

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

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

JUNE 30, 2005

Anderson, Larkin & Co. P.C.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

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SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

OFFICIALS

JUNE 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b><u>Board of Directors</u></b>		
Harold Mick	President	2007
Peggy Campbell	Vice-President	2007
John Adam	Member	2005
Joy Prothero	Member	2005
Dwain Dooley	Member	2007
H. Michael Neary	Member	2006
George Holder	Member	2006
Matt Greiner	Member	2006
Kelly Kauzlarich	Member	2005
<b><u>Agency</u></b>		
Joseph Crozier	Administrator	Annual Contract
Nancy Brown	Board Secretary	Appointed
Dennis Gourley	Business Manager and Treasurer	Appointed

Anderson, Larkin & Co. P.C.

## 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, 2005, 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 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 Southern Prairie Area Education Agency 15 at June 30, 2005, 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 4, 2005 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 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 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 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 required 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, 2004 (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 accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State, 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
August 4, 2005

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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, 2005. 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 \$11,974,380 in fiscal 2004 to \$12,758,141 in fiscal 2005 while General fund expenditures increased from \$12,174,618 in fiscal 2004 to \$12,456,863 in fiscal 2005. The General Fund also reported net transfers out of \$150,782. This resulted in an increase in the Agency's General Fund balance from \$1,792,569 in fiscal 2004 to \$1,943,065 in fiscal 2005 an 8 percent increase from the prior year. The increase in fund balance was due primarily to savings from unfilled staff positions.
- The increase in General Fund revenues was primarily attributable to an increase in the IDEA Part B federal grant revenue received in fiscal 2005. The increase in expenditures was due primarily to an increase in the IDEA Part B federal expenditures.

## 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 and notes 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

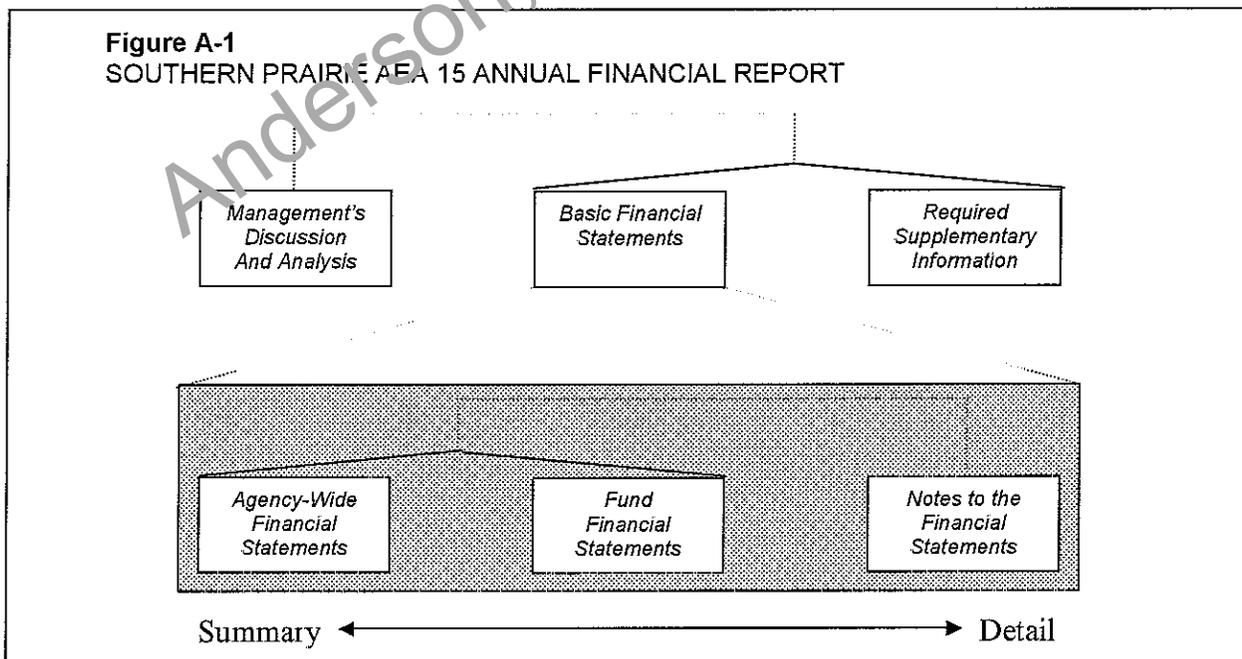


Figure A-2 summarizes the major features of the Agency's financial statements, including the portion of the Agency's activities covered and the types of information the statements contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents 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 revenues, expenses, and changes in fund 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 would be 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; Special Education Instruction 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 increased 3.0% - \$101,500 - during fiscal year 2005. The increase occurred primarily due to savings from unfilled staff positions.

