

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

TABLE OF CONTENTS  
JUNE 30, 2004

<u>OFFICIALS</u>		1
<u>INDEPENDENT AUDITOR'S REPORT</u>		2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>		3-13
<u>BASIC FINANCIAL STATEMENTS:</u>		
	<u>EXHIBIT</u>	
GOVERNMENT – WIDE FINANCIAL STATEMENTS:		
STATEMENT OF NET ASSETS	A	14
STATEMENT OF ACTIVITIES	B	15-16
GOVERNMENTAL FUND FINANCIAL STATEMENTS:		
BALANCE SHEET - GOVERNMENTAL FUNDS	C	17
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS	D	18
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	E	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	F	20
PROPRIETARY FUND FINANCIAL STATEMENTS:		
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUND	G	21
STATEMENT OF CASH FLOWS – PROPRIETARY FUND	H	22
NOTES TO FINANCIAL STATEMENTS		23-29
REQUIRED SUPPLEMENTARY INFORMATION:		
STATEMENT OF REVENUES, EXPENDITURES/EXPENSES, AND CHANGES IN BALANCES – BUDGET AND ACTUAL – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND		30-31
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING		32
	<u>SCHEDULE</u>	
<u>OTHER SUPPLEMENTARY INFORMATION:</u>		
NONMAJOR GOVERNMENTAL FUNDS:		
COMBINING BALANCE SHEET	1	33
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	2	34
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION – ALL GOVERNMENTAL FUNDS	3	35
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	4	36-37
<u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING</u>		38-39
<u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE</u>		40-41
<u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u>		42-43



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southern Prairie Area Education Agency 15  
Ottumwa, Iowa

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 Southern Prairie Area Education Agency 15 as of and for the year ended June 30, 2004, which collectively comprise the Area Education 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 Southern Prairie Area Education Agency 15 at June 30, 2004, 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 reports dated August 5, 2004 on our consideration of Southern Prairie Area Education Agency 15's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 13 and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Southern Prairie Education Agency 15'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 three years ended June 30, 2003 (none of which are 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, 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.

ANDERSON, LARKIN & CO P C

Ottumwa, Iowa  
August 5, 2004

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## **Management's Discussion and Analysis**

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This section of the Southern Prairie Area Education Agency 15's annual financial report presents its discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2004. The analysis focuses on the Agency's financial performance as a whole.

Please read it in conjunction with the Agency's financial statements, which immediately follow this section.

### **Financial Highlights**

- General Fund revenues increased from \$11,637,507 in fiscal 2003 to \$11,974,380 in fiscal 2004 while General fund expenditures increased from \$10,924,461 in fiscal 2003 to \$12,174,618 in fiscal 2004. This resulted in a decrease in the Agency's General Fund balance from \$2,138,234 in fiscal 2003 to \$1,792,569 in fiscal 2004 a 16 percent decrease from the prior year. The decrease in fund balance was due primarily to a \$413,282 fund balance reversion to the State of Iowa.
- The increase in General Fund revenues was primarily attributable to an increase in the IDEA Part B federal grant revenue received in fiscal 2004. The increase in expenditures was due primarily to an increase in the IDEA Part B federal expenditures and due to the \$413,282 fund balance reversion to the State of Iowa.

## Overview of the Financial Statements

This report consists of three parts: management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Agency.

- The first two statements are *Agency-wide financial statements* that provide both short-term and long-term information about the Agency’s overall financial status
- The remaining statements are *fund financial statements* that focus on individual parts of the Agency, reporting the Agency’s operations in more detail than the Agency-wide statements
- The *governmental funds statements* explain how basic services such as educational services, special education support and media services were financed in the short term as well as what remains for future spending.
- *Proprietary funds statements* offer short-term and long-term financial information about the activities the Agency operates like businesses. The Agency operates a Cooperative Purchasing Fund for the local school districts.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Agency’s budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

