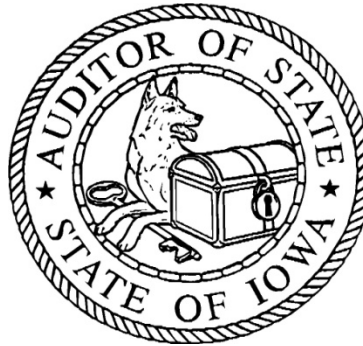


**SAMPLE AREA EDUCATION AGENCY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2011**

Office of  
**AUDITOR  
OF STATE**  
State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA**  
**Auditor of State**







# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of Area Education Agencies (AEA) should be performed in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format displays the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the basic financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the AEA feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

AEAs with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the Agency's cognizant or oversight agency, which is generally:

Office of Inspector General  
United States Department of Education  
8930 Ward Parkway, Suite 2401  
Kansas City, MO 64114-3302  
(816) 268-0500

Iowa Department of Education  
School Finance Team  
Grimes Building  
400 East 14th Street  
Des Moines, IA 50319-0146  
(515) 281-5295

In accordance with OMB Circular A-133, the reporting package and Data Collection Form shall be submitted to the central clearinghouse the earlier of 30 days after issuance of the audit report or 9 months after the reporting period. The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. The Data Collection Form and reporting package must be submitted using the Clearinghouse's Internet Data Entry System at <http://harvester.census.gov/sac>. The system requires the reporting package be uploaded in a single PDF file. Both the auditee and auditor contacts receive automated emails from the Federal Audit Clearinghouse as verification of the submission. In addition, reporting packages or notifications of audit should be submitted to grantor pass-through entities in accordance with the filing requirements of the Circular.

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In December 2008, the Securities and Exchange Commission adopted an amendment to its Rule 15c2-12 governing ongoing disclosure by municipalities to the bond markets. The amendment was effective July 1, 2009 and widened those issuers subject to the ongoing filing requirements and now virtually any municipality which issues more than one million dollars of securities per issue is subject to an ongoing filing responsibility. The amendment requires, in part, all continuing disclosure submissions must be provided to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system. In addition, submissions must be in an electronic format (PDF) and, effective January 1, 2010, such filings must be in a word-searchable PDF (not scanned) format.

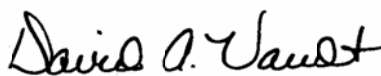
The findings on compliance, items IV-A-11 through IV-I-11, detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the AEA for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the AEA and a copy should be sent to this office with the two copies of the audit report sent by the CPA firm. Report filing requirements are detailed on the attached listing. We will make a copy of the audit report and news release available to the news media in our office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to Area Education Agencies. Together, we are able to provide a significant benefit to all taxpayers in the state.



DAVID A. VAUDT, CPA  
Auditor of State

**Office of Auditor of State**  
**Report Filing Requirements**

**Paper Copy Submission**

Two paper copies of the audit report, including the management letter(s) if issued separately, are required to be filed with this Office upon release to the Area Education Agency within nine months following the end of the fiscal year subject to audit. In addition to the copies of the audit report, a copy of the CPA firm's per diem audit billing, including total cost and hours, and a copy of the news release or media notification should be sent to:

Office of Auditor of State  
State Capitol Building  
Room 111  
1007 East Grand Avenue  
Des Moines, Iowa 50319-0001

**Electronic Submission**

The AEA or CPA firm must also email a PDF copy of the audit report to the Auditor of State's Office at:

[SubmitReports@auditor.state.ia.us](mailto:SubmitReports@auditor.state.ia.us)

If you are unable to e-mail the file, you may mail a CD containing the PDF file to this Office. You may direct any questions about submitting the electronic copy of the audit report to the above e-mail address.

[An electronic \(PDF format\) copy of the audit report, including the management letter\(s\) if issued separately, should also be filed with the Iowa Department of Education.](#)

**Filing Fee Submission**

The filing fee should be mailed separately to:

Office of Auditor of State  
PO Box 333  
Des Moines, Iowa 50302-0333

The designated budget strata and applicable filing fees are as follows:

| <u>Budgeted Expenditures in<br/>Millions of Dollars</u> | <u>Filing Fee<br/>Amount</u> |
|---|------------------------------|
| Under 1   | \$100.00                     |
| At least 1 but less than 3                              | \$175.00                     |
| At least 3 but less than 5                              | \$250.00                     |
| At least 5 but less than 10                             | \$425.00                     |
| At least 10 but less than 25                            | \$625.00                     |
| 25 and over   | \$850.00                     |

## **Sample Area Education Agency**

### **Outline of Major Changes**

- A. Revised the governmental fund financial statements and disclosures to implement GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.
  - B. Revised the Iowa Public Employees Retirement System (IPERS) note disclosure (Note 7) for changes in the contribution rates effective July 1, 2010.
  - C. Revised the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for implementation of SAS No. 117.
-

## Additional Notes

1. Attached are a sample Corrective Action Plan for Federal Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Federal Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
2. The attached sample Corrective Action Plan refers the user to the entity's response to the auditor's comment for the detailed corrective action planned. If the entity's response to the auditor's comment does not include the details of their planned corrective action, this information should be included in the Corrective Action Plan itself.
3. AEA's are to submit the Certified Annual Report (CAR) to the Iowa Department of Education (DE) through an upload to the DE website. In order to properly certify the CAR to the DE, the AEA's CAR must be free of errors as determined by DE's edit checks.

The DE does not accept amendments to the CAR. Material errors noted during the audit should be reviewed with the AEA and amended by the AEA through the "upward and downward auditor's adjustments" to the beginning balance on the subsequent period CAR.

AEA's must certify the fiscal year 2011 CAR to DE by September 15, 2011. If the AEA does not properly certify the CAR by the deadline, comment IV-H-11 in the Schedule of Findings and Questioned Costs should be modified as follows:

Certified Annual Report – The Certified Annual Report was not properly certified to the Iowa Department of Education by September 15, 2011.

Recommendation – In the future, the Agency should ensure the Certified Annual Report is certified timely to the Iowa Department of Education.

Response –

Conclusion –

4. The Iowa Department of Education is encouraging audit reports be filed electronically, with each report submitted on a separate CD or by email attachment to [ED.Audit@iowa.gov](mailto:ED.Audit@iowa.gov). For more information, call (515) 281-5295.
5. Confirmations from the Iowa Department of Education will be available electronically through the web. Also, all correspondence to auditors from the Iowa Department of Education will be done by e-mail. Please send e-mail addresses or updates to [Janice.Evans@iowa.gov](mailto:Janice.Evans@iowa.gov).
6. Following is an example footnote for an early retirement or other benefit plan or policy which meets the definition of a "termination benefit" as defined by GASB Statement No. 47.

### **Sample Note - Termination Benefits**

In September 2009, the Agency approved a voluntary early retirement plan for employees. Eligible employees must have completed at least fifteen years of full-time service to the Agency and must have reached the age of fifty-five on or before June 30, 2010. The application for early retirement is subject to approval by the Board of Directors.

Early retirement benefits are equal to 60% of the employee's regular contractual salary in effect during the employee's last year of employment, with a maximum retirement benefit of \$30,000.

Early retirement benefits will be paid in three equal installments beginning January 1, 2011. The second and third payments will be paid the following July 1, 2011 and July 1, 2012, respectively.

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At June 30, 2011, the Agency has obligations to eleven participants with a total liability of \$171,285. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$85,642.

7. Categorical funding legislation – As a result of legislation (HF 2679) by the 2008 Legislature, Iowa Code section 11.6 was amended to require categorical funding be covered during the annual audit. Specifically, the following requirement was added:

“The examination of school offices shall include at a minimum a determination that the laws of the state are being followed, that categorical funding is not used to supplant other funding except as otherwise provided, that supplementary weighting is pursuant to an eligible sharing condition, and that postsecondary courses provided in accordance with section 257.11 and chapter 261E supplement, rather than supplant, school district courses.”

As a result, procedures to test categorical funding are included in the AEA Audit Program Guide.

The auditor is required to include a statutory comment on categorical funding in the Schedule of Findings and Questioned Costs, regardless of whether there are any instances of non-compliance or not.

An example to report non-compliance is included in item 8 of the “Additional Notes” section and item IV-K-11 of the Schedule of Findings and Questioned Costs of the Sample Community School District sample report.