Figure A-3

SUMMARY OF NET ASSETS (in thousands of dollars)							
	Governmental Activities		Business-Type Activities		TOTAL		Percentage Change 2004-2005
	2004	2005	2004	2005	2004	2005	
Total Assets	8,043.3	8,104.3	22.3	9.8	8,065.7	8,114.1	0.6%
Total Liabilities	4,651.9	4,611.0	22.3	9.8	4,673.9	4,620.8	-1.1%
Net Assets							
Invested in Capital Assets, net of related Debt	1,722.4	1,697.7	-	-	1,722.4	1,697.7	-1.4%
Restricted for							
Encumbrances	38.0	24.8	-	-	38.0	24.8	-34.7%
Restricted for Other	177.9	189.1	-	-	177.9	189.1	6.3%
Unrestricted	1,453.5	1,581.7	-	-	1,453.5	1,581.7	8.8%
Total Net Assets	3,391.8	3,493.3	-	-	3,391.8	3,493.3	3.0%

**Figure A-4**

CHANGES IN NET ASSETS FROM OPERATING RESULTS							
(in thousands of dollars)							
	Governmental Activities		Business-Type Activities		TOTAL		Percentage Change 2004-2005
	2004	2005	2004	2005	2004	2005	
<b>Program Revenues:</b>							
Charges for services	742.3	700.7	58.5	43.2	800.8	743.9	-7.1%
Operating Grants and Contributions	5,237.9	5,854.7			5,237.9	5,854.7	11.8%
<b>General Revenues</b>							
Property taxes	2,915.3	2,962.0			2,915.3	2,962.0	1.6%
State aid	3,679.4	3,634.7			3,679.4	3,634.7	-1.2%
Unrestricted investment earnings	6.2	31.2			6.2	31.2	403.2%
Operating transfers	7.5	7.4	(7.5)	(7.4)	-	-	0.0%
<b>Total revenues</b>	<b>12,588.6</b>	<b>13,190.7</b>	<b>51.0</b>	<b>35.8</b>	<b>12,639.6</b>	<b>13,226.5</b>	<b>4.6%</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Instruction	591.0	416.7			591.0	416.7	-29.5%
Student support services	9,221.8	9,307.6			9,221.8	9,307.6	0.9%
Media services	866.1	927.9			866.1	927.9	7.1%
General administration	461.2	497.9			461.2	497.9	8.0%
Educational services	1,399.1	1,509.1			1,399.1	1,509.1	7.9%
Plant operations and maintenance	108.1	139.2			108.1	139.2	28.8%
Central and other support services	150.1	187.2			150.1	187.2	24.7%
Interest on long-term debt	53.4	49.2			53.4	49.2	-7.9%
Fees	1.5	1.5			1.5	1.5	0.0%
Cooperative purchasing			51.0	35.8	51.0	35.8	-29.8%
<b>Total expenditures</b>	<b>12,852.3</b>	<b>13,036.3</b>	<b>51.0</b>	<b>35.8</b>	<b>12,903.3</b>	<b>13,072.1</b>	<b>1.3%</b>
Excess (deficiency) before special item	(263.7)	154.4	-	-	(263.7)	154.4	158.6%
Special Item: Loss on disposal of assets	(1.2)	(52.8)	-	-	(1.2)	(52.8)	
<b>Increase (decrease) in net assets</b>	<b>(264.9)</b>	<b>101.6</b>	<b>-</b>	<b>-</b>	<b>(264.9)</b>	<b>101.6</b>	<b>138.4%</b>

The Agency's increase in net assets is due primarily due to the savings from unfilled staff positions

