North Central Kansas Special Education Cooperative
Interlocal No. 636

Phillipsburg, Kansas

Financial Statements with Independent Auditors' Report

For the year Ended June 30, 2009

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Financial Statements with Independent Auditors' Report
For the Year Ended June 30, 2009

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ADAMS
BROWN
BERAN
& BALL

Phone (785)628-3046 ■ Fax (785)628-3089 ■ www.abbb.com
Commerce Bank Building ■ 718 Main ■ Suite 224
P.O. Box 1186 ■ Hays, Kansas 67601

Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
North Central Kansas Special Education Cooperative
Interlocal No. 636
Phillipsburg, Kansas 67639

We have audited the accompanying financial statements of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the **North Central Kansas Special Education Cooperative Interlocal No. 636 Phillipsburg, Kansas'** management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described more fully in Note 1, **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, as of June 30, 2009, or changes in its financial position for the year then ended. Further, the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas** has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, as of June 30, 2009, and their respective cash receipts and disbursements and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 19, 2009, on our consideration of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** 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 opinions on the financial statements that collectively comprise the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** statutory basis financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the 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 basic financial statements of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

Adams, Brown, Beran & Ball

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

October 19, 2009

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended June 30, 2009

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	**Ending Unencumbered Cash Balance**	Add Outstanding Encumbrances and Accounts Payable	**Ending Cash Balance**
Governmental Fund Categories:							
Special Revenue Funds -							
Coop Special Education Fund	$ 2,181,754	-	7,100,843	7,098,487	**2,184,110**	451,510	**2,635,620**
Parents As Teachers Fund	-	-	70,737	70,737	**-**	8,049	**8,049**
Gifts and Grants Fund	-	-	4,800	4,800	**-**	-	**-**
Professional Development Fund	-	-	36,900	35,322	**1,578**	-	**1,578**
Total Reporting Entity (Excluding Agency Funds)	$ 2,181,754	-	7,213,280	7,209,346	**2,185,688**	459,559	**2,645,247**

Composition of Cash:

Checking Accounts	$ **1,122,352**
Certificates of Deposit	**1,521,395**
Cash on Hand	**1,500**
Total Reporting Entity (Excluding Agency Funds)	$ **2,645,247**

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Summary of Expenditures - Actual and Budget
For the Year Ended June 30, 2009

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	**Expenditures Chargeable to Current Year Budget**	Variance Favorable (Unfavorable)
Governmental Fund Categories					
Special Revenue Funds -					
Coop Special Education Fund	$ 8,008,131	-	8,008,131	**7,098,487**	909,644
Parents As Teachers Fund	70,737	-	70,737	**70,737**	-
Gifts and Grants Fund	4,800	-	4,800	**4,800**	-
Professional Development Fund	36,900	-	36,900	**35,322**	1,578

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Coop Special Education Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended June 30, 2009
(With Comparative Actual Totals for the Prior Year Ended June 30,2008)

	Prior Year Actual	Current Year Actual	Current Year Budget	Variance Favorable (Unfavorable)
Cash Receipts				
Local Sources				
Payments from Districts	$ 5,555,544	**5,815,854**	5,938,892	(123,038)
Interest on Idle Funds	106,095	**67,142**	100,000	(32,858)
Other Revenue from Local Sources	19,964	**90,695**	136,000	(45,305)
State Aid				
Special Education Aid	38,417	**45,102**	60,000	(14,898)
Medicaid	136,374	**167,130**	120,000	47,130
Federal Aid	927,538	**914,920**	914,920	-
Total Cash Receipts	6,783,932	**7,100,843**	7,269,812	(168,969)
Expenditures				
Instruction	4,390,472	**5,290,602**	5,272,155	(18,447)
Student Support Services	1,802,220	**1,091,515**	1,836,525	745,010
Instructional Support Staff	-	**51,064**	55,188	4,124
Administration	354,697	**323,738**	489,212	165,474
Operations and Maintenance	24,936	**41,390**	89,600	48,210
Vehicle Operation Services	8,289	**168,434**	14,000	(154,434)
Other Supplemental Services	52,937	**131,744**	251,451	119,707
Transfers Out	13,975	**-**	-	-
Total Expenditures	6,647,526	**7,098,487**	8,008,131	909,644
Receipts Over (Under) Expenditures	136,406	**2,356**		
Unencumbered Cash, July 1	2,045,348	**2,181,754**		
Unencumbered Cash, June 30	$ 2,181,754	**2,184,110**		

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

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Parents As Teachers Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended June 30, 2009
(With Comparative Actual Totals for the Prior Year Ended June 30, 2008)

