Federal Program

We have audited Southwest Kansas Area Cooperative, District Number 613's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of Southwest Kansas Area Cooperative, District Number 613's major federal programs for the year ended June 30, 2018. Southwest Kansas Area Cooperative, District Number 613's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Southwest Kansas Area Cooperative, District Number 613's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Southwest Kansas Area Cooperative, District Number 613'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 qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Southwest Kansas Area Cooperative, District Number 613's compliance.

Basis for Qualified Opinion on Special Education Cluster (IDEA)

As described in the accompanying schedule of findings and questioned costs, Southwest Kansas Area Cooperative, District Number 613 did not comply with requirements regarding CFDA 84.027 and 84.173 Special Education Cluster (IDEA) as described in finding numbers 2018-002 Audit Requirements. Compliance with such requirements is necessary, in our opinion, for Southwest Kansas Area Cooperative, District Number 613 to comply with the requirements applicable to that program.

Qualified Opinion on Special Education Cluster (IDEA)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Southwest Kansas Area Cooperative, District Number 613 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Southwest Kansas Area Cooperative, District Number 613 for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

Southwest Kansas Area Cooperative, District Number 613's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Southwest Kansas Area Cooperative, District Number 613's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Southwest Kansas Area Cooperative, District Number 613 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southwest Kansas Area Cooperative, District Number 613's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Southwest Kansas Area Cooperative, District Number 613's internal control over compliance.

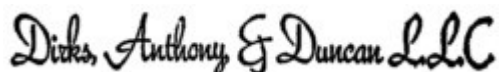
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-001 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003 to be significant deficiencies.

Southwest Kansas Area Cooperative, District Number 613's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Southwest Kansas Area Cooperative, District Number 613's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Dirks, Anthony & Duncan, LLC
Certified Public Accountants

December 21, 2018

Southwest Kansas Area Cooperative, District Number 613
 Ensign, KS
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor <u>Program Title</u>	<u>Federal CFDA Numbers</u>	<u>Pass Through Identifying Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>			
Passed Through State of Kansas Department of Education			
Special Education Cluster (IDEA)			
EC Flo Thru - VI B Federal Flow Thru	84.027	DO611	\$ 2,226,584
Targeted Improvement Plan - EC Flo Thru	84.027	DO611	76,691
EC Flo Thru - VI B Federal Flow Thru	84.173	DO611	<u>79,576</u>
Total U.S. Department of Education-Special Education Cluster (IDEA)			<u>2,382,851</u>
<u>Kansas Health Policy Authority</u>			
Medicaid Reimbursement	93.778	DO611	<u>274,974</u>
Total Kansas Health Policy Authority			<u>274,974</u>
Total Schedule of Expenditures of Federal Awards			<u>\$ 2,657,825</u>

Southwest Kansas Area Cooperative, District Number 613
Ensign, KS
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Southwest Kansas Area Cooperative, District No. 613 under programs of the federal government for the years ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a select portion of the operations of Southwest Kansas Area Cooperative, District No. 613, it is not intended to and does not present the summary of receipts, expenditures and unencumbered cash of Southwest Kansas Area Cooperative, District No. 613.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule of Expenditures of Federal Awards (SEFA) are reported using the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, the same as the financial statement accompanying this schedule.

NOTE 3 – INDIRECT COST RATE

Southwest Kansas Area Cooperative, District No. 613 did not use the standard indirect cost rate of 10%.

Southwest Kansas Area Cooperative, District Number 613
Ensign, KS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I – Summary of Auditor's Results

Financial Statement:

Type of audit report issued Unmodified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? No
- Noncompliance which is material to the financial statement noted? No

Federal Awards**Internal control over major programs:**

- Material weaknesses identified? Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for IDEA programs: Qualified

Any audit findings disclosed that are required to be reported in Accordance with 2 CFR 200.516(a)? Yes

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
84.027; 84.173	Special Education Cluster (IDEA)
Dollar threshold to distinguish between Type A and Type B Programs	\$750,000
Auditee qualifies as a low-risk auditee?	No

Section II – Financial Statement Findings

None Noted

Southwest Kansas Area Cooperative, District Number 613
Ensign, KS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

U.S. Department of Education

Passed Through Kansas State Department of Education
Program Name: Special Education Cluster (IDEA)
CFDA#’s: 84.027; 84.173

Finding 2018-001

MATERIAL WEAKNESS

Internal Controls

Criteria: Pursuant to the Code of Federal Regulations (CFR), Title 2 *Grants and Agreements*, Subpart D *Post Federal Award Requirements*, Section 200.303 *Internal Controls* (2 CFR §200.303), “the non-federal entity must: establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.” The non-Federal entity must also “evaluate and monitor the non-federal entity’s compliance with statutes, regulations and the terms and conditions of Federal awards.” When there is instance of noncompliance identified in audit findings the non-federal entity is then to take “prompt action.”

