

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

Regulatory Basis Financial Statement and
Independent Auditors' Report with
Regulatory Required Supplemental Information

For the Fiscal Year Ended June 30, 2019

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

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Diehl Banwart Bolton

Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying fund summary statement of receipts, expenditures, and unencumbered cash - regulatory basis, of the Southeast Kansas Special Education Interlocal #637 (Interlocal), Pittsburg, Kansas, a Municipal Financial Reporting Entity as of and for the fiscal year ended June 30, 2019 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

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 statements. 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 an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the applicable audit requirements of the *Kansas Municipal Audit and Accounting Guide*. Those standards and the *Kansas Municipal Audit and Accounting Guide* require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of 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 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.

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

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

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 the Interlocal 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 the Interlocal as of June 30, 2019 or changes in financial position and cash flows thereof for the fiscal 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 the Interlocal as of June 30, 2019, and the aggregate receipts and expenditures for the fiscal year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the June 30, 2019 summary statement of receipts, expenditures, and unencumbered cash – regulatory basis (financial statement) as a whole. The summary of expenditures – actual and budget – regulatory basis, individual fund schedules of receipts and expenditures – actual and budget – regulatory basis, (Schedules 1 and 2 as listed in the table of contents), are presented for purposes of additional analysis and are not a required part of the June 30, 2019 financial statement, however they are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statement. 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 June 30, 2019 financial statement. The June 30, 2019 information has been subjected to the auditing procedures applied in the audit of the June 30, 2019 financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the June 30, 2019 financial statement or to the June 30, 2019 financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the June 30, 2019 supplementary information is fairly stated in all material respects in relation to the June 30, 2019 financial statement as a whole, on the basis of accounting described in Note 1.

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

The prior year actual column presented in the individual fund schedules of receipts and expenditures – actual and budget – regulatory basis (Schedule 2 as listed in the table of contents), are also presented for comparative analysis and are not a required part of the prior year financial statement upon which we rendered an unqualified opinion dated February 1, 2019. The June 30, 2018 financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration, Office of Management Analysis and Standards at the following link <http://da.ks.gov/ar/muniserv/>. Such prior year comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2018 financial statement. The prior year comparative information was subjected to the auditing procedures applied in the audit of the June 30, 2018 financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the June 30, 2018 financial statement or to the June 30, 2018 financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the prior year comparative information is fairly stated in all material respects in relation to the June 30, 2018 financial statement as a whole, on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2020 on our consideration of the Interlocal’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Interlocal’s internal control over financial reporting and compliance.

Diehl, Banwart, Bolton CPAs PA

DIEHL, BANWART, BOLTON, CPAs PA

February 10, 2020
Pittsburg, Kansas

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637**

Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Fiscal Year Ended June 30, 2019

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Special Purpose Funds:						
Special Education	\$ 1,106,723	\$ 21,825,335	\$ 21,182,119	\$ 1,749,938	\$ 52,839	\$ 1,802,777
Vocational Technical	-	20,557	20,557	-	7,365	7,365
Life Career Skills	3,289	6,941	5,713	4,517	-	4,517
Interlocal Revolving	-	-	-	-	-	-
Mini Grants	18,624	24,358	11,869	31,114	78	31,191
Pritchett Grant	4,274	7,840	6,735	5,378	-	5,378
Targeted Improvement	-	96,795	96,795	-	2,475	2,475
Columbus Facilities	-	225,000	158,112	66,888	-	66,888
Total Entity (Excluding Agency Funds)	<u>\$ 1,132,909</u>	<u>\$ 22,206,826</u>	<u>\$ 21,481,900</u>	<u>\$ 1,857,835</u>	<u>\$ 62,757</u>	<u>\$ 1,920,591</u>

Composition of Cash

General Checking Account.....	\$ 161,862
Payroll Liabilities.....	(1,261,472)
Petty Cash.....	1,000
Sweep Account.....	3,019,201
Total Cash	<u>\$ 1,920,591</u>

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

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

NOTES TO THE FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation - Fund Accounting

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

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

REGULATORY BASIS FUND TYPES

Special Purpose Funds – to account for the proceeds of specific tax levies and other specific revenue sources (other than capital projects and tax levies for long-term debt) that are intended for specified purposes.