		Current Year		
	Prior Year Actual	**Actual**	Budget	Variance Favorable (Unfavorable)
Cash Receipts				
Local Sources				
Payments from Districts	$ 28,507	**27,866**	27,866	-
State Aid				
Parent Education Program	42,740	**42,871**	42,871	-
Total Cash Receipts	71,247	**70,737**	70,737	-
Expenditures				
Student Support Services	55,535	**53,135**	69,470	16,335
Instructional Support Staff	14,866	**16,524**	150	(16,374)
Other Supplemental Services	846	**1,078**	1,117	39
Total Expenditures	71,247	**70,737**	70,737	-
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, July 1	-	-		
Unencumbered Cash, June 30	$ -	-		

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

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Gifts and Grants Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended June 30, 2009
(With Comparative Actual Totals for the Prior Year Ended June 30, 2008)

		Current Year		
	Prior Year Actual	**Actual**	Budget	Variance Favorable (Unfavorable)
Cash Receipts				
Dane G Hansen Foundation	$ 3,800	**4,800**	4,800	-
Expenditures				
Instruction	3,800	**4,800**	4,800	-
Receipts Over (Under) Expenditures	-	**-**		
Unencumbered Cash, July 1	-	**-**		
Unencumbered Cash, June 30	$ -	**-**		

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

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Professional Development Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended June 30, 2009
(With Comparative Actual Totals for the Prior Year Ended June 30, 2008)

	Prior Year Actual	Current Year Actual	Current Year Budget	Variance Favorable (Unfavorable)
Cash Receipts				
Local Sources				
Other Revenue from Local Sources	$ -	**32,013**	33,210	(1,197)
State Aid				
Professional Development Aid	2,025	**4,887**	3,690	1,197
Transfers In	13,975	**-**	-	-
Total Cash Receipts	16,000	**36,900**	36,900	-
Expenditures				
Instructional Support Staff	16,000	**35,322**	36,900	1,578
Receipts Over (Under) Expenditures	-	**1,578**		
Unencumbered Cash, July 1	-	**-**		
Unencumbered Cash, June 30	$ -	**1,578**		

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

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Agency Funds
Summary of Cash Receipts and Cash Disbursements
For the Year Ended June 30, 2009

Fund	Beginning Cash Balance	Cash Receipts	Cash Disbursements	**Ending Cash Balance**
Insurance Escrow Fund	$ 1,000	113,165	114,165	-

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

1. Summary of Significant Accounting Policies

North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas (the Cooperative), has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the statutory basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

A. Financial Reporting Entity

North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas, is a municipal corporation governed by an elected board. The Board is composed of one member from the Board of Education of each school district that is a member of the Cooperative. The Cooperative receives funding from local, state and federal government sources and must comply with the requirements of these funding sources.

The financial statements of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, consist of all the funds of the Cooperative and governmental entities that are considered to be controlled or dependent upon the Cooperative. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The Cooperative has no such entities under its control.

B. Basis of Presentation – Fund Accounting

The accounts of the Cooperative are organized and operated on the basis of funds. In governmental accounting, a fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the Cooperative for the year ended June 30, 2009:

Governmental Fund Categories

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

Fiduciary Fund Category

Agency Funds - to account for the fiduciary assets held by the Interlocal in a custodial capacity as an agent on behalf of others.

C. 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 statutory 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

C. **Statutory Basis of Accounting (cont.)**

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

The Cooperative has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the Cooperative to use the statutory basis of accounting.

D. **Departure from Accounting Principles Generally Accepted in the United States of America**

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid 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 Cooperative are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

E. **Accounting for Capital Assets and Depreciation**

The Cooperative does not maintain a record of capital assets used in performance of general government operations as required by generally accepted accounting principles.

F. **Budgetary Information**

Kansas statutes require that an annual operating budget be legally adopted for Special Revenue Funds (unless specifically exempted by statute). The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding fiscal year on or before August 1st.

2. Publication in local newspaper on or before August 5th, of the proposed budget and notice of public hearing on the budget.

3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.

4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such amendments this year.

F. Budgetary Information (cont.)

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the Cooperative for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unused budget expenditure authority lapses at year-end.

A legal operating budget is not required for fiduciary funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

G. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds.

H. Deposits and Investments

The Cooperative follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the Summary of Cash Receipts, Expenditures, and Unencumbered Cash.

At June 30, 2009, the Cooperative had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the Cooperative. The statute requires banks eligible to hold the Cooperative's funds have a main or branch bank in the county in which the Cooperative is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the 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.

H. Deposits and Investments (cont.)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. State statutes require the Cooperative's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Cooperative did not use peak depository coverage. All deposits were legally secured at June 30, 2009.