Condition: The revenue and expenditure transaction class of the Cooperative are missing key segments that a mindful entity would require, such as segregation of duties and compensating controls.

Cause: During the audit, we determined there exists a high reliance upon the key positions of management to operate transaction classes without any sufficient third-party review or involvement.

Effect: The financial statement was materially misstated until management approved suggested audit adjustments. There existed improper recording of federal award monies and its related expenditures.

Recommendations: The Board of Directors, the Director and key positions of management should adequately document internal control procedures for all transaction classes being mindful to maintain segregation of duties and adding encompassing compensating controls. The Board should then periodically check that all procedures agreed upon are operational and effective, and adjust procedures as needed.

Views of Responsible Officials and Planned Corrective Actions: The Cooperative agrees with the finding. See separate document for planned corrective actions.

Finding 2018-002

SIGNIFICANT DEFICIENCY AND MATERIAL NONCOMPLIANCE

Report Submission

Criteria: Pursuant to the Code of Federal Regulations (CFR), Title 2 *Grants and Agreements*, Subpart F *Audit Requirements*, Section 200.512 *Report Submission* (2 CFR §200.512), the Cooperative is required to submit its audit report and the data collection to the Federal Audit Clearinghouse (FAC) “within the earlier of 30 calendar days after receipt of the auditor’s report, or nine months after the end of the audit period.”

Condition: The Cooperative, per the records of the FAC, did not submit two year prior audit report to the FAC within the required allotted time.

Southwest Kansas Area Cooperative, District Number 613
Ensign, KS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Cause: Key positions of management did not possess sufficient knowledge of the Cooperative's compliance requirement with the FAC. Management hired a CPA firm to perform the financial statement and single audit for the fiscal year ended June 30, 2016 in 2018.

Effect: The Cooperative is not in compliance with 2 CFR §200.512.

Recommendations: The Cooperative should maintain its internal controls that will disallow this noncompliance from happening in the future.

Views of Responsible Officials and Planned Corrective Actions: The Cooperative agrees with the finding. See separate document for planned corrective actions.

Finding 2018-003

SIGNIFICANT DEFICIENCY

Reporting

Criteria: Pursuant to the Code of Federal Regulations (CFR), Title 2 *Grants and Agreements*, Subpart D *Post Federal Award Requirements*, Section 200.302 *Financial Management* (2 CFR §200.302), "identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received."

Condition: The Cooperative must submit a budget for the Targeted Improvement Money approved by the State of Kansas before it is received. At the end of the year, the Cooperative must then submit an annual financial report detailing how the money was actually spent. The financial report submitted by the Director on September 5, 2018 does not match the its related Schedule 2-2 in the regulatory required supplemental information of the financial statement.

Cause: The financial statement of the Cooperative did not properly segregate the federal monies before suggested audit adjustments. There is also a lack of communication and knowledge between and amongst key positions of management.

Effect: The annual report submitted to the State of Kansas is non-comparable to the Cooperative's Schedule 2-2 located in the financial statement's regulatory required supplemental information.

Recommendations: The Cooperative should have an employee, not in the position of Director or Treasurer, compare the financial statement to the annual report to be submitted to the State of Kansas for accuracy. The Cooperative should also ensure that the positions involved with the financial reporting of the federal monies have adequate training for the recording and reporting of the federal monies.

Views of Responsible Officials and Planned Corrective Actions: The Cooperative agrees with the finding. See separate document for planned corrective actions.

Southwest Kansas Area Cooperative, District Number 613
Ensign, KS
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2017-001 Insufficient Control Consciousness Within the Organization

Condition: Each transaction class of the Cooperative (payroll, expenditure, revenue and cash) are missing key segments that a mindful entity would require, such as segregation of duties and compensating controls.

Recommendation: The Board of Directors, the Director and key positions of management should adequately document internal control procedures for all transaction classes being mindful to maintain segregation of duties and adding encompassing compensating controls. The Board should then periodically check that all procedures agreed upon are operational and effective, and adjust procedures as needed.