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

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

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

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the special purpose funds (unless specifically exempted by statute). Although directory rather than mandatory, 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 1.
2. Publication in the local newspaper of the proposed budget and a notice of public hearing on the budget on or before August 5.
3. Public hearing on or before August 15, but at least ten days after the publication of a notice of hearing.
4. Adoption of the final budget on or before August 25.

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.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A legal operating budget is not required for the following special purpose funds (Life Career Skills, Interlocal Revolving, Mini Grants, Pritchett Grant, Targeted Improvement, and Columbus Facilities). Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes or by the use of internal spending limits established by the governing body.

Compensated Absences

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

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

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

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

The financial statement and the regulatory required supplemental schedules have been prepared in order to show compliance with the cash basis and budget laws of Kansas. As shown in the required supplemental information, the Vocational Technical Fund expenditures exceeded its budget authority in violation of K.S.A. 79-2935. There were no other apparent violations with the cash basis and budget laws of Kansas.

3. CASH IN BANK AND DEPOSITORY SECURITY

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

K.S.A. 12-1675 limits the Interlocal's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Interlocal has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Interlocal may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. All of the Interlocal's bank accounts were held by one bank resulting in a concentration of credit risk.

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

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Interlocal’s deposits may not be returned to it. State statutes require the Interlocal’s deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated “peak periods” when required coverage is 50%. All deposits were legally secured at June 30, 2019.

At June 30, 2019 the Interlocal’s carrying amount of deposits was \$1,920,591 and the bank balance was \$5,026,185. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$251,000 was covered by federal depository insurance, \$4,775,185 was collateralized with securities held by the pledging financial institutions’ agents in the Interlocal’s name with a market value of \$6,240,318.

4. **PENSION PLAN**

General Information about the Pension Plan

Plan description. The Interlocal participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publically 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 after 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 contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

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 and the statutory contribution rate (not including the 1% contribution rate for the Death and Disability Program) was 16.38 % and 12.01% respectively, for the fiscal year ended June 30, 2018. The actuarially determined employer contribution rate and the statutory contribution rate was 14.59% and 13.21% for the fiscal year ended June 30, 2019.

Per 2017 Senate Substitute for House Bill 2052, Section 37(a), state general fund employer contributions to KPERS were decreased by \$64,130,234 for the fiscal year ended June 30, 2017. Section 43(17) of the bill also stipulated that repayments of the reduced contributions are to be amortized over twenty years at a level dollar amount commencing in fiscal year 2018. The level dollar amount was computed to be \$6.4 million dollars per year. The first payment of \$6.4 million was received in July 2017.

4. **PENSION PLAN** (Continued)

Per 2017 Senate Substitute for House Bill 2002, Section 51(a), state general fund employer contributions to KPERS were decreased by \$194,022,683 for the fiscal year ended June 30, 2019. Section 56(19) 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 fiscal year 2020. The level dollar amount was computed to be \$19.4 million per year.

The State of Kansas is required to contribute the statutory required employer's share except for retired Interlocal employees. The Interlocal is responsible for the employer's portion of the cost for retired Interlocal employees. For the year ended June 30, 2019, the Interlocal remitted \$130,012 for retired employees.

Net Pension Liability

At June 30, 2019, the Interlocal's proportionate share of the collective net pension liability reported by KPERS was \$447,185. The net pension liability was measured as of June 30, 2019 and the total net pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018. The Interlocal's proportion of the net pension liability was based on the ratio of the Interlocal's contributions 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, 2018. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in these financial statements.

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.