**Figure A-5**

**Revenues  
Fiscal Year 2005**

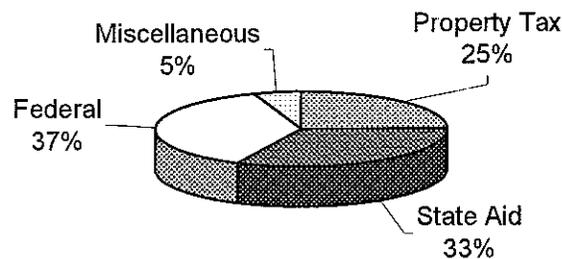
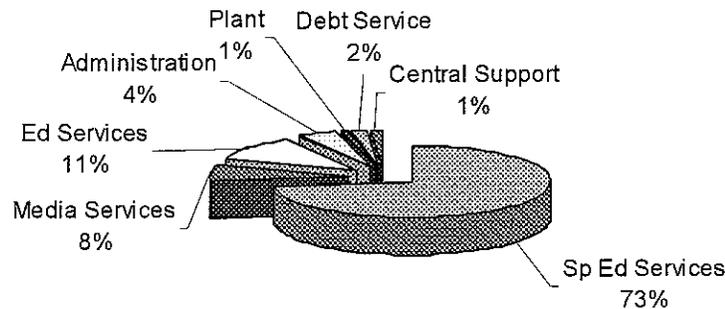


Figure A-6

### Expenditures Fiscal Year 2005



### Governmental Activities

Revenues for the Agency's activities increased 4.8 percent, and total expenses increased 1.4 percent compared to the prior year. The increase in expenses was primarily attributable to an increase in the IDEA Part B federal expenditures.

Revenues for governmental activities were \$13,190,674 while expenses amounted to \$13,036,314.

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
	2004	2005	2004-2005	2004	2005	2004-2005
Instruction	591.0	416.7	-29.5%	(265.7)	(414.0)	55.8%
Student support services	9,221.8	9,307.6	0.9%	(610.2)	(839.5)	37.6%
Media services	866.1	927.9	7.1%	(33.2)	22.4	-167.5%
General administration	461.2	497.9	8.0%	461.2	497.9	8.0%
Educational services	1,399.1	1,509.1	7.9%	412.0	240.3	-41.7%
Plant operations and maintenance	108.1	139.2	28.8%	108.1	139.2	28.8%
Central and other support services	150.1	187.2	24.7%	150.2	187.3	24.7%
Interest on long-term debt	53.4	49.2	-7.9%	53.4	49.2	-7.9%
Fees	1.5	1.5	0.0%	1.5	1.5	0.0%
<b>Total</b>	<b>12,852.3</b>	<b>13,036.3</b>	<b>1.4%</b>	<b>277.3</b>	<b>(115.7)</b>	<b>-141.7%</b>

- The cost of all governmental activities this year was \$13,036,314
- The portion of the cost financed by users of the Agency's programs was \$700,702
- The federal and state government subsidized certain programs with grants and contributions totaling \$9,489,334.
- The net cost portion of governmental activities was financed with \$2,961,959 in flowthrough property tax, \$3,634,690 in state foundation aid and \$31,233 in interest income

### **Business-Type Activities**

Revenues and expenditures of the Agency's business-type activities (the Cooperative Purchasing Fund) decreased from \$58,444 to \$43,244, a decrease of 26 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 \$1,943,065 which was an increase from last year's ending fund balances of \$1,793,004. The primary reason for the increase in combined fund balances in fiscal 2005 was due to the savings from unfilled staff positions.

### **Governmental Fund Highlights**

- The Agency's General Fund financial position improved due to the savings from unfilled staff positions.
- The General Fund balance increased from \$1,792,569 to \$1,943,065 due to the savings from unfilled staff positions
- The Special Education Instruction (Preschool) Fund ending fund balance decreased from \$435 in fiscal 2004 to \$0 in fiscal 2005. The revenues decreased from \$249,031 in fiscal 2004 to \$146,623 in fiscal 2005. Expenditures likewise decreased from \$241,635 in fiscal 2004 to \$142,720 in fiscal 2005

## **Proprietary Fund Highlights**

The Co-op Fund net assets remained constant at \$0 from fiscal 2004 to fiscal 2005. 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 modified accrual/accrual 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. 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 12 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 ending fund balance was \$777,999 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 2005, the Agency had invested \$3.01 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 4.6 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 \$451,141.

Excluding depreciation, the Agency has \$7.90 million in capital assets. Governmental funds account for the entire \$7.90 million.

**Figure A-8**

<b>CAPITAL ASSETS</b> (net of depreciation, in thousands of dollars)			
	Governmental Activities		Total Percentage Change 2004-2005
	2004	2005	
Land	192.7	192.7	0.0%
Buildings	1,564.5	1,526.6	-2.4%
Improvements other than buildings	537.2	486.8	-9.4%
Furniture and equipment	577.2	525.2	-9.0%
Library books and films	283.9	279.4	-1.6%
<b>Total capital assets, net of depreciation</b>	<b><u>3,155.5</u></b>	<b><u>3,010.7</u></b>	<b><u>-4.6%</u></b>

**Long-Term Liabilities**

At year-end, the Agency had \$1,602,724 in long-term liabilities outstanding. This represents a decrease of approximately 5.1 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, 2005, the Agency had total outstanding certificates of participation indebtedness of \$1,313,000.