**Additional Notes (continued)****Sample A**

Sample Entity

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2011

| Comment Number | Comment Title                               | Corrective Action Plan   | Contact Person, Title, Phone Number                    | Anticipated Date of Completion  |
|----------------|---|--|--|---|
| III-A-11       | Unsupported Expenditures                    | The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.   | Tom Claim, Sample Entity Administrator, (515) YYY-XXXX | Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Department of Economic Development on October 1, 2011. |
| III-B-11       | Segregation of Duties over Federal Revenues | The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.   | Julie Ledger, Sample Entity Treasurer, (515) YYY-XXXX  | November 2, 2011  |
| III-C-11       | Financial Reporting                         | As noted in our response to the auditor's comment, we have implemented an independent review process which requires review by the Sample Entity Program Director, effective immediately. In addition, beginning with the December, 2011 quarterly report, we will submit federal financial reports within the required time frame. | Joe Smith, Program Director, (515) YYY-XXXX            | Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2011.  |

**Sample B****Additional Notes (continued)**

Sample Entity

## Summary Schedule of Prior Federal Audit Findings

Year ended June 30, 2011

| Comment Reference                | Comment Title   | Status  | If not corrected, provide planned corrective action or other explanation   |
|----------------------------------|---|---|--|
| III-C-08<br>III-B-09<br>III-B-10 | Minority Business Enterprise/<br>Women Business Enterprise<br>(MBE/WBE) | No longer valid;<br>does not warrant<br>further action. | Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding, nor has a management decision been issued on its part. |
| III-A-09<br>III-A-10             | Segregation of Duties over<br>Federal Revenues                          | Not corrected.  | Plan to segregate duties for custody, recordkeeping and reconciling among Sample Entity staff.   |
| III-C-09<br>III-C-10             | Capital Assets  | Corrective action<br>taken.                             |  |
| III-D-10                         | Financial Reporting   | Partially<br>corrected.                                 | Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2011.   |



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

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NEWS RELEASE

Contact:

FOR RELEASE \_\_\_\_\_

Auditor of State David A. Vaudt today released an audit report on Sample Area Education Agency in Anywhere, Iowa.

\_\_\_\_\_ reported the Agency had revenues of \$\_\_\_\_\_ for the year ended June 30, 2011, a(n) \_\_\_ % increase (decrease) from the prior year, and included \$\_\_\_\_\_ from local sources, \$\_\_\_\_\_ from state sources and \$\_\_\_\_\_ in federal sources.

Agency expenses totaled \$\_\_\_\_\_, a(n) \_\_\_ % increase (decrease) from the prior year, and these included \$\_\_\_\_\_ for instruction, \$\_\_\_\_\_ for student support services and \$\_\_\_\_\_ for instructional staff support services.

The significant increase (decrease) in revenues and expenses is due primarily to \_\_\_\_\_  
\_\_\_\_\_.

A copy of the audit report is available for review in the Agency's Business Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.

###



**SAMPLE AREA EDUCATION AGENCY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2011**

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**Sample Area Education Agency**

**Officials**

| <u>Name</u>               | <u>Title</u>   | <u>Term Expires</u> |
|---------------------------|----------------|---------------------|
| <b>Board of Directors</b> |                |                     |
| Lawrence Riley            | President      | 2012                |
| Rex Meyer                 | Vice-President | 2012                |
| Robert Burns              | Member         | 2011                |
| Gerald Morgan             | Member         | 2011                |
| Gordon Smith              | Member         | 2011                |
| Gladys Johnson            | Member         | 2011                |
| Shirley Jones             | Member         | 2012                |
| Oscar Newton              | Member         | 2012                |
| Leda Rouse                | Member         | 2012                |

**Agency**

|                  |                                |            |
|------------------|--------------------------------|------------|
| Richard L. Boss  | Administrator                  | 2011       |
| Sharon Shorthand | Board Secretary                | 2011       |
| Bob Balance      | Business Manager and Treasurer | Indefinite |

**Sample Area Education Agency**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Board of Directors of  
Sample Area Education Agency:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Area Education Agency as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Area Education Agency at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2011 on our consideration of Sample Area Education Agency's internal control over financial reporting and 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.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 12 and 38 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sample Area Education Agency's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our 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.

DAVID A. VAUDT, CPA  
Auditor of State

September 22, 2011

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Sample Area Education Agency provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$15,495,554 in fiscal year 2010 to \$16,265,957 in fiscal year 2011. The increase in General Fund revenues was attributable to an increase in local and federal grant revenue in fiscal year 2011.
- General Fund expenditures increased from \$17,302,985 in fiscal year 2010 to \$18,199,767 in fiscal year 2011. The increase in expenditures was due primarily to an increase in services provided to the local school districts.
- The Agency's General Fund balance decreased from \$4,962,836 at the end of fiscal year 2010 to \$2,885,747 at the end of fiscal year 2011, a 42% decrease. One reason the General Fund balance decreased is because the services provided to the school districts were greater than the Agency's increase in General Fund revenue for fiscal year 2011. As a result, the Agency funded a portion of the current year General Fund services from the carryover fund balance.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Sample Area Education Agency as a whole and present an overall view of the Agency's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

## **REPORTING THE AGENCY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.
- *Business type activities:* The Agency charges fees to help cover the costs of certain services it provides. The Agency's cooperative purchasing program is included here.

### *Fund Financial Statements*

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has two kinds of funds:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include 1) the General Fund, 2) the Special Revenue Funds, 3) the Debt Service Fund and 4) the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the government-wide statements. The Agency's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The Agency currently has one Enterprise Fund, the Cooperative Purchasing Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Sample Area Education Agency's net assets at the end of fiscal year 2011 totaled approximately \$5.8 million compared to approximately \$7.1 million at the end of fiscal year 2010. The analysis that follows focuses on the net assets and changes in net assets.

| <b>Condensed Statement of Net Assets</b>           |                         |        |                          |      |          |        |
|--|-------------------------|--------|--------------------------|------|----------|--------|
| <b>(Expressed in Thousands)</b>                    |                         |        |                          |      |          |        |
|  | Governmental Activities |        | Business Type Activities |      | Total    |        |
|  | June 30,                |        | June 30,                 |      | June 30, |        |
|  | 2011                    | 2010   | 2011                     | 2010 | 2011     | 2010   |
| Current and other assets                           | \$ 6,327                | 8,213  | 13                       | 15   | 6,340    | 8,228  |
| Capital assets                                     | 4,542                   | 3,247  | -                        | -    | 4,542    | 3,247  |
| Total assets                                       | 10,869                  | 11,460 | 13                       | 15   | 10,882   | 11,475 |
| Long-term obligations                              | 1,696                   | 1,424  | -                        | -    | 1,696    | 1,424  |
| Other liabilities                                  | 3,391                   | 2,893  | 2                        | 1    | 3,393    | 2,894  |
| Total liabilities                                  | 5,087                   | 4,317  | 2                        | 1    | 5,089    | 4,318  |
| Net assets:  |                         |        |                          |      |          |        |
| Invested in capital assets,<br>net of related debt | 3,643                   | 2,230  | -                        | -    | 3,643    | 2,230  |
| Restricted   | 661                     | 1,129  | -                        | -    | 661      | 1,129  |
| Unrestricted                                       | 1,478                   | 3,784  | 11                       | 14   | 1,489    | 3,798  |
| Total net assets                                   | \$ 5,782                | 7,143  | 11                       | 14   | 5,793    | 7,157  |

The Agency's combined net assets decreased 19%, or approximately \$1,364,000, from fiscal year 2010. The decrease occurred primarily in governmental activities as a result of providing more services to local school districts during the year ended June 30, 2011. The decrease in unrestricted net assets was primarily due to the Agency using carryover fund balance to meet its financial obligations during the year and recording the net OPEB liability in the current year.