5. **POST EMPLOYMENT BENEFITS**

Retirement

A professional certified employee is eligible for early retirement if such person: (a) is currently a professional certified employee of the Interlocal; (b) will be at least 55 years of age on or before June 30 of the retiring year; (c) has 10 years or more of service with the Interlocal. Retirement is entirely voluntary and at the discretion of an eligible employee. Retirement benefits are 15% of the annual salary in the primary teaching contract for the final year of service for 5 years plus \$45 per day of accumulated unused sick leave. The Interlocal funds these benefits on a pay as you go basis. The early retirement benefits are paid by making contributions to a section 403(b) Plan. For the year ended June 30, 2019, the Interlocal contributed \$255,182 to the plan. In addition, as detailed in Note 9, the Interlocal owes an additional \$589,728 to former employees that have already retired. The Interlocal estimates approximately \$1,709,821 in benefits under this plan have been earned by employees that are eligible for retirement but continue to work.

Participation in Group Health Insurance Plan

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

5. POST EMPLOYMENT BENEFITS (Continued)

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

6. RISK MANAGEMENT

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

7. REIMBURSED EXPENSES

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

8. CONTINGENCIES

The Interlocal receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass through aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the Special Education Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the Interlocal at June 30, 2019.

9. LONG-TERM OBLIGATIONS

At June 30, 2019, the Interlocal was committed to making the following payments to retired employees:

Year Ended <u>June 30</u>	<u>Required Payments</u>
202	\$ 229,850
2021	167,211
2022	109,719
2023	62,203
2024	<u>20,745</u>
	<u>\$ 589,728</u>

10. SUBSEQUENT EVENTS

Events subsequent to June 30, 2019 have been evaluated through February 10, 2020, the report release date of the financial statements. There are no subsequent events recognized in these financial statements or no other subsequent events disclosed in the notes to the financial statements.

**REGULATORY REQUIRED
SUPPLEMENTAL INFORMATION**

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637**

Summary of Expenditures - Actual and Budget
Regulatory Basis
For the Fiscal Year Ended June 30, 2019

Funds	Certified Budget	Adjustment to Comply with Legal Maximum	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Charged to Current Year Budget	Variance - Over (Under)
Special Purpose Funds:						
Special Education	\$ 21,676,464	\$ -	\$ -	\$ 21,676,464	\$ 21,182,119	\$ (494,345)
Vocational Technical Cooperative	<u>19,700</u>	-	-	19,700	20,557	857
	<u>\$ 21,696,164</u>					

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

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Fiscal Year Ended June 30, 2019

(With Comparative Actual Totals for the Prior Year Ended June 30, 2018)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Local Sources				
Charges for services	\$ 5,589,942	\$ 5,813,543	\$ 5,589,946	\$ 223,597
Interest on idle funds	11,526	24,788	12,000	12,788
Medicaid revenue	533,795	1,459,770	1,305,764	154,006
Other	16,122	14,945	8,000	6,945
State Sources				
State aid	10,840,323	11,931,958	12,617,066	(685,108)
Federal Sources				
Earlychildhood	85,911	85,848	85,848	-
Title VI B	2,476,653	2,494,482	2,494,482	-
Total Cash Receipts	19,554,272	21,825,335	\$ 22,113,106	\$ (287,771)
Expenditures				
Instruction	18,817,988	19,269,323	\$ 19,146,305	\$ 123,018
Support Services				
Student Support	603,561	677,349	681,712	(4,363)
Special Area Admin. Services	690,988	854,537	832,563	21,974
Central Services	75,228	77,614	731,269	(653,655)
Operations and Maintenance	287,648	289,742	270,615	19,127
Transportation	13,644	13,555	14,000	(445)
Total Expenditures Subject to Budget	20,489,057	21,182,119	\$ 21,676,464	\$ (494,345)
Receipts Over (Under) Expenditures	(934,785)	643,215		
Unencumbered Cash, Beginning	2,041,508	1,106,723		
Unencumbered Cash, Ending	\$ 1,106,723	\$ 1,749,938		

SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
VOCATIONAL TECHNICAL COOPERATIVE FUND
Schedule of Receipts and Expenditures - Actual and Budget