**Figure A-9**

<b>OUTSTANDING LONG-TERM LIABILITIES</b> (in thousands of dollars)			
	Total Agency		Total Percentage Change 2004-2005
	2004	2005	
Certificates of participation	1,433.0	1,313.0	-8.4%
Compensated absences	81.4	77.7	-4.5%
Early retirement benefits	175.0	212.1	21.2%
<b>Total</b>	<b><u>1,689.4</u></b>	<b><u>1,602.8</u></b>	<b><u>-5.1%</u></b>

## **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 2006. Southern Prairie AEA 15's reduction in state aid funds is \$881,092.
- Southern Prairie AEA 15 closed its 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.

Anderson, Larkin & Co. P.C.

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

## STATEMENT OF NET ASSETS

JUNE 30, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and pooled investments	\$ 3,926,013	\$ -	\$ 3,926,013
Receivables:			
Accounts	79,856	9,793	89,649
Due from other governments	1,052,585	-	1,052,585
Inventories	35,202	-	35,202
Capital assets - Net of accumulated depreciation	<u>3,010,692</u>	<u>-</u>	<u>3,010,692</u>
TOTAL ASSETS	<u>8,104,348</u>	<u>9,793</u>	<u>8,114,141</u>
<u>LIABILITIES</u>			
Excess warrants issued over bank balance	14,859	6,039	20,928
Accounts payable	826,983	3,754	830,737
Salaries and benefits payable	1,863,828	-	1,863,828
Deferred revenue:			
Federal grants	302,541	-	302,541
Long-term liabilities:			
Portion due or payable within one year:			
Certificates of participation	130,000	-	130,000
Compensated absences	77,660	-	77,660
Early retirement benefits	64,690	-	64,690
Portion due or payable after one year:			
Certificates of participation	1,183,000	-	1,183,000
Early retirement benefits	<u>147,374</u>	<u>-</u>	<u>147,374</u>
TOTAL LIABILITIES	<u>4,610,965</u>	<u>9,793</u>	<u>4,620,758</u>
<u>NET ASSETS</u>			
Invested in capital assets - Net of related debt	1,697,692	-	1,697,692
Restricted for:			
Encumbrances	24,842	-	24,842
Special purposes	189,127	-	189,127
Unrestricted	<u>1,581,722</u>	<u>-</u>	<u>1,581,722</u>
TOTAL NET ASSETS	\$ <u>3,493,383</u>	\$ <u>-</u>	\$ <u>3,493,383</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

		<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	\$ 416,681	\$ 700,702	\$ 129,982
Student support services	9,307,565	1,062,412	9,084,704
Media services	927,872	905,471	-
General administration	497,909	-	-
Educational services	1,509,066	994,076	274,648
Plant operations and maintenance	139,241	-	-
Central and other support services	187,198	-	-
Interest on long-term debt	49,245	-	-
Fees	1,337	-	-
Total governmental activities	<u>13,026,314</u>	<u>3,662,661</u>	<u>9,489,334</u>
Business-type activities:			
Non-instructional programs:			
Cooperative purchasing	<u>35,798</u>	<u>43,244</u>	<u>-</u>
Total	<u>\$ 13,072,112</u>	<u>\$ 3,705,905</u>	<u>\$ 9,489,334</u>
<b><u>GENERAL REVENUES:</u></b>			
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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 414,003	\$ -	\$ 414,003
839,551	-	839,551
(22,401)	-	(22,401)
(497,909)	-	(497,909)
(240,342)	-	(240,342)
(139,241)	-	(139,241)
(187,198)	-	(187,198)
(49,245)	-	(49,245)
<u>(1,537)</u>	<u>-</u>	<u>(1,537)</u>
115,681	-	115,681
<u>-</u>	<u>7,446</u>	<u>7,446</u>
115,681	7,446	123,127
31,233	-	31,233
(52,770)	-	(52,770)
<u>7,446</u>	<u>(7,446)</u>	<u>-</u>
101,590	-	101,590
<u>3,391,793</u>	<u>-</u>	<u>3,391,793</u>
\$ <u><u>3,493,383</u></u>	\$ <u><u>-</u></u>	\$ <u><u>3,493,383</u></u>