The following analysis details the changes in net assets resulting from the Agency's activities.

|                                      | Changes in Net Assets    |        |                          |      |                     |        |
|--------------------------------------|--------------------------|--------|--------------------------|------|---------------------|--------|
|                                      | (Expressed in Thousands) |        |                          |      |                     |        |
|                                      | Governmental Activities  |        | Business Type Activities |      | Total               |        |
|                                      | Year ended June 30,      |        | Year ended June 30,      |      | Year ended June 30, |        |
|                                      | 2011                     | 2010   | 2011                     | 2010 | 2011                | 2010   |
| <b>Revenues:</b>                     |                          |        |                          |      |                     |        |
| Program revenues:                    |                          |        |                          |      |                     |        |
| Charges for service                  | \$ 280                   | 276    | 254                      | 250  | 534                 | 526    |
| Operating grants and contributions   | 7,441                    | 7,389  | -                        | -    | 7,441               | 7,389  |
| General revenues:                    |                          |        |                          |      |                     |        |
| Property tax                         | 5,927                    | 5,895  | -                        | -    | 5,927               | 5,895  |
| State foundation aid                 | 6,352                    | 6,138  | -                        | -    | 6,352               | 6,138  |
| Non-categorical Federal funding      | 42                       | 41     | -                        | -    | 42                  | 41     |
| Unrestricted investment earnings     | 191                      | 222    | -                        | -    | 191                 | 222    |
| Total revenues                       | 20,233                   | 19,961 | 254                      | 250  | 20,487              | 20,211 |
| <b>Program expenses:</b>             |                          |        |                          |      |                     |        |
| Instruction                          | 7,425                    | 7,072  | -                        | -    | 7,425               | 7,072  |
| Student support services             | 4,784                    | 4,423  | -                        | -    | 4,784               | 4,423  |
| Instructional staff support services | 5,408                    | 5,143  | -                        | -    | 5,408               | 5,143  |
| General administration               | 2,108                    | 2,009  | -                        | -    | 2,108               | 2,009  |
| Business administration              | 830                      | 661    | -                        | -    | 830                 | 661    |
| Plant operations and maintenance     | 357                      | 341    | -                        | -    | 357                 | 341    |
| Central and other support services   | 641                      | 601    | -                        | -    | 641                 | 601    |
| Long-term debt interest              | 41                       | 46     | -                        | -    | 41                  | 46     |
| Non-instructional programs           | -                        | -      | 257                      | 251  | 257                 | 251    |
| Total expenses                       | 21,594                   | 20,296 | 257                      | 251  | 21,851              | 20,547 |
| Decrease in net assets               | (1,361)                  | (335)  | (3)                      | (1)  | (1,364)             | (336)  |
| Net assets beginning of year         | 7,143                    | 7,478  | 14                       | 15   | 7,157               | 7,493  |
| Net assets end of year               | \$ 5,782                 | 7,143  | 11                       | 14   | 5,793               | 7,157  |

Property tax and state foundation aid account for 60.6% of the total revenue while operating grants and contributions from local, state and federal sources account for 36.3% of the total revenue. The Agency's expenses primarily relate to instruction and student and instructional staff support services, which account for 81.6% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$20,232,605 and expenses were \$21,594,600. In a difficult budget year, the Agency was able to use some of the carryover balances to pay for the additional services offered to and needed by local school districts.

### Business Type Activities

Revenues of the Agency's business type activities were \$253,221, a 1.6% increase over the prior year, while expenses totaled \$256,552, a 2.2% increase over the prior year. The Agency's business type activity is the Cooperative Purchasing program. Revenues for this activity are comprised of charges for service. Expenses are for the purchase of items for resale.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Sample Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$3,123,091, below last year's ending fund balances of \$5,508,628. The primary reasons for the decrease in combined fund balances in fiscal year 2011 were the increased services provided to local school districts and the near completion of a new learning center.

### **Governmental Fund Highlights**

- The Agency's decreasing General Fund financial position is the product of many factors, including growth during the year in the number of students served and the services needed by local school districts. The increase in revenues was more than offset by the Agency's increase in General Fund expenditures, requiring the Agency to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$4,962,836 to \$2,885,747 due, in part, to the additional services provided and the current year reduction in state aid.
- The Capital Projects Fund balance decreased due to the near completion of the learning center. The Agency ended fiscal year 2010 with a balance of \$507,282. Fiscal year 2011 ended with a balance of \$42,468 due to the project being approximately 94% complete.

### **Proprietary Fund Highlights**

- The Cooperative Purchasing program net assets decreased from \$14,223 at June 30, 2010 to \$10,892 at June 30, 2011, representing a decrease of approximately 23%. The Agency has not revised its pricing policies in the past 3 years and has reported a net loss for the second year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Agency amended its budget once to reflect additional revenues and expenditures associated with the additional services needed and provided to the local school districts.

The Agency's total revenues were \$184,210 less than total budgeted revenues, a variance of less than 1%. Total expenditures were \$606,305 less than budgeted, a variance of 2.6%.

A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the Required Supplementary Information section of this report.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2011, the Agency had invested approximately \$4.5 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, intangibles, computers and audio-visual equipment. This is a net increase of approximately \$1.3 million from last year. This increase was primarily due to the continued construction of the new learning center and an increase in library materials, many of which are included in the new learning center.

Sample Area Education Agency had depreciation/amortization expense of \$479,464 in fiscal year 2011. Detailed information about capital assets is available in Note 4 to the financial statements.

### **Long-Term Debt**

At June 30, 2011, the Agency had \$899,388 in long-term debt outstanding, compared to \$1,007,111 at June 30, 2010. More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

At the time these financial statements were prepared and audited, the Agency was aware of several existing circumstances which could significantly affect its financial health in the future:

- The Agency has experienced an increase in the number of students being served by its programs in the past three years. A slight increase in enrollment is expected and included in the budget based on requests from local school districts.
- The Agency has evaluated its pricing policies regarding the cooperative purchasing program. The Board of Directors has approved an increase in the administrative fee charged, so revenues are anticipated to increase in the next fiscal year.

### **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency's Business Manager's Office, 77 Sunset Strip, Anywhere, Iowa, 50000-XXXX.

## **Basic Financial Statements**

**Sample Area Education Agency**

Sample Area Education Agency

Statement of Net Assets

June 30, 2011

|   | Governmental<br>Activities | Business Type<br>Activities | Total             |
|---|----------------------------|-----------------------------|-------------------|
| <b>Assets</b>   |                            |                             |                   |
| Cash and pooled investments                                   | \$ 4,837,053               | 8,586                       | 4,845,639         |
| Receivables:  |                            |                             |                   |
| Accounts  | 909,094                    | -                           | 909,094           |
| Accrued interest receivable                                   | 8,937                      | -                           | 8,937             |
| Due from other governments                                    | 359,629                    | 3,564                       | 363,193           |
| Inventories   | 202,314                    | 958                         | 203,272           |
| Prepaid expenses  | 9,774                      | -                           | 9,774             |
| Capital assets (net of accumulated depreciation/amortization) | 4,541,840                  | -                           | 4,541,840         |
| <b>Total assets</b>   | <b>10,868,641</b>          | <b>13,108</b>               | <b>10,881,749</b> |
| <b>Liabilities</b>  |                            |                             |                   |
| Accounts payable  | 2,328,562                  | 2,216                       | 2,330,778         |
| Salaries and benefits payable                                 | 746,260                    | -                           | 746,260           |
| Deferred revenue:   |                            |                             |                   |
| Federal   | 87,780                     | -                           | 87,780            |
| Miscellaneous   | 41,108                     | -                           | 41,108            |
| Long-term liabilities:  |                            |                             |                   |
| Portion due or payable within one year:                       |                            |                             |                   |
| Certificates of participation                                 | 60,854                     | -                           | 60,854            |
| Capital leases  | 45,268                     | -                           | 45,268            |
| Compensated absences  | 80,653                     | -                           | 80,653            |
| Portion due or payable after one year:                        |                            |                             |                   |
| Certificates of participation                                 | 610,153                    | -                           | 610,153           |
| Capital leases  | 183,113                    | -                           | 183,113           |
| Compensated absences  | 111,122                    | -                           | 111,122           |
| Net OPEB liability  | 792,100                    | -                           | 792,100           |
| <b>Total liabilities</b>                                      | <b>5,086,973</b>           | <b>2,216</b>                | <b>5,089,189</b>  |
| <b>Net assets:</b>  |                            |                             |                   |
| Invested in capital assets, net of related debt               | 3,642,452                  | -                           | 3,642,452         |
| Restricted for:   |                            |                             |                   |
| Special education instruction                                 | 616,096                    | -                           | 616,096           |
| Debt service  | 2,513                      | -                           | 2,513             |
| Other   | 42,468                     | -                           | 42,468            |
| Unrestricted  | 1,478,139                  | 10,892                      | 1,489,031         |
| <b>Total net assets</b>                                       | <b>\$ 5,781,668</b>        | <b>10,892</b>               | <b>5,792,560</b>  |

See notes to financial statements.