Current Status: The Cooperative underwent a change in personnel in all key management positions and brought in outside contract help to create new internal control procedures in February 2017.

Finding 2017-002 Payroll Withholding Remittances and Submission of Required Payroll Forms

Condition: Payroll withholdings for all employees for taxes, Kansas Public Employee Retirement System (KPERS), insurance and other withholdings are not being remitted to proper agencies on a timely basis. The Cooperative's Form 941, Employer Quarterly Federal Tax Return is not being filed by its due date.

Recommendation: Procedures should be implemented requiring the review of payroll tax deposits, KPERS withholdings, insurance and other withholdings to the appropriate level of management, including the reconciliation of the related amounts in the Cooperative's financial records.

Current Status: The Cooperative underwent a change in personnel in all key management positions and brought in outside contract help to address all payroll issues in February 2017.

Finding 2017-003 Bank Reconciliations

Condition: The bank reconciliation being performed by the Cooperative did not appropriately tie the bank balance to the book balance.

Recommendation: The bank reconciliations should be performed by the following month by an individual, not holding the position of Treasurer or Payroll Clerk, before the end of the following month. The reconciliation should be completed for the following accounts monthly: insurance account, checking account and the sweep account.

Current Status: The Cooperative underwent a change in personnel in all key management positions and brought in outside contract help put into place procedures for timely and complete bank reconciliations in February 2017.

Finding 2017-004 Journal Entry Oversight

Condition: The Cooperative is performing journal entries for simple transactions that should be operated through different modules of the bookkeeping software. The journal entries that are entered into the bookkeeping system are also not being reviewed or approved for its legitimacy and accuracy.

Recommendation: The Board of Directors, the Director and key positions of management should adequately document internal control procedures for the journal entry process being mindful to maintain segregation of duties and adding encompassing compensating controls. The Board should then periodically check that all procedures agreed upon are operational and effective, and adjust procedures as needed. The internal controls should mandate approval

Southwest Kansas Area Cooperative, District Number 613
Ensign, KS
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

over the manual journal entries and require significant support for each of the entries that are to be retained in a folder with each fiscal year's records.

Current Status: The Cooperative underwent a change in personnel in all key management positions and brought in an outside contractor to require stricter internal controls on journal entries in February 2017.

FINDINGS – FEDERAL AWARD PROGRAMS AUDIT

Finding 2017-005 Internal Controls

Criteria: Pursuant to the Code of Federal Regulations (CFR), Title 2 *Grants and Agreements*, Subpart D *Post Federal Award Requirements*, Section 200.303 *Internal Controls* (2 CFR §200.303), "the non-federal entity must: establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." The non-Federal entity must also "evaluate and monitor the non-federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards." When there is instance of noncompliance identified in audit findings the non-federal entity is then to take "prompt action."

Condition: Each transaction class of the Cooperative (payroll, expenditure, revenue and cash) are missing key segments that a mindful entity would require, such as segregation of duties and compensating controls.

Recommendation: The Board of Directors, the Director and key positions of management should adequately document internal control procedures for all transaction classes being mindful to maintain segregation of duties and adding encompassing compensating controls. The Board should then periodically check that all procedures agreed upon are operational and effective, and adjust procedures as needed.

Current Status: The Cooperative underwent a change in personnel in all key management positions and brought in an outside contractor in February 2017 that helped put into place strong internal controls pertaining to the payroll and cash cycle. There were no adequate controls in place pertaining to the revenue and expenditure cycle of the federal awards.

See current year finding at 2018-001.

Finding 2017-006 Activities Allowed or Unallowed

Criteria: In accordance with the Code of Federal Regulations (CFR), Title 2 *Grants and Agreements*, Subpart D *Post Federal Award Requirements*, Section 200.328 *Monitoring and Reporting Program Performance* (2 CFR §200.328), "the non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements."

Condition: The Cooperative has a service agreement with a non-profit entity, Arrowhead West, Inc., in which the other entity provides services to infant to three-year-old children and the Cooperative requests, and receives federal monies for the services provided to the children. The money being received for these children is not in the proper Catalog of Federal Domestic Assistance (CFDA) number. The Cooperative received CFDA 84.173 Special Education- Preschool Grants which is specifically only for three to five-year-old

Southwest Kansas Area Cooperative, District Number 613
Ensign, KS
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

children. The Cooperative does not receive CFDA 84.181 Special Education-Grants for Infants.