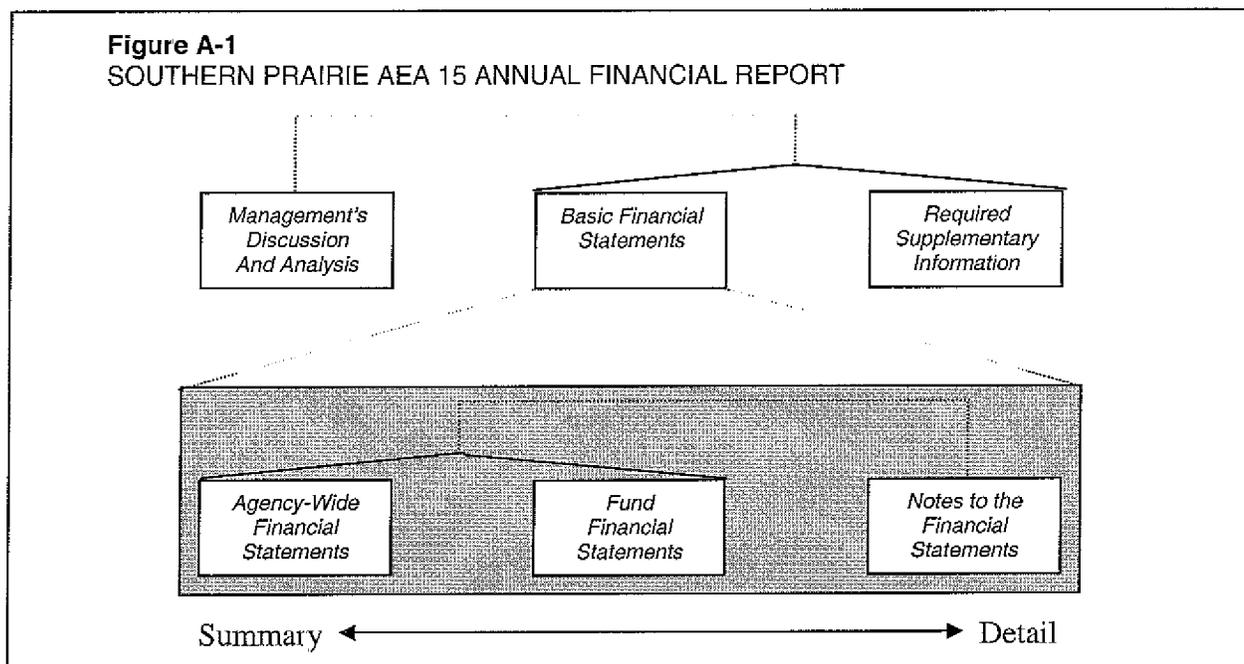


Figure A-2 summarizes the major feature of the Agency's financial statements, including the portion of the Agency's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2 MAJOR FEATURES OF THE AGENCY-WIDE AND FUND FINANCIAL STATEMENTS</b>				
	<b>Agency-Wide Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Propriety Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire Agency (except fiduciary funds)	The activities of the Agency that are not proprietary or fiduciary, such as special education and building maintenance	Activities the Agency operates similar to private businesses: cooperative purchasing	Instances in which the Agency administers resources on behalf of someone else. The Agency currently has no fiduciary funds.
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## Agency-Wide Statements

The Agency-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's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Agency-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, you need to consider additional non-financial factors such as changes in enrollments in the local school districts that the Agency serves and the condition of the Agency's office buildings.

In the Agency-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 instructional services, media services, special education support, and administration. Property taxes, state aid and federal program grants 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 more 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 and by bond covenants.
- The Agency establishes other funds to control and manage money for particular purposes, such as accounting for Juvenile Home funds.

The Agency has two kinds of funds:

- *Governmental funds*: Most of the Agency's basic services are included in governmental funds, which generally focus on 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Agency-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

The Agency's governmental funds include the General Fund; Preschool Fund; Juvenile Home Fund and the Debt Service Fund.

- *Proprietary funds:* Services for which the Agency charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Agency-wide statements.

The Agency's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information such as cash flows. The Agency currently has one enterprise fund, the cooperative purchasing fund.

### Financial Analysis of the Agency as a Whole

**Net assets.** The Agency's combined net assets decreased 7.2% - \$264,900 – during fiscal year 2004. The decrease occurred primarily due to the \$413,282 fund balance reversion to the State of Iowa.

**Figure A-3**

SUMMARY OF NET ASSETS (in thousands of dollars)							
	Governmental Activities		Business-Type Activities		TOTAL		Percentage Change 2003-2004
	2003	2004	2003	2004	2003	2004	
Total Assets	8,227.0	8,043.4	9.5	22.3	8,236.5	8,065.7	-2.1%
Total Liabilities	4,570.4	4,651.6	9.5	22.3	4,579.9	4,673.9	2.1%
Net Assets							
Invested in Capital Assets net of related Debt	1,643.9	1,722.4	-	-	1,643.9	1,722.4	4.8%
Restricted for							
Encumbrances	39.1	38.0	-	-	39.1	38.0	-2.8%
Inventories	36.5	38.0	-	-	36.5	38.0	4.1%
Restricted for Other	610.4	177.9	-	-	610.4	177.9	-70.9%
Unrestricted	1,326.8	1,415.5	-	-	1,326.8	1,415.5	6.7%
Total Net Assets	3,656.7	3,391.8	-	-	3,656.7	3,391.8	-7.2%

**Figure A-4**

CHANGES IN NET ASSETS FROM OPERATING RESULTS (in thousands of dollars)							
	Governmental Activities		Business-Type Activities		TOTAL		Percentage Change 2003-2004
	2003	2004	2003	2004	2003	2004	
<b>Program Revenues:</b>							
Charges for services	676.2	742.3	50.1	58.5	726.3	800.8	10.3%
Operating Grants and Contributions	4,511.6	5,237.9	-	-	4,511.6	5,237.9	16.1%
<b>General Revenues</b>							
Property taxes	2,871.3	2,915.3	-	-	2,871.3	2,915.3	1.5%
State aid	4,127.0	3,679.4	-	-	4,127.0	3,679.4	-10.8%
Unrestricted investment earnings	14.9	6.2	-	-	14.9	6.2	-58.4%
Operating transfers	7.5	7.5	(7.5)	(7.5)	-	-	0.0%
<b>Total revenues</b>	<b>12,208.5</b>	<b>12,588.6</b>	<b>42.6</b>	<b>51.0</b>	<b>12,251.1</b>	<b>12,639.6</b>	<b>3.2%</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Instruction	554.8	591.0	-	-	554.8	591.0	6.5%
Student support services	8,068.3	9,221.8	-	-	8,068.3	9,221.8	14.3%
Media services	897.2	866.1	-	-	897.2	866.1	-3.5%
General administration	481.3	461.2	-	-	481.3	461.2	-4.2%
Educational services	1,231.1	1,399.1	-	-	1,231.1	1,399.1	13.6%
Plant operations and maintenance	103.8	108.1	-	-	103.8	108.1	4.1%
Central and other support services	153.9	150.1	-	-	153.9	150.1	-2.5%
Interest on long-term debt	77.6	53.4	-	-	77.6	53.4	-31.2%
Fees	10.7	1.5	-	-	10.7	1.5	-86.0%
Cooperative purchasing	-	-	42.6	51.0	42.6	51.0	19.7%
<b>Total expenditures</b>	<b>11,578.7</b>	<b>12,852.3</b>	<b>42.6</b>	<b>51.0</b>	<b>11,621.3</b>	<b>12,903.3</b>	<b>11.0%</b>
Excess (deficiency) before special item	629.8	(263.7)	-	-	629.8	(263.7)	-141.9%
Special Item: Loss on disposal of assets	-	(1.2)	-	-	-	(1.2)	-
<b>Increase (decrease) in net assets</b>	<b>629.8</b>	<b>(264.9)</b>	<b>-</b>	<b>-</b>	<b>629.8</b>	<b>(264.9)</b>	<b>-142.1%</b>

The Agency's decrease in net assets is due to the \$413,282 fund balance reversion to the State of Iowa.