At June 30, 2009, the Cooperative's carrying amount of deposits was $2,646,247 and the bank balance was $1,874,721. The bank balance was held by four banks resulting in a concentration of credit risk. Of the bank balance, $1,001,500 was covered by federal depository insurance and $873,221 was collateralized with securities held by the pledging financial institutions' agents in the Cooperative's name.

I. Inventories and Prepaid Expenses

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

J. Compensated Absences

The Cooperative has formal sick leave and annual leave policies for employees, which vary based on the employee's position.

The director and assistant director each receive 70 days for non-cumulative sick leave each year and 20 days for annual leave. The clerk and treasurer receive 10 sick days that may accumulate to 60 days. They also receive 15 days of annual leave.

Certified and licensed employees, other than the director and assistant director, receive 10 days of sick leave per year that may accumulate to 75 days. At the completion of each school year, each employee will be paid $30 per day for each day in excess of 75. Certified and licensed employees will also receive three non-cumulative personal days.

Paraeducators and other non-certified staff, who work a minimum of 30 hours a week during the school year, will receive eight days of sick leave per year that may accumulate to 300 hours. These employees will also be granted one personal day a year. If employed full time and has more than 10 years consecutive experience, the employee will receive one additional day of personal leave.

All employees of the Cooperative shall be granted four days of non-cumulative bereavement leave each year. Upon termination of employment, employees are not paid for accumulated sick leave of less than 75 days. All sick leave days above 75 are paid out at the end of each year at a rate of $30 per day. The annual leave and personal leave for all employees are non-cumulative, therefore, the cost of accumulated leave payable at June 30, 2009 was $0.

K. Defined Benefit Pension Plan

Plan Description. – North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas, contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

K. **Defined Benefit Pension Plan (cont.)**

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 the provisions of section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas contributed 7.97% of covered payroll for the fiscal year ended June 30, 2009. These contributions requirements are established by KPERS and are periodically revised. Kansas' contributions to KPERS for all public school employees for the years ending June 30, 2009, 2008, and 2007, were $242,277,363, $220,815,154, and $192,425,626, respectively, equal to the required contributions for each year.

L. **Deferred Compensation Plan – Retirement Benefit**

For a two year window that ended June 30, 2006, the Cooperative offered an early retirement package to certified staff members with at least ten consecutive years of service with the Cooperative and who have met the KPERS retirement criteria. The early retirees are eligible to receive a percentage of their ending salary for five years. A deferred compensation plan under Internal Revenue Code 403(b) is available for these employees. The amount of the benefit deferred to American Fidelity for the year ended June 30, 2009 was $8,164.

M. **Other Post Employment Benefits**

As provided by K.S.A. 12-5040, the Cooperative allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the Cooperative is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been qualified in these statements.

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

2. **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the statutory basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. **Risk Management Claims and Judgments**

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 students; and natural disasters. The Cooperative has been unable to obtain workers' compensation insurance at a cost it considered to be economically justifiable. For this reason, the Cooperative joined together with other Districts and Cooperatives in the State to participate in the Kansas Association of School Boards Risk Management Services, a public entity risk pool currently operating as a common risk management and insurance program.

3. Risk Management Claims and Judgments (cont.)

The Cooperative pays an annual premium to the Kansas Association of School Boards Risk Management Services for its workers compensation insurance coverage. The agreement to participate provides that the Kansas Association of School Boards Risk Management Services will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $1,000,000 for each insured event. Additional premiums may be due if total claims for the pool are different than what has been anticipated by the Kansas Association of School Boards Risk Management Services' Management.

The Cooperative continues to carry commercial insurance for all other risks of loss, including property, general liability, inland marine, auto, linebacker, fidelity bond, and comprehensive collision insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past two calendar years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At June 30, 2009, the financial statements do not include liabilities for anticipated costs.

4. Litigation

The Cooperative is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the funds of the Cooperative.

5. Grants and Shared Revenues

The Cooperative participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Cooperative has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the Cooperative, any liability for reimbursement, which may arise as the result of the audits, is not believed to be material.

6. Comparative Data

Comparative data for the prior year has been presented in Statement 3 in the accompanying financial statements in order to provide an understanding of changes in the Cooperative's cash and unencumbered cash balances. However, complete comparative data (i.e., presentation of prior year totals in Statement 1) has not been presented since their inclusion would make certain statements unduly complex and difficult to read.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
North Central Kansas Special Education Cooperative
Interlocal No. 636
Phillipsburg, Kansas 67661-0369

We have audited the financial statements of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas** as of and for the year ended June 30, 2009 and have issued our report thereon dated October 19, 2009. The report on the audited financial statements was adverse because it was not presented in conformity with accounting principles generally accepted in the United States of America; however, it was unqualified as presented on a prescribed basis of accounting that demonstrates compliance with the statutory basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Except as discussed in the preceding sentence, we conducted our audit in accordance with the Kansas Municipal Audit Guide, auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** financial statements that is more than inconsequential will not be prevented or detected by the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** internal control.