Sample Area Education Agency

Statement of Activities

Year ended June 30, 2011

|                                      | Expenses      | Program Revenues    |                                     |
|--------------------------------------|---------------|---------------------|-------------------------------------|
|                                      |               | Charges for Service | Operating Grants, and Contributions |
| <b>Functions/Programs:</b>           |               |                     |                                     |
| Governmental activities:             |               |                     |                                     |
| Instruction                          | \$ 7,424,814  | 23,985              | 2,156,118                           |
| Regular instruction                  |               |                     |                                     |
| Student support services             | 4,784,057     | 18,123              | 3,112,005                           |
| Instructional staff support services | 5,407,880     | 181,968             | 2,172,480                           |
| General administration               | 2,108,222     | -                   | -                                   |
| Business administration              | 830,004       | -                   | -                                   |
| Plant operations and maintenance     | 357,086       | -                   | -                                   |
| Central and other support services   | 641,270       | 56,129              | -                                   |
| Interest on long-term debt           | 41,267        | -                   | -                                   |
| Total governmental activities        | 21,594,600    | 280,205             | 7,440,603                           |
| Business type activities:            |               |                     |                                     |
| Non-instructional programs:          |               |                     |                                     |
| Cooperative purchasing               | 256,552       | 253,221             | -                                   |
| Total                                | \$ 21,851,152 | 533,426             | 7,440,603                           |

**General revenues:**

Property tax levied for general purposes  
 State foundation aid  
 Non-categorical federal funding  
 Unrestricted investment earnings  
 Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

See notes to financial statements.

| Net (Expense) Revenue<br>and Changes in Net Assets |                             |              |
|--|-----------------------------|--------------|
| Governmental<br>Activities                         | Business type<br>Activities | Total        |
| (5,244,711)  | -                           | (5,244,711)  |
| -  | -                           | -            |
| (1,653,929)  | -                           | (1,653,929)  |
| (3,053,432)  | -                           | (3,053,432)  |
| (2,108,222)  | -                           | (2,108,222)  |
| (830,004)  | -                           | (830,004)    |
| (357,086)  | -                           | (357,086)    |
| (585,141)  | -                           | (585,141)    |
| (41,267)   | -                           | (41,267)     |
| (13,873,792)                                       | -                           | (13,873,792) |
| -  | (3,331)                     | (3,331)      |
| (13,873,792)                                       | (3,331)                     | (13,877,123) |
| 5,926,841  | -                           | 5,926,841    |
| 6,351,468  | -                           | 6,351,468    |
| 42,445   | -                           | 42,445       |
| 191,043  | -                           | 191,043      |
| 12,511,797   | -                           | 12,511,797   |
| (1,361,995)  | (3,331)                     | (1,365,326)  |
| 7,143,663  | 14,223                      | 7,157,886    |
| \$ 5,781,668                                       | 10,892                      | 5,792,560    |

**Exhibit C**

## Sample Area Education Agency

Balance Sheet  
Governmental Funds

June 30, 2011

|  | General             | Special<br>Revenue<br>Special<br>Education<br>Instruction | Nonmajor      | Total            |
|--|---------------------|---|---------------|------------------|
| <b>Assets</b>                              |                     |   |               |                  |
| Cash and pooled investments                | \$ 4,792,072        | -   | 44,981        | 4,837,053        |
| Receivables:                               |                     |   |               |                  |
| Accounts                                   | 292,998             | 616,096   | -             | 909,094          |
| Accrued interest receivable                | 8,937               | -   | -             | 8,937            |
| Due from other governments                 | 310,742             | -   | 48,887        | 359,629          |
| Inventories                                | 202,314             | -   | -             | 202,314          |
| Prepaid expenditures                       | 9,774               | -   | -             | 9,774            |
| <b>Total assets</b>                        | <b>\$ 5,616,837</b> | <b>616,096</b>  | <b>93,868</b> | <b>6,326,801</b> |
| <b>Liabilities and Fund Balances</b>       |                     |   |               |                  |
| Liabilities:                               |                     |   |               |                  |
| Accounts payable                           | \$ 1,914,300        | 370,982   | 43,280        | 2,328,562        |
| Salaries and benefits payable              | 687,902             | 52,751  | 5,607         | 746,260          |
| Deferred revenue:                          |                     |   |               |                  |
| Federal                                    | 87,780              | -   | -             | 87,780           |
| Miscellaneous                              | 41,108              | -   | -             | 41,108           |
| Total liabilities                          | 2,731,090           | 423,733   | 48,887        | 3,203,710        |
| Fund balances:                             |                     |   |               |                  |
| Nonspendable:                              |                     |   |               |                  |
| Inventories                                | 202,314             | -   | -             | 202,314          |
| Prepaid expenditures                       | 9,774               | -   | -             | 9,774            |
| Restricted for:                            |                     |   |               |                  |
| Debt service                               | -                   | -   | 2,513         | 2,513            |
| Categorical funding                        | 53,926              | -   | -             | 53,926           |
| Media materials                            | 395,000             | -   | -             | 395,000          |
| Special education instruction              | -                   | 192,363   | -             | 192,363          |
| Capital projects                           | -                   | -   | 42,468        | 42,468           |
| Committed for equipment replacement        | 375,000             | -   | -             | 375,000          |
| Unassigned                                 | 1,849,733           | -   | -             | 1,849,733        |
| Total fund balances                        | 2,885,747           | 192,363   | 44,981        | 3,123,091        |
| <b>Total liabilities and fund balances</b> | <b>\$ 5,616,837</b> | <b>616,096</b>  | <b>93,868</b> | <b>6,326,801</b> |

See notes to financial statements.

## Sample Area Education Agency

Reconciliation of the Balance Sheet – Governmental  
Funds to the Statement of Net Assets

June 30, 2011

|   |                            |
|---|----------------------------|
| <b>Total governmental fund balances (page 18)</b>   | \$ 3,123,091               |
| <b><i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i></b>  |                            |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$7,694,609 and the accumulated depreciation/amoritzation is \$3,152,769.          | 4,541,840                  |
| Long-term liabilities, including certificates of participation, capital leases, compensated absences and other postemployment benefits payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. | <u>(1,883,263)</u>         |
| <b>Net assets of governmental activities (page 15)</b>  | <u><u>\$ 5,781,668</u></u> |

See notes to financial statements.

**Exhibit E**

## Sample Area Education Agency

Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2011

|  | Special<br>Revenue   |             |           |             |
|--|----------------------|-------------|-----------|-------------|
|  | Special<br>Education |             |           |             |
|  | General              | Instruction | Nonmajor  | Total       |
| Revenues:  |                      |             |           |             |
| Local sources  | \$ 5,577,980         | 3,507,185   | 10,953    | 9,096,118   |
| State sources  | 7,553,767            | 178,362     | 270,148   | 8,002,277   |
| Federal sources  | 3,134,210            | -           | -         | 3,134,210   |
| Total revenues   | 16,265,957           | 3,685,547   | 281,101   | 20,232,605  |
| Expenditures:  |                      |             |           |             |
| Current:   |                      |             |           |             |
| Instruction  | 3,821,951            | 3,456,754   | 266,459   | 7,545,164   |
| Student support services                                     | 4,731,939            | -           | -         | 4,731,939   |
| Instructional staff support services                         | 5,459,930            | -           | -         | 5,459,930   |
| General administration                                       | 2,001,974            | 73,045      | 3,689     | 2,078,708   |
| Business administration                                      | 909,988              | -           | -         | 909,988     |
| Plant operations and maintenance                             | 363,995              | -           | -         | 363,995     |
| Central and other support services                           | 909,990              | -           | -         | 909,990     |
| Facilities acquisition and construction                      | -                    | -           | 469,438   | 469,438     |
| Debt service   | -                    | -           | 148,990   | 148,990     |
| Total expenditures   | 18,199,767           | 3,529,799   | 888,576   | 22,618,142  |
| Excess (deficiency) of revenues<br>over (under) expenditures | (1,933,810)          | 155,748     | (607,475) | (2,385,537) |
| Other financing sources (uses):                              |                      |             |           |             |
| Transfers in   | -                    | -           | 143,279   | 143,279     |
| Transfers out  | (143,279)            | -           | -         | (143,279)   |
| Total other financing sources (uses)                         | (143,279)            | -           | 143,279   | -           |
| Net change in fund balances                                  | (2,077,089)          | 155,748     | (464,196) | (2,385,537) |
| Fund balances beginning of year                              | 4,962,836            | 36,615      | 509,177   | 5,508,628   |
| Fund balances end of year                                    | \$ 2,885,747         | 192,363     | 44,981    | 3,123,091   |

See notes to financial statements.