**Figure A-5**

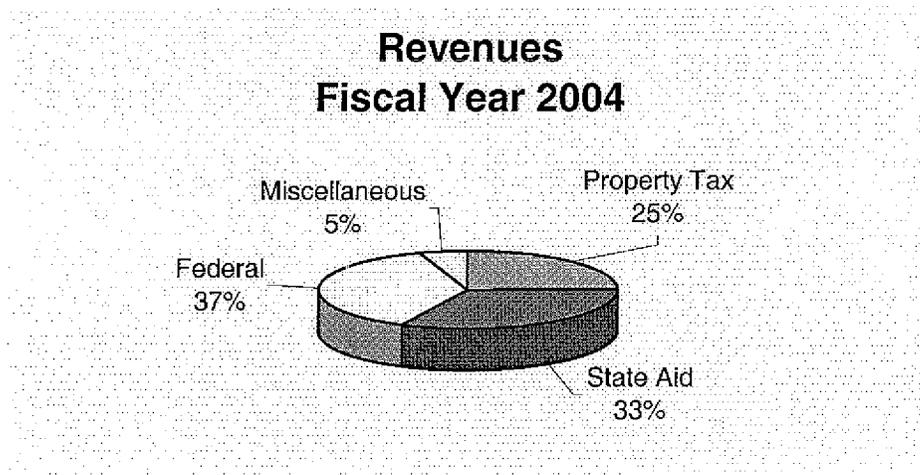
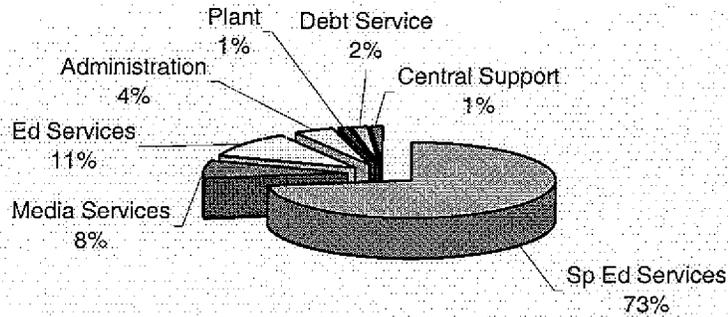


Figure A-6

## Expenditures Fiscal Year 2004



### Governmental Activities

Revenues for the Agency's governmental activities increased 3.1 percent, and total expenses increased 10.9 percent compared to the prior year. The increase in expenses was primarily attributable to an increase in the IDEA Part B federal expenditures and due to the \$413,282 fund balance reversion to the State of Iowa.

Revenues for governmental activities were \$12,588,646 while expenses amounted to \$12,852,289.

The following table presents the total and net cost of the Agency's major governmental activities: instruction, student support services, media services, general administration, educational services, plant operations and maintenance, central and other support services and other expenses.

Figure A-7

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2003	2004	2003-2004	2003	2004	2003-2004
Instruction	554.8	591.0	6.5%	(579.0)	(265.7)	-54.1%
Student support services	8,068.3	9,221.8	14.3%	(1,107.8)	(610.2)	-44.9%
Media services	897.2	866.1	-3.5%	(1.3)	(33.2)	2,453.8%
General administration	481.3	461.2	-4.2%	481.3	461.2	-4.2%
Educational services	1,231.1	1,399.1	13.6%	253.3	412.0	62.7%
Plant operations and maintenance	103.8	108.1	4.1%	103.8	108.1	4.1%
Central and other support services	153.9	150.1	-2.5%	153.9	150.2	-2.4%
Interest on long-term debt	77.6	53.4	-31.2%	77.6	53.4	-31.2%
Fees	10.7	1.5	-86.0%	10.7	1.5	-86.0%
<b>Total</b>	<b>11,578.7</b>	<b>12,852.3</b>	<b>11.0%</b>	<b>(607.5)</b>	<b>277.3</b>	<b>-145.6%</b>

- The cost of all governmental activities this year was \$12,852,289

- The portion of the cost financed by users of the Agency's programs was \$742,338
- The federal and state government subsidized certain programs with grants and contributions totaling \$8,917,400.
- The net cost portion of governmental activities was financed with \$2,915,281 in flowthrough property tax, \$3,679,406 in state foundation aid and \$6,181 in interest income.

### **Business-Type Activities**

Revenues and expenditures of the Agency's business-type activities (the Cooperative Purchasing Fund) increased from \$50,088 to \$58,444, an increase of 17 percent.

## **Financial Analysis of the Agency's Funds**

As previously noted, Southern Prairie AEA 15 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the Agency as a whole is reflected in its governmental funds as well. As the Agency completed the year, its governmental funds reported combined fund balances of \$1,793,004 which was a decrease from last year's ending fund balances of \$2,138,256. The primary reason for the decrease in combined fund balances in fiscal 2004 was due to the \$413,282 fund balance reversion to the State of Iowa.

### **Governmental Fund Highlights**

- The Agency's General Fund financial position deteriorated due to the \$413,282 fund balance reversion to the State of Iowa.
- The General Fund balance decreased from \$2,138,234 to \$1,792,569 due to the \$413,282 fund balance reversion to the State of Iowa.
- The Special Education Instruction (Preschool) Fund increased from \$22 in fiscal 2003 to \$435 in fiscal 2004. The revenues increased from \$227,012 in fiscal 2003 to \$249,031 in fiscal 2004. Expenditures likewise increased from \$225,919 in fiscal 2003 to \$241,635 in fiscal 2004.