Internal Control Over Financial Reporting (cont.)

We consider the deficiency described in the accompanying schedule of findings and questioned costs as B-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency noted as item B-1 to also be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain immaterial instances of noncompliance that we have reported to management **of North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, in a separate letter dated October 19, 2009.

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

This report is intended solely for the information and use of the board of directors, management, others within the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Adams, Brown, Beran & Ball

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

October 19, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
North Central Kansas Special Education Cooperative
Interlocal No. 636
Phillipsburg, Kansas 67661-0369

Compliance

We have audited the compliance of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** management. Our responsibility is to express an opinion on the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the Kansas Municipal Audit Guide; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards, the audit guide and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** compliance with those requirements.

In our opinion, **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, 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 **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas'** internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the board of directors, management, others within the **North Central Kansas Special Education Cooperative, Interlocal No. 636**, **Phillipsburg, Kansas**, federal awarding agencies and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and is not intended to be and should not be used by anyone other than these specified parties.

Adams, Brown, Beran & Ball

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

October 19, 2009

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636

Phillipsburg, Kansas

Supplementary Information

For the Year Ended June 30, 2009

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Schedule of Findings and Questioned Costs
June 30, 2009

A. Summary of Auditors' Results -

1. The auditors' report expresses an unqualified opinion on the financial statements of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**.

2. One significant deficiency was disclosed during the audit of the financial statements is reported in the Report on Internal Control Over Financial Reporting and on Compliance with Other Matters Based on an Audit of Financial Statements performed in accordance with *Government Auditing Standards*. This is also reported as a material weakness. (See Item B-1 below).

3. No instances of noncompliance material to the financial statements of **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The auditors' report on compliance for the major federal award programs for **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, expresses an unqualified opinion on all major federal programs.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.

7. The programs tested as major programs were:

   84.027 US Department of Education – EHC Flo-Thru
   84.173 US Department of Education – Early Childhood Aid

8. The threshold for distinguishing Types A and B programs was $300,000.

9. **North Central Kansas Special Education Cooperative, Interlocal No. 636, Phillipsburg, Kansas**, does not qualify as a low risk auditee.

B. Findings - Financial Statement Audit -

Item B-1:

Condition:
Proper segregation of duties does not exist in the accounting system.

Criteria:
Internal controls should be in place to insure that employees do not have incompatible duties.

Effect:
Management may not become aware of problems or irregularities within a timely manner.

Recommendation:
None – The size of the Cooperative precludes management from hiring additional personnel. The Cooperative has controls in place to mitigate the effects.

Response:
The Cooperative is aware that employees have incompatible duties, however, due to our size, it would not be feasible to hire additional personnel.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Summary Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

C. Findings and Questioned Costs - Major Federal Award Programs Audit -

No material findings and questioned costs are required to be disclosed under OMB Circular A-133.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2009

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1. **Prior Year Audit Findings** -

Condition:
Proper segregation of duties does not exist in the accounting system.

Criteria:
Internal controls should be in place to insure that employees do not have incompatible duties.

Effect:
Management may not become aware of problems or irregularities within a timely manner.

Recommendation:
None – The size of the Cooperative precludes management from hiring additional personnel. The Cooperative has controls in place to mitigate the effects.

Response:
The Cooperative is aware that employees have incompatible duties, however, due to our size, it would not be feasible to hire additional personnel.

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Schedule of Expenditures of Federal Awards - Statutory Basis
For the Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Disbursements/ Expenditures
U.S. Department of Education			
Passed Through Kansas State Board of Education:			
EHC Flo-Thru	84.027	703-5010	$ 866,625
Early Childhood Aid	84.173	703-5010	48,295
Total Expenditures of Federal Awards			$ **914,920**

See Accountants' Report

NORTH CENTRAL KANSAS SPECIAL EDUCATION COOPERATIVE
INTERLOCAL NO. 636
Phillipsburg, Kansas
Notes to Schedule of Expenditures of Federal Awards – Statutory Basis
For the Year Ended June 30, 2009

Note 1 - Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of **North Central Kansas Special Education Cooperative, Interlocal No. 636**, **Phillipsburg, Kansas**, and is presented on the basis of accounting that demonstrates compliance with the statutory basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*