Recommendation: The Cooperative either needs to apply for the appropriate funding or discontinue their agreement with Arrowhead West, Inc.

Current Status: The Cooperative underwent a change in personnel in all key management positions and hired outside contract help to ensure proper recording and segregation of unallowable activities/costs from the federal monies.

Finding 2017-007 Report Submission

Criteria: Pursuant to the Code of Federal Regulations (CFR), Title 2 *Grants and Agreements*, Subpart F *Audit Requirements*, Section 200.512 *Report Submission* (2 CFR §200.512), the Cooperative is required to submit its audit report and the data collection to the Federal Audit Clearinghouse (FAC) "within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period."

Condition: The Cooperative, per the records of the FAC, has no submitted records for the FAC's current periods of retention.

Recommendation: The Cooperative should put into place internal controls that will disallow the Cooperative's audit report and the data collection from not being filed with the FAC in the future.

Current Status: As since the audits for years ended June 30, 2017 and June 30, 2018 were performed simultaneously, the audit report for the fiscal year ending in 2017 was dated January 4, 2018 and submitted to the Federal Clearinghouse in the same period.

See current year finding at 2018-002.

Finding 2017-008 Targeted Improvement Financial Reporting

Criteria: Pursuant to the Code of Federal Regulations (CFR), Title 2 *Grants and Agreements*, Subpart D *Post Federal Award Requirements*, Section 200.302 *Financial Management* (2 CFR §200.302), "identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received."

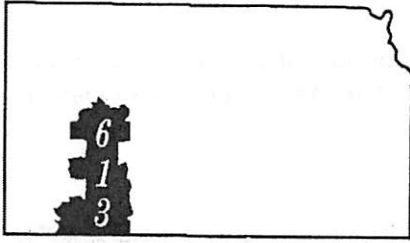
Condition: The Cooperative must submit a budget for the Targeted Improvement Money approved by the State of Kansas before it is received. At the end of the year, the Cooperative must then submit an annual financial report detailing how the money was actually spent. The financial report submitted by the Director on September 14, 2017 does not match the its related Schedule 2-2 in the regulatory required supplemental information of the financial statement.

Recommendation: The Cooperative should have an employee, not in the position of Director or Treasurer, compare the Targeted Improvement Fund activity to the annual report to be submitted to the State of Kansas for accuracy.

Current Status: The Cooperative did not put into place controls ensuring the timely recording of federal monies or offer adequate training for the position of Director or Treasurer to ensure that the reports submitted to the State match financial records.

See current year finding at 2018-003.

Southwest Kansas Area Cooperative District #613



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Ensign, KS 67841
Phone: (620) 865-2054 Fax: (620) 865-2055
Website: <http://www.skacd.com>

"Providing Exceptional Education for Exceptional Children"

CORRECTIVE ACTION PLAN

December 17, 2018

Kansas State Department of Education and Kansas State Department of Administration

Southwest Kansas Area Cooperative, District Number 613 respectfully submits the following corrective action plan for the year ended June 30, 2018.

Dirks, Anthony & Duncan, LLC
Po Box 885
Ulysses, KS 67880

Audit Period: June 30, 2018

FINDINGS – FEDERAL AWARD PROGRAMS AUDIT

U.S. Department of Education

Passed Through Kansas State Department of Education

Program Name: Special Education Cluster (IDEA)

CFDA#'s: 84.027; 84.173

Finding 2018-001 – Internal Controls

Recommendations: The Board of Directors, the Director and key positions of management should adequately document internal control procedures for all transaction classes being mindful to maintain segregation of duties and adding encompassing compensating controls. The Board should then periodically check that all procedures agreed upon are operational and effective, and adjust procedures as needed.

Action Taken: We agree with the recommendation and are set to have a meeting to enhance and document stronger internal controls with board members, the Interim Director, Payroll Clerk and Treasurer. Our targeted implementation date is March 2019.

Finding 2018-002: Report Submission

Recommendations: The Cooperative should maintain its internal controls that will disallow this noncompliance from happening in the future.

Action Taken: With the placement of new key management positions and an increased awareness of the governing board, we believe this has already been corrected by ensuring timely audit performance and report submission by a qualified CPA firm.

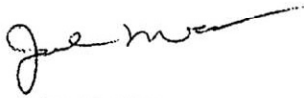
Finding 2018-003: Targeted Improvement Financial Reporting

Recommendations: The Cooperative should have an employee, not in the position of Director or Treasurer, compare the financial statement to the annual report to be submitted to the State of Kansas for accuracy. The Cooperative should also ensure that the positions involved with the financial reporting of the federal monies have adequate training for the recording and reporting of the federal monies.