## **Proprietary Fund Highlights**

The Co-op Fund net assets remained constant at \$0 from fiscal 2003 to fiscal 2004. As previously noted, the Agency operates a cooperative purchasing fund for the benefit of the school districts served by the Agency.

## **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Directors annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. The budget may be amended during the year. The Agency's budget is prepared on the accrued basis. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the IDEA Part B federal grant and the decrease in revenues and expenditures attributable to the closing of the three Preschool programs. 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.

### **General Fund Budgetary Highlights**

- The Agency's General Fund budget did not vary significantly from actual results. The financial statements include a comparison of budget and actual for the governmental and proprietary fund types. Except for proprietary transactions, variances between budget and actual were 18 percent or less.
- The Agency's General Fund actual support services expenditures varied from budget because the Agency did not fill all of the open staff positions and reduced expenditures for supplies, travel and equipment.
- The Agency's actual Governmental Fund's Fund balance was \$414,978 more than budgeted due to the unfilled open staff positions and reduced operating expenditures.

## **Capital Asset and Debt Administration**

### **Capital Assets**

By the end of fiscal 2004, the Agency had invested \$3.16 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, materials lending library, computers and audio-visual equipment (See Figure A-8). This amount represents a net decrease of 1.1 percent from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$448,083.

Excluding depreciation, the Agency has \$7.79 million in capital assets. Governmental funds account for the entire \$7.79 million.

**Figure A-8**

<b>CAPITAL ASSETS</b> (net of depreciation, in thousands of dollars)			
	Governmental Activities		Total Percentage Change 2003-2004
	<u>2003</u>	<u>2004</u>	
Land	192.7	192.7	0.0%
Buildings	1,602.4	1,564.5	-2.4%
Improvements other than buildings	587.5	537.2	-8.6%
Furniture and equipment	519.6	577.2	11.1%
Library books and films	289.7	283.9	-2.0%
<b>Total capital assets, net of depreciation</b>	<u><u>3,191.9</u></u>	<u><u>3,155.5</u></u>	<u><u>-1.1%</u></u>

**Long-Term Liabilities**

At year-end, the Agency had \$1,689,381 in long-term liabilities outstanding. This represents a decrease of approximately 4.8 percent from last year (See Figure A-9). More detailed information about the Agency's long-term liabilities is available in Notes 4 and 9 to the financial statements.

In February 2003, the Agency completed paying for the Jefferson County Satellite Office located in Fairfield, Iowa. In May 2003, the Agency refinanced its certificates of participation indebtedness for the Ottumwa Office at an interest rate of 3.51% down from the 4.60% interest rate prior to the refinancing. All other terms of the bonded indebtedness remained the same, including the principal payment amounts and dates. As of June 30, 2004, the Agency had total outstanding certificates of participation indebtedness of \$1,433,000.

**Figure A-9**

<b>OUTSTANDING LONG-TERM LIABILITIES</b> (In thousands of dollars)			
	Total Agency		Total Percentage Change 2003-2004
	<u>2003</u>	<u>2004</u>	
Certificates of participation	1,548.0	1,433.0	-7.4%
Compensated absences	55.8	81.4	45.9%
Early retirement benefits	171.6	175.0	2.0%
<b>Total</b>	<u><u>1,775.4</u></u>	<u><u>1,689.4</u></u>	<u><u>-4.8%</u></u>

## **Factors Bearing on the Agency's Future**

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

- The State of Iowa has announced a continuation in the reduction of \$19.3 million in the State Aid that all Area Education Agencies in the state receive for fiscal year 2005. Southern Prairie AEA 15's reduction in state aid funds is \$881,092.
- Southern Prairie AEA 15 closed one of its two remaining Preschools at the end of fiscal year 2004 and will close the last remaining Preschool at the end of fiscal year 2005

## **Contacting the Agency's Financial Management**

This financial report is designed to provide the Agency's citizens, taxpayers, customers, and 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 Dennis Gourley, Business Manager, Southern Prairie Area Education Agency 15, 2814 North Court Street, Ottumwa, Iowa 52501-1163

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and pooled investments	\$ 3,897,020	\$ -	\$ 3,897,020
Receivables:			
Accounts	173,678	22,256	195,934
Due from other governments	779,297	-	779,297
Inventories	37,970	-	37,970
Capital assets - Net of accumulated depreciation	<u>3,155,447</u>	<u>-</u>	<u>3,155,447</u>
TOTAL ASSETS	<u>8,043,412</u>	<u>22,256</u>	<u>8,065,668</u>
<u>LIABILITIES</u>			
Excess warrants issued over bank balance	11,277	9,943	21,220
Accounts payable	933,925	12,313	946,238
Salaries and benefits payable	1,864,932	-	1,864,932
Deferred revenue:			
Federal grants	152,104	-	152,104
Long-term liabilities:			
Portion due or payable within one year:			
Certificates of participation	120,000	-	120,000
Compensated absences	81,358	-	81,358
Early retirement benefits	51,365	-	51,365
Portion due or payable after one year:			
Certificates of participation	1,313,000	-	1,313,000
Early retirement benefits	<u>123,658</u>	<u>-</u>	<u>123,658</u>
TOTAL LIABILITIES	<u>4,651,619</u>	<u>22,256</u>	<u>4,673,875</u>
<u>NET ASSETS</u>			
Invested in capital assets - Net of related debt	1,722,447	-	1,722,447
Restricted for:			
Encumbrances	37,975	-	37,975
Inventories	37,970	-	37,970
Special purposes	177,891	-	177,891
Unrestricted	<u>1,415,510</u>	<u>-</u>	<u>1,415,510</u>
TOTAL NET ASSETS	<u>\$ 3,391,793</u>	<u>\$ -</u>	<u>\$ 3,391,793</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