Sample Area Education Agency

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances –  
Governmental Funds to the Statement of Activities

Year ended June 30, 2011

**Net change in fund balances - Total governmental funds (page 20)** \$ (2,385,537)

***Amounts reported for governmental activities in the Statement of Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay expenditures exceeded depreciation/amortization expense in the current year, as follows:

|                                   |              |           |
|-----------------------------------|--------------|-----------|
| Expenditures for capital assets   | \$ 1,774,284 |           |
| Depreciation/amortization expense | (479,464)    | 1,294,820 |
|                                   |              |           |

|   |  |         |
|---|--|---------|
| Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. |  | 107,723 |
|---|--|---------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

|                               |           |           |
|-------------------------------|-----------|-----------|
| Compensated absences          | 1,599     |           |
| Other postemployment benefits | (380,600) | (379,001) |
|                               |           |           |

**Change in net assets of governmental activities (page 17)** \$ (1,361,995)

See notes to financial statements.

Sample Area Education Agency

Statement of Net Assets  
Proprietary Fund

June 30, 2011

|                            | <u>Enterprise</u>  |
|----------------------------|--------------------|
|                            | <u>Cooperative</u> |
|                            | <u>Purchasing</u>  |
| <b>Assets</b>              |                    |
| Cash and cash equivalents  | \$ 8,586           |
| Due from other governments | 3,564              |
| Inventories                | 958                |
| <b>Total assets</b>        | <u>13,108</u>      |
| <b>Liabilities</b>         |                    |
| Accounts payable           | <u>2,216</u>       |
| <b>Net Assets</b>          |                    |
| Unrestricted               | <u>\$ 10,892</u>   |

See notes to financial statements.

Sample Area Education Agency  
Statement of Revenues, Expenses and  
Changes in Fund Net Assets  
Proprietary Fund

Year ended June 30, 2011

|                              | <u>Enterprise</u><br><u>Cooperative</u><br><u>Purchasing</u> |
|------------------------------|--|
| Operating revenues:          |  |
| Charges for service          | \$ 253,221   |
| Operating expenses:          |  |
| Non-instructional programs:  |  |
| Supplies and materials       | <u>256,552</u>   |
| Operating loss               | (3,331)  |
| Net assets beginning of year | <u>14,223</u>  |
| Net assets end of year       | <u><u>\$ 10,892</u></u>                                      |

See notes to financial statements.

**Exhibit I**

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## Sample Area Education Agency

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2011

|   | <u>Enterprise</u>        |
|---|--------------------------|
|   | <u>Cooperative</u>       |
|   | <u>Purchasing</u>        |
| Cash flows from operating activities:   |                          |
| Cash received from customers  | \$ 249,657               |
| Cash paid to suppliers  | (257,284)                |
| Net cash used by operating activities   | <u>(7,627)</u>           |
| Cash and cash equivalents beginning of year                                       | <u>16,213</u>            |
| Cash and cash equivalents end of year   | <u><u>\$ 8,586</u></u>   |
| <b>Reconciliation of operating loss to net cash used in operating activities:</b> |                          |
| Operating loss  | \$ (3,331)               |
| Adjustments to reconcile operating loss to net cash used by operating activities: |                          |
| Decrease by inventories   | 154                      |
| Increase in due from other governments  | (3,564)                  |
| Decrease in accounts payable  | (886)                    |
| Net cash used in operating activities   | <u><u>\$ (7,627)</u></u> |

See notes to financial statements.

Sample Area Education Agency

Notes to Financial Statements

June 30, 2011

**(1) Summary of Significant Accounting Policies**

Sample Area Education Agency is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 61 school districts and private schools in a seven-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sample Area Education Agency has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide financial statements – The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for a program where the Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

The Agency reports the following major proprietary fund:

The Agency's proprietary fund is the Enterprise, Cooperative Purchasing Fund. This fund is used to account for the cooperative purchasing activities for local school districts and activities performed as a service to staff and consist primarily of vending machine operations.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balance and then from, less-restrictive classifications – committed, assigned, and then unassigned fund balances.

The proprietary fund of the Agency applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's Enterprise Fund is charges to customers for services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets, which include property, furniture and equipment and intangibles are reported in the applicable governmental or business type activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class                       | Amount   |
|-----------------------------------|----------|
| Land                              | \$ 2,000 |
| Buildings                         | 10,000   |
| Improvements other than buildings | 10,000   |
| Intangibles                       | 50,000   |
| Furniture and equipment           | 2,000    |
| Library books                     | 2,000    |

Capital assets of the Agency are depreciated/amortized using the straight line method of depreciation/amortization over the following estimated useful lives:

| Asset Class                       | Estimated Useful Lives (In Years) |
|-----------------------------------|-----------------------------------|
| Buildings                         | 50                                |
| Improvements other than buildings | 20-50                             |
| Intangibles                       | 5-10                              |
| Furniture and equipment           | 5-15                              |
| Library books                     | 5-10                              |

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Directors through resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same action it employed to commit these amounts.

Unassigned – All amounts not included in other spendable classifications.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The Agency's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Agency's investments at June 30, 2011 consisted of the following:

| <u>Investment</u>   | <u>Fair Value</u>   |
|---------------------|---------------------|
| U.S. Treasury Notes | <u>\$ 3,970,150</u> |

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust Direct Government Obligation Portfolio which are valued at an amortized cost of \$327,441 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Agency.

Credit risk - The investment in the Iowa Schools Joint Investment Trust is rated Aaa by Moody's Investors Service.

**(3) Iowa School Cash Anticipation Program (ISCAP)**

The Agency participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is trustee of the program.

The Agency pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The Agency must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2010-11A warrants is 1.20% plus the one-month LIBOR rate, adjusted daily. The interest rate on the Series 2010-11B warrants is a variable rate, calculated daily based upon the LIBOR rate plus 120 basis points. A summary of the Agency's ISCAP activity for the year ended June 30, 2011 is as follows:

| Series   | Warrant Date | Final Warrant Maturity | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year |
|----------|--------------|------------------------|---------------------------|-------------------|-----------------|---------------------|
| 2010-11A | 6/30/10      | 6/23/11                | \$ -                      | 30,000            | 30,000          | -                   |
| 2010-11B | 1/26/11      | 1/25/12                | -                         | 28,000            | 28,000          | -                   |
| Total    |              |                        | \$ -                      | 58,000            | 58,000          | -                   |

During the year ended June 30, 2011, the Agency paid \$2,366 of interest on the ISCAP warrants.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2011 is as follows:

|   | Balance<br>Beginning<br>of Year | Additions | Deletions | Balance<br>End<br>of Year |
|---|---------------------------------|-----------|-----------|---------------------------|
| <b>Governmental activities:</b>                       |                                 |           |           |                           |
| Capital assets not being depreciated:                 |                                 |           |           |                           |
| Land  | \$ 321,250                      | -         | -         | 321,250                   |
| Building in progress                                  | 98,569                          | 469,438   | -         | 568,007                   |
| Total capital assets not being depreciated            | 419,819                         | 469,438   | -         | 889,257                   |
| Capital assets being depreciated/amortized:           |                                 |           |           |                           |
| Buildings   | 1,508,844                       | -         | -         | 1,508,844                 |
| Improvements other than buildings                     | 502,658                         | -         | -         | 502,658                   |
| Furniture and equipment                               | 1,903,356                       | 408,110   | 168,202   | 2,143,264                 |
| Intangibles   | 60,000                          | -         | -         | 60,000                    |
| Library books   | 2,290,181                       | 896,736   | 596,331   | 2,590,586                 |
| Total capital assets being depreciated/amortized      | 6,265,039                       | 1,304,846 | 764,533   | 6,805,352                 |
| Less accumulated depreciation/amortization for:       |                                 |           |           |                           |
| Buildings   | 844,953                         | 30,177    | -         | 875,130                   |
| Improvements other than buildings                     | 172,344                         | 14,362    | -         | 186,706                   |
| Furniture and equipment                               | 951,678                         | 213,569   | 168,202   | 997,045                   |
| Intangibles   | 6,000                           | 6,000     | -         | 12,000                    |
| Library books   | 1,462,863                       | 215,356   | 596,331   | 1,081,888                 |
| Total accumulated depreciation/amortization           | 3,437,838                       | 479,464   | 764,533   | 3,152,769                 |
| Total capital assets being depreciated/amortized, net | 2,827,201                       | 825,382   | -         | 3,652,583                 |
| Governmental activities capital assets, net           | \$ 3,247,020                    | 1,294,820 | -         | 4,541,840                 |