Regulatory Basis

For the Fiscal Year Ended June 30, 2019

(With Comparative Actual Totals for the Prior Year Ended June 30, 2018)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Local Sources				
District Contributions	\$ 19,652	\$ 20,557	\$ 19,700	\$ 857
Total Cash Receipts	19,652	20,557	\$ 19,700	\$ 857
Expenditures				
Instruction	19,652	20,557	\$ 19,700	\$ 857
Total Expenditures Subject to Budget	19,652	20,557	\$ 19,700	\$ 857
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	\$ -	\$ -		

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
LIFE CAREER SKILLS REVOLVING FUND**

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Fiscal Year Ended June 30, 2019

(With Comparative Actual Totals for the Prior Year Ended June 30, 2018)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Program receipts	\$ 5,136	\$ 6,941
Total Cash Receipts	5,136	6,941
Expenditures		
Support Services		
Operations and Maintenance	4,680	5,713
Total Expenditures	4,680	5,713
Receipts Over (Under) Expenditures	456	1,228
Unencumbered Cash, Beginning	2,833	3,289
Unencumbered Cash, Ending	\$ 3,289	\$ 4,517

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

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Fiscal Year Ended June 30, 2019

(With Comparative Actual Totals for the Prior Year Ended June 30, 2018)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Background check reimbursements	\$ 700	\$ -
Miscellaneous	-	-
	<u>700</u>	<u>-</u>
Total Cash Receipts		
Expenditures		
Program Expenditures	<u>700</u>	<u>-</u>
Total Expenditures	<u>700</u>	<u>-</u>
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	<u>-</u>	<u>-</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
MINI GRANTS FUND**

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Fiscal Year Ended June 30, 2019

(With Comparative Actual Totals for the Prior Year Ended June 30, 2018)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Miscellaneous	\$ 23,063	\$ 24,358
 Total Cash Receipts	23,063	24,358
 Expenditures		
Smart start expenditures	-	-
Other expenditures	11,131	11,869
 Total Expenditures	11,131	11,869
 Receipts Over (Under) Expenditures	11,932	12,490
 Unencumbered Cash, Beginning	6,692	18,624
 Unencumbered Cash, Ending	\$ 18,624	\$ 31,114

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

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Fiscal Year Ended June 30, 2019

(With Comparative Actual Totals for the Prior Year Ended June 30, 2018)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Program receipts	\$ 6,840	\$ 7,840
Total Cash Receipts	6,840	7,840
Expenditures		
Program expenditures	2,927	6,735
Total Expenditures	2,927	6,735
Receipts Over (Under) Expenditures	3,913	1,105
Unencumbered Cash, Beginning	361	4,274
Unencumbered Cash, Ending	\$ 4,274	\$ 5,378

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637
TARGETED IMPROVEMENT FUND**

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Fiscal Year Ended June 30, 2019

(With Comparative Actual Totals for the Prior Year Ended June 30, 2018)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$ 95,872	\$ 96,795
 Total Cash Receipts	95,872	96,795
 Expenditures		
Instruction	74,637	70,065
Support Services		
Student Support	-	1,332
Instructional Support	21,235	22,398
General Administration	-	3,000
 Total Expenditures	95,872	96,795
 Receipts Over (Under) Expenditures	-	-
 Unencumbered Cash, Beginning	-	-
 Unencumbered Cash, Ending	\$ -	\$ -

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

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Fiscal Year Ended June 30, 2019

(With Comparative Actual Totals for the Prior Year Ended June 30, 2018)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
District Contributions	\$ -	\$ 225,000
Total Cash Receipts	-	225,000
Expenditures		
Capital Improvements	-	158,112
Total Expenditures	-	158,112
Receipts Over (Under) Expenditures	-	66,888
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	\$ -	\$ 66,888