		<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants, and Contributions</u>
<b><u>FUNCTIONS/PROGRAMS:</u></b>			
Governmental activities:			
Instruction	\$ 590,972	\$ 742,338	\$ 114,292
Student support services	9,221,831	1,028,931	8,803,108
Media services	866,063	899,243	-
General administration	461,156	-	-
Educational services	1,399,095	987,107	-
Plant operations and maintenance	108,115	-	-
Central and other support services	150,151	-	-
Interest on long-term debt	53,369	-	-
Fees	<u>1,537</u>	<u>-</u>	<u>-</u>
Total governmental activities	12,852,289	3,657,619	8,917,400
Business-type activities:			
Non-instructional programs:			
Cooperative purchasing	<u>50,998</u>	<u>58,444</u>	<u>-</u>
Total	\$ <u>12,903,287</u>	\$ <u>3,716,063</u>	\$ <u>8,917,400</u>

**GENERAL REVENUES:**

Unrestricted investment earnings  
Loss on disposal of fixed assets  
Operating transfers

Change in net assets

Net assets beginning of year

Net assets end of year

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ 265,658	\$ -	\$ 265,658
610,208	-	610,208
33,180	-	33,180
(461,156)	-	(461,156)
(411,988)	-	(411,988)
(108,115)	-	(108,115)
(150,151)	-	(150,151)
(53,369)	-	(53,369)
<u>(1,537)</u>	<u>-</u>	<u>(1,537)</u>
(277,270)	-	(277,270)
<u>-</u>	<u>7,446</u>	<u>7,446</u>
(277,270)	7,446	(269,824)
6,181	-	6,181
(1,226)	-	(1,226)
<u>7,446</u>	<u>(7,446)</u>	<u>-</u>
(264,869)	-	(264,869)
<u>3,656,662</u>	<u>-</u>	<u>3,656,662</u>
\$ <u>3,391,793</u>	\$ <u>-</u>	\$ <u>3,391,793</u>

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and pooled investments	\$ 3,816,415	\$ 80,605	\$ 3,897,020
Receivables:			
Accounts	173,678	-	173,678
Due from other governments	721,371	57,926	779,297
Inventories	<u>37,970</u>	<u>-</u>	<u>37,970</u>
TOTAL ASSETS	\$ <u>4,749,434</u>	\$ <u>138,531</u>	\$ <u>4,887,965</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Excess warrants issued over bank balance	\$ -	\$ 11,277	\$ 11,277
Accounts payable	931,845	2,080	933,925
Salaries and benefits payable	1,746,011	118,921	1,864,932
Early retirement benefits	45,547	5,818	51,365
Compensated absences	81,358	-	81,358
Deferred revenue:			
Federal grants	<u>152,104</u>	<u>-</u>	<u>152,104</u>
Total liabilities	<u>2,956,865</u>	<u>138,096</u>	<u>3,094,961</u>
Fund balances:			
Reserved for:			
Encumbrances	37,975	-	37,975
Inventories	37,970	-	37,970
Special purposes	177,456	435	177,891
Undesignated	<u>1,539,168</u>	<u>-</u>	<u>1,539,168</u>
Total fund balances	<u>1,792,569</u>	<u>435</u>	<u>1,793,004</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>4,749,434</u>	\$ <u>138,531</u>	\$ <u>4,887,965</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004

<u>TOTAL GOVERNMENTAL FUND BALANCES</u>	\$ 1,793,004
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$7,788,550 and the accumulated depreciation is \$4,633,103.</p>	3,155,447
<p>Long-term liabilities, including certificates of participation and early retirement benefits are not due and payable in the current period and, therefore, are not reported in the funds.</p>	<u>(1,556,658)</u>
<u>NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$ 3,391,793</u>

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues:			
Local sources	\$ 3,421,686	\$ 242,149	\$ 3,663,835
State sources	3,447,712	364,671	3,812,383
Federal sources	<u>5,104,982</u>	<u>-</u>	<u>5,104,982</u>
Total revenues	<u>11,974,380</u>	<u>606,820</u>	<u>12,581,200</u>
Expenditures:			
Current:			
Instruction	-	589,374	589,374
Student support services	9,198,111	-	9,198,111
Media services	863,720	-	863,720
General administration	459,908	-	459,908
Educational services	1,395,311	-	1,395,311
Plant operations and maintenance	107,823	-	107,823
Central and other support services	149,745	-	149,745
Debt service	<u>-</u>	<u>169,906</u>	<u>169,906</u>
Total expenditures	<u>12,174,618</u>	<u>759,280</u>	<u>12,933,898</u>
Deficiency of revenues under expenditures	<u>(200,238)</u>	<u>(152,460)</u>	<u>(352,698)</u>
Other financing sources (uses):			
Transfers in	24,479	169,906	194,385
Transfers out	<u>(169,906)</u>	<u>(17,033)</u>	<u>(186,939)</u>
Total other financing sources (uses)	<u>(145,427)</u>	<u>152,873</u>	<u>7,446</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(345,665)	413	(345,252)
Fund balances beginning of year	<u>2,138,234</u>	<u>22</u>	<u>2,138,256</u>
Fund balances end of year	\$ <u>1,792,569</u>	\$ <u>435</u>	\$ <u>1,793,004</u>

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (345,252)

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 expenses to allocate those expenditures over the estimated useful lives of the assets. Governmental funds report the selling price of fixed assets disposed while governmental activities report gains and losses on the disposal of fixed assets. Depreciation expense and loss on disposal of assets exceeded capital outlay expenditures in the current year as follows:

Expenditures for capital assets	\$	443,648	
Depreciation expense		(448,083)	
Loss on disposal of assets		<u>(1,224)</u>	(5,659)

Repayment of long-term liabilities is an expenditure in the governmental funds, reduces long-term liabilities in the Statement of Net Assets but is not reported in the Statement of Activities.	115,000
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Compensated absences expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	(25,542)
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Early retirement benefits expense reported in the Statement of Activities is not reported as an expenditure in the governmental funds.	<u>(3,416)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (264,869)

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	<u>Cooperative Purchasing</u>
<u>Operating revenues:</u>	
Sales and services	\$ 58,444
<u>Operating expenses:</u>	
Supplies and materials	<u>50,998</u>
OPERATING INCOME	7,446
<u>Operating transfers:</u>	
General fund	<u>(7,446)</u>
CHANGE IN NET ASSETS	-
Net assets beginning of year	<u>-</u>
Net assets end of year	\$ <u>-</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	<u>Cooperative Purchasing</u>
Cash flows from operating activities:	
Cash received from customers	\$ 58,444
Cash paid to suppliers	(50,998)
Operating transfers to general fund	<u>(7,446)</u>
Net cash provided by operating activities	-
Cash and cash equivalents beginning of year	<u>-</u>
Cash and cash equivalents end of year	\$ <u>-</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 7,446
Adjustments to reconcile operating income to net cash provided by operating activities:	
Operating transfers	<u>(7,446)</u>
Net cash provided by operating activities	\$ <u>-</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southern Prairie Area Education Agency 15 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 25 school districts and private schools in a ten-county area. The Agency is governed by a Board of Directors whose members are elected on a nonpartisan 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.

Reporting Entity

For financial reporting purposes, Southern Prairie Area Education Agency 15 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 fourth 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 the organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. Southern Prairie Area Education Agency 15 has no component units which meet the Governmental Accounting Standards Board criteria.

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 three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributed 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 that are 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 instead as general revenues.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 period or soon enough thereafter to pay liabilities of current period. 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.

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 nonoperating 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 are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 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 one year.

Land	\$300
Buildings	300
Improvements other than buildings	300
Furniture and equipment	300
Library books	300

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Improvements other than buildings	20
Furniture and equipment	5
Library books	5

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

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2004. 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, reservations of fund balance are reported for amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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.

NOTE 2: CASH AND POOLED INVESTMENTS

The Agency's deposits in banks at June 30, 2004 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 are categorized to give an indication of the level of risk assumed by the Agency at year end. The Agency's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the Agency or its agent in the Agency's name.

The Agency had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$4,406 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 is a follows:

	<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>End</u> <u>of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ <u>192,732</u>	\$ _____	\$ _____	\$ <u>192,732</u>
Capital assets being depreciated:				
Buildings	1,896,197	-	-	1,896,197
Improvements other than buildings	1,006,299	-	-	1,006,299
Furniture and equipment	2,714,743	314,763	100,371	2,929,135
Library books and films	<u>1,706,445</u>	<u>128,885</u>	<u>71,143</u>	<u>1,764,187</u>
Total capital assets being depreciated	<u>7,323,684</u>	<u>443,648</u>	<u>171,514</u>	<u>7,595,818</u>
Less accumulated depreciation for:				
Buildings	293,772	37,924	-	331,696
Improvements other than buildings	418,833	50,315	-	469,148
Furniture and equipment	2,195,149	225,201	68,383	2,351,967
Library books and films	<u>1,416,792</u>	<u>134,643</u>	<u>71,143</u>	<u>1,480,292</u>
Total accumulated depreciation	<u>4,324,546</u>	<u>448,083</u>	<u>139,526</u>	<u>4,633,103</u>
Total capital assets being depreciated, net	<u>2,999,138</u>	<u>(4,435)</u>	<u>31,988</u>	<u>2,962,715</u>
Governmental activities capital assets, net	\$ <u>3,191,870</u>	\$ <u>(4,435)</u>	\$ <u>31,988</u>	\$ <u>3,155,447</u>

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Instruction	\$ 20,692
Student support services	322,890
Media services	30,324
General administration	16,147
Educational services	48,987
Plant operations and maintenance	3,786
Central and other support services	<u>5,257</u>
Total governmental activities depreciation expense	<u>\$448,083</u>

Buildings within governmental activities includes \$1,500,000 acquired under capital leases.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**NOTE 4: CHANGES IN LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End Of Year</u>
Certificates of participation	\$1,548,000	\$ -	\$115,000	\$1,433,000
Compensated absences	55,816	25,542	-	81,358
Early retirement benefits	<u>171,607</u>	<u>3,416</u>	-	<u>175,023</u>
Total	<u>\$1,775,423</u>	<u>\$28,958</u>	<u>\$115,000</u>	<u>\$1,689,381</u>

Certificates of Participation

The Agency has sold certificates of participation for land and facilities for a total of \$2,500,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate of 5.8%. On May 1, 2003, the lease was refinanced with an interest rate of 3.51%. The following is a schedule by year of the future minimum payments required:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 120,000	\$ 49,245	\$ 169,245
2006	130,000	44,945	174,945
2007	135,000	40,383	175,383
2008	145,000	35,556	180,556
2009	155,000	30,379	185,379
Thereafter	<u>748,000</u>	<u>63,214</u>	<u>811,214</u>
Total	<u>\$1,433,000</u>	<u>\$263,722</u>	<u>\$1,696,722</u>

Payments on the certificates of participation for the year ended June 30, 2004, including interest, totaled \$169,906.

**NOTE 5: 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 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$405,734, \$404,083, and \$416,701 respectively, equal to the required contributions for each year.