Depreciation/amortization expense was charged to the following functions:

|   |  |            |
|---|--|------------|
| Governmental activities:  |  |            |
| Instruction   |  | \$ 145,072 |
| Student support services  |  | 18,364     |
| Instructional staff support services                              |  | 85,511     |
| General administration  |  | 4,038      |
| Business administration   |  | 55,308     |
| Plant operations and maintenance                                  |  | 8,437      |
| Central and other support services                                |  | 162,734    |
| Total depreciation/amortization expense – governmental activities |  | \$ 479,464 |

Furniture and equipment within governmental activities includes \$375,000 of information technology equipment acquired under capital leases.

|  | Balance<br>Beginning<br>of Year | Additions | Deletions | Balance<br>End<br>of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| <b>Business type activities:</b>             |                                 |           |           |                           |
| Furniture and equipment                      | \$ 23,655                       | -         | -         | 23,655                    |
| Less accumulated depreciation                | 23,655                          | -         | -         | 23,655                    |
| Business type activities capital assets, net | \$ -                            | -         | -         | -                         |

**(5) Changes in Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

|                               | Balance<br>Beginning<br>of Year | Additions | Reductions | Balance<br>End<br>of Year | Due<br>Within<br>One Year |
|-------------------------------|---------------------------------|-----------|------------|---------------------------|---------------------------|
| Certificates of participation | \$ 750,000                      | -         | 78,993     | 671,007                   | 60,854                    |
| Capital leases                | 257,111                         | -         | 28,730     | 228,381                   | 45,268                    |
| Compensated absences          | 193,374                         | 79,626    | 81,225     | 191,775                   | 80,653                    |
| Net OPEB liability            | 411,500                         | 380,600   | -          | 792,100                   | -                         |
| Total                         | \$ 1,611,985                    | 460,226   | 188,948    | 1,883,263                 | 186,775                   |

Certificates of Participation

The Agency sold certificates of participation for land and facilities for a total of \$750,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twelve years with an interest rate of 5% per annum. The following is a schedule by year of the future minimum payments required:

| Year<br>Ending<br>June 30, | Principal  | Interest | Total   |
|----------------------------|------------|----------|---------|
| 2012                       | \$ 60,854  | 33,550   | 94,404  |
| 2013                       | 63,896     | 30,508   | 94,404  |
| 2014                       | 67,091     | 27,313   | 94,404  |
| 2015                       | 70,446     | 23,958   | 94,404  |
| 2016                       | 73,968     | 20,436   | 94,404  |
| 2017-2020                  | 334,752    | 42,864   | 377,616 |
| Total                      | \$ 671,007 | 178,629  | 849,636 |

Payments on the certificates of participation for the year ended June 30, 2011, including interest, totaled \$94,404.

Capital Leases

The Agency has entered into agreements to lease information technology equipment. The agreements are for periods of four to eight years at interest rates ranging from 5% to 8% per annum. The leases expire between June 2012 and June 2016 and also require the payment of normal maintenance charges. The following is a schedule by year of future payments required:

| Year<br>Ending<br>June 30, | Principal  | Interest | Total   |
|----------------------------|------------|----------|---------|
| 2012                       | \$ 45,268  | 9,318    | 54,586  |
| 2013                       | 46,159     | 8,427    | 54,586  |
| 2014                       | 47,012     | 7,574    | 54,586  |
| 2015                       | 47,664     | 6,922    | 54,586  |
| 2016                       | 42,278     | 3,649    | 45,927  |
| Total                      | \$ 228,381 | 35,890   | 264,271 |

Payments under these agreements for the year ended June 30, 2011, including interest, totaled \$54,586.

**(6) Operating Leases**

The Agency has leased various facilities within the area to house the different divisions of the Agency. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2012 and June 30, 2016. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2011.

| Year<br>Ending<br>June 30, | Amount            |
|----------------------------|-------------------|
| 2012                       | \$ 138,416        |
| 2013                       | 134,120           |
| 2014                       | 134,120           |
| 2015                       | 124,210           |
| 2016                       | <u>114,320</u>    |
| Total                      | <u>\$ 645,186</u> |

Total rental expenditures for the year ended June 30, 2011 for all operating leases, except those with terms of a month or less that were not renewed, was \$141,220.

**(7) Pension and Retirement Benefits**

The Agency contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Agency is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$627,786, \$597,891 and \$569,420, respectively, equal to the required contributions for each year.

**(8) Other Postemployment Benefits (OPEB)**

Plan Description - The Agency operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 200 active and 12 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical and prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

|  |                   |
|--|-------------------|
| Annual required contribution               | \$ 507,500        |
| Interest on net OPEB obligation            | 20,575            |
| Adjustment to annual required contribution | <u>(16,475)</u>   |
| Annual OPEB cost                           | 511,600           |
| Contributions made                         | <u>(131,000)</u>  |
| Increase in net OPEB obligation            | 380,600           |
| Net OPEB obligation beginning of year      | <u>411,500</u>    |
| Net OPEB obligation end of year            | <u>\$ 792,100</u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the Agency contributed \$131,000 to the medical plan. Plan members eligible for benefits contributed \$124,500, or 49% of the premium costs.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|------------------|--|---------------------|
| 2009                | \$ 307,400       | 20.6%                                      | \$ 244,000          |
| 2010                | 507,500          | 18.9%                                      | 411,500             |
| 2011                | 511,600          | 25.6%                                      | 792,100             |

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$3.273 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.273 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,996,000 and the ratio of the UAAL to covered payroll was 36.4%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to

Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 5% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2009 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are \$823 per month for retirees less than age 65 and \$283 per month for retirees who have attained age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(9) Risk Management**

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Sample Area Education Agency**

**Required Supplementary Information**

Sample Area Education Agency

Schedule of Revenues, Expenditures/Expenses and Changes  
in Balances – Budget and Actual –  
All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2011

|  | Governmental<br>Funds<br>Actual | Proprietary<br>Fund<br>Actual | Total<br>Actual |
|--|---------------------------------|-------------------------------|-----------------|
| <b>Revenues:</b>                                   |                                 |                               |                 |
| Local sources                                      | \$ 9,096,118                    | 253,221                       | 9,349,339       |
| State sources                                      | 8,002,277                       | -                             | 8,002,277       |
| Federal sources                                    | 3,134,210                       | -                             | 3,134,210       |
| Total revenues                                     | 20,232,605                      | 253,221                       | 20,485,826      |
| <b>Expenditures/Expenses:</b>                      |                                 |                               |                 |
| <b>Current:</b>                                    |                                 |                               |                 |
| Instruction  | 7,545,164                       | -                             | 7,545,164       |
| Student support services                           | 4,731,939                       | -                             | 4,731,939       |
| Instructional staff support services               | 5,459,930                       | -                             | 5,459,930       |
| General administration                             | 2,078,708                       | -                             | 2,078,708       |
| Business administration                            | 909,988                         | -                             | 909,988         |
| Plant operations and maintenance                   | 363,995                         | -                             | 363,995         |
| Central and other support services                 | 909,990                         | -                             | 909,990         |
| Non instructional programs                         | -                               | 256,552                       | 256,552         |
| Facilities acquisition and construction            | 469,438                         | -                             | 469,438         |
| Debt service                                       | 148,990                         | -                             | 148,990         |
| Total expenditures/expenses                        | 22,618,142                      | 256,552                       | 22,874,694      |
| Deficiency of revenues under expenditures/expenses | (2,385,537)                     | (3,331)                       | (2,388,868)     |
| Balance beginning of year                          | 5,508,628                       | 14,223                        | 5,522,851       |
| Balance end of year                                | \$ 3,123,091                    | 10,892                        | 3,133,983       |

See accompanying independent auditor's report.