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General	Nonmajor Governmental Funds	Total
<u>ASSETS</u>			
Cash and pooled investments	\$ 3,730,836	\$ 195,177	\$ 3,926,013
Receivables:			
Accounts	79,856	-	79,856
Due from other governments	1,008,227	44,358	1,052,585
Inventories	<u>35,202</u>	<u>-</u>	<u>35,202</u>
TOTAL ASSETS	\$ <u>4,854,121</u>	\$ <u>239,535</u>	\$ <u>5,093,656</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Excess warrants issued over bank balance	-	\$ 14,889	\$ 14,889
Accounts payable	822,375	4,608	826,983
Salaries and benefits payable	1,780,159	83,669	1,863,828
Early retirement benefits	58,873	5,817	64,690
Compensated absences	77,660	-	77,660
Deferred revenue:			
Federal grants	<u>171,989</u>	<u>130,552</u>	<u>302,541</u>
Total liabilities	<u>2,911,056</u>	<u>239,535</u>	<u>3,150,591</u>
Fund balances:			
Reserved for:			
Encumbrances	24,842	-	24,842
Inventories	35,202	-	35,202
Special purposes	189,127	-	189,127
Designated for:			
Leadership Development	125,000	-	125,000
Rooftop Units	42,000	-	42,000
Undesignated	<u>1,526,894</u>	<u>-</u>	<u>1,526,894</u>
Total fund balances	<u>1,943,065</u>	<u>-</u>	<u>1,943,065</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>4,854,121</u>	\$ <u>239,535</u>	\$ <u>5,093,656</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2005

TOTAL GOVERNMENTAL FUND BALANCES \$ 1,943,065

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$7,905,475 and the accumulated depreciation is \$4,894,783. 3,010,692

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 (1,460,374)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 3,493,383

Anderson, Larkin & Co. P.C.

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues:			
Local sources	\$ 3,563,902	\$ 142,663	\$ 3,706,565
State sources	3,482,249	282,424	3,764,673
Federal sources	<u>5,711,990</u>	<u>-</u>	<u>5,711,990</u>
Total revenues	<u>12,758,141</u>	<u>425,087</u>	<u>13,183,228</u>
Expenditures:			
Current:			
Instruction	-	412,968	412,968
Student support services	9,224,635	-	9,224,635
Media services	919,605	-	919,605
General administration	493,472	-	493,472
Educational services	1,495,620	-	1,495,620
Plant operations and maintenance	138,001	-	138,001
Central and other support services	185,530	-	185,530
Debt service	<u>-</u>	<u>170,782</u>	<u>170,782</u>
Total expenditures	<u>12,456,863</u>	<u>583,750</u>	<u>13,040,613</u>
Excess (deficiency) of revenues over (under) expenditures	<u>301,278</u>	<u>(158,663)</u>	<u>142,615</u>
Other financing sources (uses):			
Transfers in	20,000	170,782	190,782
Transfers out	<u>(170,782)</u>	<u>(12,554)</u>	<u>(183,336)</u>
Total other financing sources (uses)	<u>(150,782)</u>	<u>158,228</u>	<u>7,446</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	150,496	(435)	150,061
Fund balances beginning of year	<u>1,792,569</u>	<u>435</u>	<u>1,793,004</u>
Fund balances end of year	\$ <u>1,943,065</u>	\$ <u>-</u>	\$ <u>1,943,065</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, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 150,061

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	\$ 359,156	
Depreciation expense	(451,141)	
Loss on disposal of assets	<u>(52,770)</u>	(144,755)

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. 120,000

Early retirement benefits expense reported in the Statement of Activities is not reported as an expenditure in the governmental funds. (23,716)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 101,590

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005

Cooperative  
Purchasing

ASSETS:

Due from other governments

\$ 9,793

LIABILITIES:

Excess warrants issued over bank balance

6,039

Accounts payable

3,754

Total liabilities

9,793

NET ASSETS:

Unrestricted

\$       -

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## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2005

	<u>Cooperative Purchasing</u>
<u>Operating revenues:</u>	
Charges for service	\$ 43,244
<u>Operating expenses:</u>	
Non-Instructional Programs:	
Supplies and materials	<u>35,798</u>
	OPERATING INCOME
	7,446
<u>Non-operating revenues (expenses):</u>	
Transfers out	<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, 2005