**NOTE 6: RISK MANAGEMENT**

Southern Prairie Area Education Agency 15 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.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

NOTE 7: MAJOR REVENUE SOURCE

The Agency receives the majority of its funding from grants with the State of Iowa and the Federal Government. The majority of the Agency's funding is accomplished through a reimbursement system. The Agency incurs expense, pays for the expense, submits a reimbursement voucher to the appropriate agency and is reimbursed for the expense.

NOTE 8: 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, 2004 and June 30, 2007. 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 that 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 noncancellable lease terms in excess of one year as of June 30, 2004.

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2005	\$ 74,709
2006	59,609
2007	<u>22,008</u>
	<u>\$156,326</u>

The total rental expenditures for the year ended June 30, 2004, for all operating leases were \$82,578.

NOTE 9: EARLY RETIREMENT BENEFITS

The Agency offers early retirement benefits to eligible employees. Employees who take early retirement are eligible for up to five years health insurance coverage with the premiums paid by the Agency. Currently, there are 11 employees who are participating. Individuals who take early retirement are paid a percentage of their final year's salary (dependent upon their age when they retire). Salary and insurance expenses are expensed in the year that the employee elects early retirement. During the year ended June 30, 2004, \$44,338 was expensed for future health insurance benefits.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES  
IN BALANCES - BUDGET AND ACTUAL  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2004

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Total <u>Actual</u>
Revenues:			
Local sources	\$ 3,663,835	\$ 58,444	\$ 3,722,279
State sources	3,812,383	-	3,812,383
Federal sources	<u>5,104,982</u>	-	<u>5,104,982</u>
Total revenues	<u>12,581,200</u>	<u>58,444</u>	<u>12,639,644</u>
Expenditures/Expenses:			
Current:			
Instruction	589,374	-	589,374
Student support services	9,198,111	-	9,198,111
Media services	863,720	-	863,720
General administration	459,908	-	459,908
Educational services	1,395,311	-	1,395,311
Plant operations and maintenance	107,823	-	107,823
Central and other support services	149,745	-	149,745
Non institutional programs	-	50,998	50,998
Debt service	<u>169,906</u>	-	<u>169,906</u>
Total expenditures/expenses	<u>12,933,898</u>	<u>50,998</u>	<u>12,984,896</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(352,698)	7,446	(345,252)
Other financing sources, net	<u>7,446</u>	<u>(7,446)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	(345,252)	-	(345,252)
Balance beginning of year	<u>2,138,256</u>	<u>-</u>	<u>2,138,256</u>
Balance end of year	\$ <u>1,793,004</u>	\$ <u>-</u>	\$ <u>1,793,004</u>

	Budget		Final to
	Original	Final	Actual
			Variance
\$	4,073,275	\$ 4,162,810	\$ (440,531)
	4,424,411	3,798,897	13,486
	<u>4,834,870</u>	<u>5,140,669</u>	<u>(35,687)</u>
	<u>13,332,556</u>	<u>13,102,376</u>	<u>(462,732)</u>
	619,612	575,720	(13,654)
	9,022,469	9,362,421	164,310
	935,925	939,642	75,922
	527,435	464,587	4,679
	1,385,600	1,551,292	155,981
	126,128	131,921	24,098
	176,933	176,410	26,665
	500,000	492,554	441,556
	<u>185,711</u>	<u>169,138</u>	<u>(768)</u>
	<u>13,479,813</u>	<u>13,863,685</u>	<u>878,789</u>
	(147,257)	(761,309)	416,057
	<u>-</u>	<u>1,079</u>	<u>(1,079)</u>
	(147,257)	(760,230)	414,978
	<u>526,599</u>	<u>2,138,256</u>	<u>-</u>
\$	<u>379,342</u>	\$ <u>1,378,026</u>	\$ <u>414,978</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY REPORTING

JUNE 30, 2004

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 disbursements 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.

OTHER SUPPLEMENTARY INFORMATION

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2004

	<u>Special Revenue</u>		
	<u>Juvenile Home Education</u>	<u>Special Education Instruction</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and pooled investments	\$ 80,605	\$ -	\$ 80,605
Due from other governments	<u>-</u>	<u>57,926</u>	<u>57,926</u>
TOTAL ASSETS	\$ <u>80,605</u>	\$ <u>57,926</u>	\$ <u>138,531</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Excess warrants issued over bank balance	\$ -	\$ 11,277	\$ 11,277
Accounts payable	1,358	722	2,080
Salaries and benefits payable	73,429	45,492	118,921
Deferred revenue	<u>5,818</u>	<u>-</u>	<u>5,818</u>
Total liabilities	80,605	57,491	138,096
Fund balances:			
Reserved for special purposes	<u>-</u>	<u>435</u>	<u>435</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>80,605</u>	\$ <u>57,926</u>	\$ <u>138,531</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004

	<u>Special Revenue</u>			<u>Total</u>
	<u>Juvenile Home Education</u>	<u>Special Education Instruction</u>	<u>Debt Service</u>	
Revenues:				
Local sources	\$ -	\$ 242,149	\$ -	\$ 242,149
State sources	<u>357,789</u>	<u>6,882</u>	<u>-</u>	<u>364,671</u>
Total revenues	<u>357,789</u>	<u>249,031</u>	<u>-</u>	<u>606,820</u>
Expenditures:				
Current:				
Instruction	347,739	241,635	-	589,374
Debt service	<u>-</u>	<u>-</u>	<u>169,906</u>	<u>169,906</u>
Total expenditures	<u>347,739</u>	<u>241,635</u>	<u>169,906</u>	<u>759,280</u>
Excess (deficiency) of revenues over (under) expenditures	10,050	7,396	(169,906)	(152,460)
Other financing sources (uses):				
Transfers in (out)	<u>(10,050)</u>	<u>(6,983)</u>	<u>169,906</u>	<u>152,873</u>
Excess of revenues and other financing sources over expenditures and other financing uses	-	413	-	413
Fund balances beginning of year	<u>-</u>	<u>22</u>	<u>-</u>	<u>22</u>
Fund balances end of year	\$ <u>-</u>	\$ <u>435</u>	\$ <u>-</u>	\$ <u>435</u>