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| Budget Amount |             | Final to  |
|---------------|-------------|-----------|
| Original      | Final       | Actual    |
|               |             | Variance  |
| 9,000,200     | 9,125,200   | 224,139   |
| 8,344,336     | 8,344,336   | (342,059) |
| 3,200,500     | 3,200,500   | (66,290)  |
| 20,545,036    | 20,670,036  | (184,210) |
| 7,503,715     | 7,628,715   | 83,551    |
| 4,937,400     | 4,937,400   | 205,461   |
| 5,511,000     | 5,511,000   | 51,070    |
| 2,212,700     | 2,212,700   | 133,992   |
| 960,100       | 960,100     | 50,112    |
| 375,000       | 375,000     | 11,005    |
| 928,500       | 928,500     | 18,510    |
| 278,594       | 278,594     | 22,042    |
| 500,000       | 500,000     | 30,562    |
| 148,990       | 148,990     | -         |
| 23,355,999    | 23,480,999  | 606,305   |
| (2,810,963)   | (2,810,963) | 422,095   |
| 5,125,469     | 5,125,469   | 397,382   |
| 2,314,506     | 2,314,506   | 819,477   |

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Sample Area Education Agency

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents function expenditures/expenses by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2011, the Agency's expenditures/expenses did not exceed the approved budget.

Sample Area Education Agency  
 Schedule of Funding Progress for the  
 Retiree Health Plan  
 (In Thousands)

Required Supplementary Information

| Year<br>Ended<br>June 30, | Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial                            |                                      | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b - a)/c) |
|---------------------------|--------------------------------|--|--------------------------------------|--------------------------------------|--------------------------|---------------------------|---|
|                           |                                |  | Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b - a) |                          |                           |   |
| 2009                      | July 1, 2008                   | -                                      | \$ 3,011                             | 3,011                                | 0.00%                    | \$ 8,599                  | 35.0%   |
| 2010                      | July 1, 2008                   | -                                      | 3,011                                | 3,011                                | 0.00%                    | 8,756                     | 34.4%   |
| 2011                      | July 1, 2010                   | -                                      | 3,273                                | 3,273                                | 0.00%                    | 8,996                     | 36.4%   |

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

**Sample Area Education Agency**

**Other Supplementary Information**

**Schedule 1**

Sample Area Education Agency  
Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2011

|  | Special<br>Revenue |                 |                     |               |
|--|--------------------|-----------------|---------------------|---------------|
|  | Juvenile<br>Home   | Debt<br>Service | Capital<br>Projects | Total         |
| <b>Assets</b>                              |                    |                 |                     |               |
| Cash and pooled investments                | \$ -               | 2,513           | 42,468              | 44,981        |
| Due from other governments                 | 48,887             | -               | -                   | 48,887        |
| <b>Total assets</b>                        | <b>\$ 48,887</b>   | <b>2,513</b>    | <b>42,468</b>       | <b>93,868</b> |
| <b>Liabilities and Fund Balances</b>       |                    |                 |                     |               |
| Liabilities:                               |                    |                 |                     |               |
| Accounts payable                           | \$ 43,280          | -               | -                   | 43,280        |
| Salaries and benefits payable              | 5,607              | -               | -                   | 5,607         |
| Total liabilities                          | 48,887             | -               | -                   | 48,887        |
| Fund balances:                             |                    |                 |                     |               |
| Restricted for:                            |                    |                 |                     |               |
| Debt service                               | -                  | 2,513           | -                   | 2,513         |
| Capital projects                           | -                  | -               | 42,468              | 42,468        |
| Total fund balances                        | -                  | 2,513           | 42,468              | 44,981        |
| <b>Total liabilities and fund balances</b> | <b>\$ 48,887</b>   | <b>2,513</b>    | <b>42,468</b>       | <b>93,868</b> |

See accompanying independent auditor's report.

## Sample Area Education Agency

Combining Schedule of Revenues, Expenditures and  
Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2011

|  | Special<br>Revenue |                 |                     |           |
|--|--------------------|-----------------|---------------------|-----------|
|  | Juvenile<br>Home   | Debt<br>Service | Capital<br>Projects | Total     |
| Revenues:  |                    |                 |                     |           |
| Local sources  | \$ -               | 6,329           | 4,624               | 10,953    |
| State sources  | 270,148            | -               | -                   | 270,148   |
| Total revenues   | 270,148            | 6,329           | 4,624               | 281,101   |
| Expenditures:  |                    |                 |                     |           |
| Current:   |                    |                 |                     |           |
| Instruction  | 266,459            | -               | -                   | 266,459   |
| General administration   | 3,689              | -               | -                   | 3,689     |
| Facilities acquisition and construction  | -                  | -               | 469,438             | 469,438   |
| Debt service   | -                  | 148,990         | -                   | 148,990   |
| Total expenditures   | 270,148            | 148,990         | 469,438             | 888,576   |
| Deficiency of revenues under expenditures  | -                  | (142,661)       | (464,814)           | (607,475) |
| Other financing sources:   |                    |                 |                     |           |
| Transfers in   | -                  | 143,279         | -                   | 143,279   |
| Excess (deficiency) of revenues and other<br>financing sources over (under) expenditures | -                  | 618             | (464,814)           | (464,196) |
| Fund balances beginning of year  | -                  | 1,895           | 507,282             | 509,177   |
| Fund balances end of year  | \$ -               | 2,513           | 42,468              | 44,981    |

See accompanying independent auditor's report.

Sample Area Education Agency

Schedule of Revenues by Source and Expenditures by Function -  
All Governmental Funds

For the Last Ten Years

|   | 2011                 | 2010              | 2009              | 2008              |
|---|----------------------|-------------------|-------------------|-------------------|
| <b>Revenues:</b>                        |                      |                   |                   |                   |
| Local                                   | \$ 9,096,118         | 8,487,263         | 7,664,982         | 7,541,561         |
| State                                   | 8,002,277            | 8,381,599         | 7,898,637         | 7,628,597         |
| Federal                                 | 3,134,210            | 2,506,723         | 2,257,936         | 2,207,468         |
| <b>Total</b>                            | <b>\$ 20,232,605</b> | <b>19,375,585</b> | <b>17,821,555</b> | <b>17,377,626</b> |
| <b>Expenditures:</b>                    |                      |                   |                   |                   |
| <b>Current:</b>                         |                      |                   |                   |                   |
| Instruction                             | \$ 7,545,164         | 7,371,921         | 7,260,807         | 7,107,821         |
| Student support services                | 4,731,939            | 4,523,659         | 4,455,659         | 4,212,659         |
| Instructional staff support services    | 5,459,930            | 5,322,545         | 5,122,145         | 5,009,887         |
| General administration                  | 2,078,708            | 2,009,554         | 2,000,987         | 1,999,872         |
| Business administration                 | 909,988              | 900,872           | 895,662           | 890,554           |
| Plant operations and maintenance        | 363,995              | 360,954           | 357,854           | 355,458           |
| Central and other support services      | 909,990              | 900,874           | 895,664           | 890,556           |
| Facilities acquisition and construction | 469,438              | 98,569            | -                 | -                 |
| Debt service                            | 148,990              | 45,698            | -                 | -                 |
| <b>Total</b>                            | <b>\$ 22,618,142</b> | <b>21,534,646</b> | <b>20,988,778</b> | <b>20,466,807</b> |

See accompanying independent auditor's report.

| Modified Accrual Basis |            |            |            |            |            |
|------------------------|------------|------------|------------|------------|------------|
| Years ended June 30,   |            |            |            |            |            |
| 2007                   | 2006       | 2005       | 2004       | 2003       | 2002       |
| 7,466,145              | 7,391,484  | 7,317,569  | 7,244,393  | 7,171,949  | 7,100,230  |
| 7,552,311              | 7,476,788  | 7,402,020  | 7,328,000  | 7,254,720  | 7,182,173  |
| 2,185,393              | 2,163,539  | 2,141,904  | 2,120,485  | 2,099,280  | 2,078,287  |
| 17,203,850             | 19,375,585 | 17,821,555 | 17,377,626 | 17,377,626 | 17,377,626 |
| 7,036,743              | 6,966,375  | 6,896,712  | 6,827,744  | 6,759,467  | 6,691,872  |
| 4,170,532              | 4,128,827  | 4,087,539  | 4,046,663  | 4,006,197  | 3,966,135  |
| 4,959,788              | 4,910,190  | 4,861,088  | 4,812,477  | 4,764,353  | 4,716,709  |
| 1,979,873              | 1,960,075  | 1,940,474  | 1,921,069  | 1,901,858  | 1,882,840  |
| 881,648                | 872,832    | 864,104    | 855,463    | 846,908    | 838,439    |
| 351,903                | 348,384    | 344,901    | 341,452    | 338,037    | 334,657    |
| 881,650                | 872,834    | 864,106    | 855,465    | 846,910    | 838,441    |
| -                      | -          | -          | -          | -          | -          |
| -                      | -          | -          | -          | -          | -          |
| 20,262,139             | 20,059,518 | 19,858,922 | 19,660,333 | 19,463,730 | 19,269,093 |