Action Taken: We concur with the recommendation, and the Cooperative will begin the process of educating an existing staff member to a competent level in which to perform a reconciliation between the financial records and Targeted Improvement Fund annual financial report. The staff member who will be performing the reconciliation will report directly to the Interim Director all findings and concerns encountered. Our targeted implementation date is March 2019.

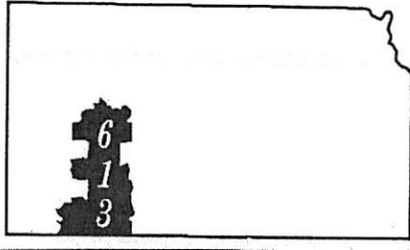
If the Kansas State Department of Education and/or Kansas State Department of Administration has questions regarding this plan, please call John Maples at 620-865-2054.

Sincerely yours,



John Maples
Director

Southwest Kansas Area Cooperative District #613



001 Ford Rd

Ensign, KS 67841

Phone: (620) 865-2054 Fax: (620) 865-2055

Website: <http://www.skacd.com>

"Providing Exceptional Education for Exceptional Children"

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 17, 2018

Kansas State Department of Education and Kansas State Department of Administration

Southwest Kansas Area Cooperative, District Number 613 respectfully submits the following status updates of prior year audit findings for the year ended June 30, 2018.

Dirks, Anthony & Duncan, LLC

PO Box 885

Ulysses, KS 67880

Audit Period: June 30, 2018

FINANCIAL STATEMENT FINDINGS

2017-001 Insufficient Control Consciousness Within the Organization

Condition: Each transaction class of the Cooperative (payroll, expenditure, revenue and cash) are missing key segments that a mindful entity would require, such as segregation of duties and compensating controls.

Status: Corrective Action Taken

2017-002 Payroll Withholding Remittances and Submission of Required Payroll Forms

Condition: The Cooperative's Form 941, Employer Quarterly Federal Tax Return nor its related deposits are not being filed by its due date.

Status: Corrective Action Taken

2017-003 Bank Reconciliations

Condition: The bank reconciliation being performed by the Cooperative did not appropriately tie the bank balance to the book balance.

Status: Corrective Action Taken

2017-004 Journal Entry Oversight

Condition: The Cooperative is performing journal entries for simple transactions that should be operated through different modules of the bookkeeping software. The journal

entries that are entered into the bookkeeping system are also not being reviewed or approved for its legitimacy and accuracy.

Status: Corrective Action Taken

FEDERAL AWARD FINDINGS

2017-005 Internal Controls

Condition: Each transaction class of the Cooperative (payroll, expenditure, revenue and cash) are missing key segments that a mindful entity would require, such as segregation of duties and compensating controls.

Status: Partially Corrected -- See "Corrective Action Plan"

2017-006 Activities Allowed or Unallowed

Condition: The Cooperative has a service agreement with a non-profit entity, Arrowhead West, Inc., in which the other entity provides services to infant to three-year-old children and the Cooperative requests, and receives federal monies for the services provided to the children. The money being received for these children is not in the proper Catalog of Federal Domestic Assistance (CFDA) number. The Cooperative received CFDA 84.173 Special Education- Preschool Grants which is specifically only for three to five-year-old children. The Cooperative does not receive CFDA 84.181 Special Education-Grants for Infants.

Status: Finding no Longer Valid

2017-007 Report Submission

Condition: The Cooperative, per the records of the Federal Audit Clearinghouse (FAC), has no submitted records for the FAC's current periods of retention.

Status: Partially Corrected -- See "Corrective Action Plan"

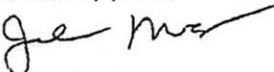
2017-008 Targeted Improvement Financial Reporting

Condition: The Cooperative must submit a budget for the Targeted Improvement Money approved by the State of Kansas before it is received. At the end of the year, the Cooperative must then submit an annual financial report detailing how the money was actually spent. The financial report submitted by the Director on September 14, 2016 does not match the its related Schedule 2-2 in the regulatory required supplemental information of the financial statement.

Status: Not Corrected -- See "Corrective Action Plan"

If the Kansas State Department of Education and/or Kansas State Department of Administration has questions regarding this plan, please call John Maples at 620-865-2054.

Sincerely yours,



John Maples
Director