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:				
Local sources	\$ 3,663,835	\$ 3,562,391	\$ 3,834,403	\$ 3,856,856
State sources	3,812,383	4,284,016	4,147,610	4,409,847
Federal sources	<u>5,104,982</u>	<u>4,354,594</u>	<u>3,989,015</u>	<u>3,260,655</u>
Total	\$ <u>12,581,200</u>	\$ <u>12,201,001</u>	\$ <u>11,971,028</u>	\$ <u>11,527,358</u>
Expenditures:				
Instruction	\$ 589,374	\$ 554,201	\$ 963,391	\$ 851,333
Student support services	9,198,111	8,060,086	7,951,326	7,291,997
Media services	863,720	896,323	868,082	919,604
General administration	459,908	480,786	444,405	431,702
Educational services	1,395,311	1,229,856	1,240,338	1,228,522
Plant operations and maintenance	107,823	103,701	99,690	103,778
Central and other support services	149,745	153,709	163,414	152,541
Debt service	169,906	307,547	367,068	222,438
Facilities acquisition and construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>456,757</u>
Total	\$ <u>12,933,898</u>	\$ <u>11,786,209</u>	\$ <u>12,097,714</u>	\$ <u>11,658,672</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2004

	<u>CFDA</u> <u>Number</u>	Pass-through <u>Grantor's</u> <u>Number</u>	<u>Expenditures</u>
<u>Indirect Federal Financial Assistance:</u>			
U.S. Department of Education:			
Passed through Iowa Department of Education:			
Handicapped Preschool and School Program	84.027	030415	\$ 4,205,411
Enhancing Parent Educator Connection	84.027	37415	57,667
Second Opinions	84.027	3K71-15	6,057
Para Educator Project	84.027	3K76-15	7,000
Transition Grant	84.027	3K79-15TR	18,958
Success 4	84.027	3K75-15	<u>68,160</u>
			<u>4,363,253</u>
Handicapped Preschool Incentive Grant	84.173	03619-15	<u>266,170</u>
C.R.I.B.S. Development	84.181	C03-15	<u>160,339</u>
E2T2	84.318	--	<u>138,496</u>
Title I Accountability Grant	84.348	--	<u>39,546</u>
Math and Science Block Grant	84.281A	--	<u>11,903</u>
Reading First	84.357	--	<u>38,194</u>
Title III ELL/LEP	84.365	--	18,729
TESOL	84.365	44104	<u>1,642</u>
			<u>20,371</u>
STATE Improvement Grant	84.323	3IEP-15	7,980
Every Child Reads	84.323	ECR-03-7	<u>1,234</u>
			<u>9,214</u>
Service Learning	94.004	04SL015	<u>2,849</u>
Total			\$ <u>5,050,335</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30,2004

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Southern Prairie Area Education Agency 15 and is presented on the modified accrual basis. The information on 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

Letterhead

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors of  
Southern Prairie Area Education Agency 15

We have audited the financial statements of Southern Prairie Area Education Agency 15 as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Southern Prairie Area Education Agency 15's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the 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. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southern Prairie Area Education Agency 15's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Southern Prairie Area Education Agency 15's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. Prior year reportable conditions have been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Southern Prairie Education Agency 15 and other parties to whom the Agency may report. This report 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 Southern Prairie Area Education Agency 15 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
August 5, 2004

*Leffers*

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Board of Directors of  
Southern Prairie Area Education Agency 15

Compliance

We have audited the compliance of Southern Prairie Area Education Agency 15 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Southern Prairie Area Education Agency 15'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 grants applicable to its major federal programs is the responsibility of Southern Prairie Area Education Agency 15's management. Our responsibility is to express an opinion on Southern Prairie Area Education Agency 15's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa, 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 provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southern Prairie Area Education Agency 15's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Southern Prairie Area Education Agency 15's compliance with those requirements.

In our opinion, Southern Prairie Area Education Agency 15 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Southern Prairie Area Education Agency 15 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Southern Prairie Area Education Agency 15'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 Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Southern Prairie Area Education Agency 15 and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
August 5, 2004

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004

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

- a. An unqualified opinion was issued on the financial statements.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any noncompliance which is material to the financial statements.
- d. No reportable conditions in internal control over 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 no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. Major programs were as follows:
  - CFDA Number 84.027 - Special Education - Grants to States
  - CFDA Number 84.173 - Special Education - Preschool Grants
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. Southern Prairie Area Education Agency 15 qualifies as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Instances of Noncompliance - No matters were noted.

Reportable Conditions –

Fixed Asset Disposals – The Agency's current policy regarding the disposal of fixed assets does not reflect the actual practice being followed.

Recommendation – The Agency should adopt revised policies and procedures.

Response – We will do so.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance - No matters were noted.

Reportable Conditions - No matters were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

- 04-IV-A Official Depositories - A resolution naming official depositories has been adopted by the Agency. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting: (Continued)

- 04-IV-B Budget - Expenditures during the year ended June 30, 2004, did not exceed the amount budgeted.
- 04-IV-C Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 04-IV-D Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 04-IV-E Business Transactions - No business transactions between Southern Prairie Area Education Agency 15 and Agency officials or employees were noted.
- 04-IV-F 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 insure that the coverage is adequate for current operations
- 04-IV-G Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 04-IV-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.
- 04-IV-I Certified Annual Report - The certified annual report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.