**SOUTHEAST KANSAS
SPECIAL EDUCATION INTERLOCAL #637**

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

FEDERAL GRANTOR / THROUGH GRANTOR / TITLE	PASS PROGRAM	FEDERAL CFDA NUMBER	AMOUNT RECEIVED	AMOUNT EXPENDED
<u>U.S. Department of Education</u>				
Passed Through the State of Kansas				
Department of Education:				
Special Education Grants to States		84.027	\$ 2,591,277	\$2,591,277
Special Education Preschool Grants		84.173	<u>85,848</u>	<u>85,848</u>
TOTALS			<u>\$ 2,677,125</u>	<u>\$2,677,125</u>

Note: The Schedule of Expenditures of Federal Awards has been prepared under the regulatory basis of accounting as established in the Kansas Municipal Audit and Accounting Guide. Under the regulatory basis of accounting, revenues are recognized when cash is received. Expenditures include cash disbursements, accounts payable and encumbrances. Encumbrances are commitments of the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract.

The Interlocal did not elect to use the 10% de minimis indirect cost rate.

Total expenditures under the special education cluster are \$2,677,125.

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

Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2019

Finding 2017-001 and 2018-001 Drafting Financial Statements

Condition: The Interlocal's auditors, provide significant assistance with preparing their financial statement in the regulatory basis format as well as determining which disclosures are required.

Recommendation: None

Current Status: The Interlocal continues to rely on their auditors to assist in preparing the financial statement and disclosures. The Interlocal periodically reviews the situation. The Interlocal continues to believe this is the most cost-effective way to produce their financial statement. This remains a current year audit finding.

*Diehl
Banwart
Bolton*

Certified Public Accountants PA

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of Southeast Kansas Special Education Interlocal #637 (Interlocal) as of the year ended June 30, 2019, and have issued our report thereon dated February 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Interlocal's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Interlocal's internal control. Accordingly, we do not express an opinion on the effectiveness of the Interlocal's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be significant deficiencies.

Compliance and Other Matters

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

We noted certain other matters that we reported to Management of the Interlocal in a separate letter dated February 10, 2020.

Interlocal's Response to Findings

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

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 organization'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 organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Diehl, Banwart, Bolton CPAs PA

DIEHL, BANWART, BOLTON, CPAs PA

February 10, 2020

Pittsburg, Kansas

Diehl Banwart Bolton

Certified Public Accountants PA

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

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

Report on Compliance for Each Major Federal Program

We have audited the Southeast Kansas Special Education Interlocal #637's (Interlocal) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Interlocal's major federal programs for the year ended June 30, 2019. The Interlocal's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibilities

Our responsibility is to express an opinion on compliance for each of the Interlocal'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 Title 2 U.S. Code of Federal Regulations (CFR) 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 the Interlocal's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Interlocal's compliance.

Opinion on Each Major Federal Program

In our opinion, the Interlocal complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Interlocal 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 the Interlocal'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 the Interlocal's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Diehl, Banwart, Bolton CPAs PA

DIEHL, BANWART, BOLTON, CPAs PA

February 10, 2020
Pittsburg, Kansas

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

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? __ YES X NO

FEDERAL AWARDS:

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs: UNQUALIFIED

Any audit findings disclosed that are required to be reported in accordance with 2CFR Section 200, 516(a) of the Uniform Guidance? __ YES X NO

IDENTIFICATION OF MAJOR PROGRAMS:

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

Auditee qualified as low-risk auditee? __ YES X NO

The threshold used to distinguish between Type A and Type B programs was \$750,000.

SECTION II - FINANCIAL STATEMENT FINDINGS

Significant Deficiency 2019-001 Drafting Financial Statements

Condition: As auditors, we provide significant assistance with adjusting entries, as well as determining which disclosures are required under generally accepted accounting standards and the regulatory basis of accounting. This is a repeat finding from June 30, 2018, and was identified in that report as 2018-001.

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

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

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

Recommendation: None

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SEK Interlocal #637

SOUTHEAST KANSAS SPECIAL EDUCATION INTERLOCAL #637

June 30, 2019 Financial Statements

Corrective Action Plan

Audit Finding 2019-001

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