**Schedule 4**

Sample Area Education Agency  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2011

| Project Title  | CFDA<br>Number | Pass-<br>through<br>Grantor's<br>Number | Expenditures     |
|--|----------------|---|------------------|
| Indirect:  |                |   |                  |
| U.S. Department of Education:                                |                |   |                  |
| Iowa Department of Education:                                |                |   |                  |
| Special Education Cluster (IDEA):                            |                |   |                  |
| Special Education _ Grants to States:                        | 84.027         |   |                  |
| Preschool Handicapped Program                                |                | 35011                                   | \$ 2,254,503     |
| Supplemental Support Services                                |                | 11K74-11                                | 42,445           |
| Diagnostic Evaluation Program                                |                | 11K75-11                                | 8,750            |
| Enhancing the Parent-Educator Connection                     |                | 17411                                   | 1,338            |
| Planning, Policy and Procedures Revisions                    |                | 1K42                                    | 93,065           |
| Behavior Initiative Facilitator                              |                | 15515                                   | 78,477           |
|  |                |   | <u>2,478,578</u> |
| Special Education _ Preschool Grants                         | 84.173         | 11-619-12                               | 317,010          |
| ARRA - Special Education Grants to States,<br>Recovery Act   | 84.391         |   | 15,000           |
| ARRA - Special Education -<br>Preschool Grants, Recovery Act | 84.392         |   | 10,000           |
|  |                |   | <u>2,820,588</u> |
| Special Education - Grants for Infants and<br>Families:      | 84.181         |   |                  |
| Interagency Regional Grant, Part H                           |                | H11-R12                                 | 2,686            |
| Early Childhood Special Education,<br>Infants and Toddlers   |                | H11-R13                                 | 56,256           |
|  |                |   | <u>58,942</u>    |
| Safe and Drug-Free Schools and Communities _<br>State Grants | 84.186         |   | 46,800           |
| Anytown Independent Schools:                                 |                |   |                  |
| Title I Grants to Local Educational Agencies                 | 84.010         |   | 28,452           |
| Sperryville Community Schools:                               |                |   |                  |
| Title I Grants to Local Educational Agencies                 | 84.010         |   | 7,261            |
| Green Springs Community Schools:                             |                |   |                  |
| Title I Grants to Local Educational Agencies                 | 84.010         |   | 7,209            |
| Clear Waters Community Schools:                              |                |   |                  |
| Title I Grants to Local Educational Agencies                 | 84.010         |   | 6,087            |
|  |                |   | <u>49,009</u>    |

Sample Area Education Agency  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2011

| Project Title   | CFDA<br>Number | Pass-<br>through<br>Grantor's<br>Number | Expenditures |
|---|----------------|---|--------------|
| Indirect (continued):   |                |   |              |
| U.S. Department of Health and Human Services:                   |                |   |              |
| Iowa Department of Public Health:                               |                |   |              |
| Block Grants for Prevention and<br>Treatment of Substance Abuse | 93.959         |   | 158,871      |
| Total   |                |   | \$ 3,134,210 |

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sample Area Education Agency and is presented on the modified accrual basis. 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**Sample Area Education Agency**

**Independent Auditor's 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**

**Sample Area Education Agency**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

State Capitol Building  
Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA  
Auditor of State

Independent Auditor's 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 of  
Sample Area Education Agency:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Area Education Agency as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated September 22, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Sample Area Education Agency's 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 Sample Area Education Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sample Area Education Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-C-11 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample Area Education Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Sample Area Education Agency's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Sample Area Education Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Sample Area Education Agency's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit Sample Area Education Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample Area Education Agency and other parties to whom Sample Area Education Agency may report, including 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Area Education Agency during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 22, 2011

DAVID A. VAUDT, CPA  
Auditor of State

**Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133**

**Sample Area Education Agency**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

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Independent Auditor's Report on Compliance  
with Requirements That Could have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Board of Directors of  
Sample Area Education Agency:

Compliance

We have audited Sample Area Education Agency's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Sample Area Education Agency's major federal programs for the year ended June 30, 2011. Sample Area Education Agency's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Sample Area Education Agency's management. Our responsibility is to express an opinion on Sample Area Education Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Sample Area Education Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sample Area Education Agency's compliance with those requirements.

In our opinion, Sample Area Education Agency complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Sample Area Education Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Sample Area Education Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sample Area Education Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a significant deficiency.

A deficiency in the Agency's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-B-11 to a significant deficiency.

Sample Area Education Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit Sample Area Education Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample Area Education Agency and other parties to whom Sample Area Education Agency may report, including 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.

DAVID A. VAUDT, CPA  
Auditor of State

September 22, 2011

Sample Area Education Agency  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2011

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency and a material weakness in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered programs
    - CFDA Number 84.027 – Special Education \_ Grants to States
    - CFDA Number 84.173 – Special Education \_ Preschool Grants
    - CFDA Number 84.391 – ARRA – Special Education Grants to States, Recovery Act
    - CFDA Number 84.392 – ARRA – Special Education Preschool Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sample Area Education Agency did not qualify as a low-risk auditee.

Sample Area Education Agency  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2011

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal were all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – We will investigate available alternatives and implement as soon as possible.

Conclusion – Response accepted.

II-B-11 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the Agency's financial statements. Adjustments were subsequently made by the Agency to properly include these amounts in the financial statements.

Recommendation – The Agency should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the Agency's financial statements.

Response – We will double check these in the future to avoid missing any receivables, payables or capital asset transactions.

Conclusion – Response accepted.

II-C-11 Prenumbered Checks – General Fund handwritten checks were numbered as they were written.

Recommendation – Control over disbursements would be strengthened if checks were prenumbered by the printer or a second or independent individual and were issued in the proper sequence. This would increase the accountability of checks issued and would prevent duplication of check numbers.

Response – Handwritten checks will be prenumbered beginning in October 2011.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Sample Area Education Agency  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2011

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 84.027: Special Education \_ Grants to States**  
**CFDA Number 84.173: Special Education \_ Preschool Grants**  
**Federal Award Year: 2011**  
**U.S. Department of Education**  
**Passed through the Iowa Department of Education**

III-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal were all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned – We will investigate available alternatives and implement as soon as possible.

Conclusion – Response accepted.

III-B-11 Prenumbered Checks – General Fund handwritten checks were numbered as they were written.

Recommendation – Control over disbursements would be strengthened if checks were prenumbered by the printer or a second or independent individual and the checks were issued in the proper sequence. This would increase the accountability of checks issued and would prevent duplication of check numbers.

Response and Corrective Action Planned – Handwritten checks will be prenumbered beginning in October 2011.

Conclusion – Response accepted.

Sample Area Education Agency  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2011

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-11 Certified Budget – Expenditures during the year ended June 30, 2011 did not exceed the amount budgeted.

IV-B-11 Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

| Paid to           | Purpose                           | Amount |
|-------------------|-----------------------------------|--------|
| Local Flower Shop | Flower arrangements for gifts     | \$ 332 |
| Local Quick Shop  | Pop and food for Agency employees | 239    |

Recommendation – According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

The Board of Directors should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the Agency should establish written policies and procedures, including requirements for proper documentation.

Response – We will document this in the future.

Conclusion – Response accepted.

IV-C-11 Travel Expense – No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-11 Business Transactions – No business transactions between the Agency and Agency officials or employees were noted.

IV-E-11 Bond Coverage – Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-11 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency's investment policy were noted.

Sample Area Education Agency

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- IV-H-11 Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-I-11 Categorical Funding – No instances of categorical funding being used to supplant rather than supplement other funds were noted.

Sample Area Education Agency

Staff

This audit was performed by:

John Q. Review, CPA, Manager  
Margo Setter, CPA, Senior Auditor  
Jerome Warning, CPA, Senior Auditor  
Terry Tickmark, CPA, Assistant Auditor

Andrew E. Nielsen, CPA  
Deputy Auditor of State