Cooperative  
Purchasing

Cash flows from operating activities:	
Cash received from customers	\$ 43,244
Cash paid to suppliers	(35,798)
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:	
Transfers out	<u>(7,446)</u>
Net cash provided by operating activities	\$ <u>-</u>

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## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

#### 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, 2005

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, 2005

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 and films	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 and films	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, 2005

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, 2005. 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, 2005 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 had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$4,484 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 is as 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	2,929,135	220,061	179,705	2,969,491
Library books and films	<u>1,764,187</u>	<u>139,095</u>	<u>62,522</u>	<u>1,840,760</u>
Total capital assets being depreciated	<u>7,595,818</u>	<u>359,156</u>	<u>242,227</u>	<u>7,712,747</u>
Less accumulated depreciation for:				
Buildings	331,696	37,124	-	369,620
Improvements other than buildings	469,148	50,315	-	519,463
Furniture and equipment	2,351,967	212,248	126,934	2,444,281
Library books and films	<u>1,480,292</u>	<u>143,654</u>	<u>62,527</u>	<u>1,561,419</u>
Total accumulated depreciation	<u>4,633,103</u>	<u>451,141</u>	<u>189,461</u>	<u>4,894,783</u>
Total capital assets being depreciated, net	<u>2,962,715</u>	<u>(91,985)</u>	<u>52,770</u>	<u>2,817,960</u>
Governmental activities capital assets, net	\$ <u>3,155,447</u>	\$ <u>(91,985)</u>	\$ <u>52,770</u>	\$ <u>3,010,692</u>

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

Governmental activities:	
Instruction	\$ 14,476
Student support services	323,362
Media services	32,236
General administration	17,298
Educational services	52,428
Plant operations and maintenance	4,837
Central and other support services	<u>6,504</u>
Total governmental activities depreciation expense	\$ <u>451,141</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, 2005

NOTE 4: CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End Of Year
Certificates of participation	\$ 1,433,000	\$ -	\$ 120,000	\$ 1,313,000
Compensated absences	81,358	-	3,698	77,660
Early retirement benefits	<u>175,023</u>	<u>97,079</u>	<u>60,038</u>	<u>212,064</u>
Total	<u>\$ 1,689,381</u>	<u>\$ 97,079</u>	<u>\$ 183,736</u>	<u>\$ 1,602,724</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 20 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:

Year Ending June 30,	Principal	Interest	Total
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
2010	165,000	24,850	189,850
Thereafter	<u>513,000</u>	<u>38,364</u>	<u>621,364</u>
Total	<u>\$ 1,513,000</u>	<u>\$ 214,477</u>	<u>\$ 1,527,477</u>

Payments on the certificates of participation for the year ended June 30, 2005, including interest, totaled \$169,245.

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, 2005, 2004 and 2003. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$419,124, \$405,734, and \$404,083 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, 2005

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 Agency has leased various pieces of office equipment. The leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The lease expires September 30, 2009.

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, 2005

<u>Year Ending</u> <u>June 30,</u>	<u>Space</u> <u>Rental</u>	<u>Office</u> <u>Equipment</u>	<u>Total</u>
2006	\$ 51,259	\$ 26,364	\$ 87,623
2007	22,008	26,364	48,372
2008	-	26,364	26,364
2009	-	26,364	26,364
2010	-	6,591	6,591
	<u>\$ 83,267</u>	<u>\$ 112,047</u>	<u>\$ 195,314</u>

The total rental expenditures for the year ended June 30, 2005, for all operating leases were \$83,559.

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 13 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, 2005, \$75,081 was expensed for future health insurance benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Anderson, Larkin & Co. P.C.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

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, 2005

	Governmental Funds <u>Actual</u>	Proprietary Fund <u>Actual</u>	Total <u>Actual</u>
Revenues:			
Local sources	\$ 3,706,565	\$ 43,244	\$ 3,749,809
State sources	3,764,673	-	3,764,673
Federal sources	5,711,990	-	5,711,990
Total revenues	<u>13,183,228</u>	<u>43,244</u>	<u>13,226,472</u>
Expenditures/Expenses:			
Current:			
Instruction	412,968	-	412,968
Student support services	9,224,635	-	9,224,635
Media services	919,605	-	919,605
General administration	493,472	-	493,472
Educational services	1,495,620	-	1,495,620
Plant operations and maintenance	138,001	-	138,001
Central and other support services	185,530	-	185,530
Non institutional programs	-	35,798	35,798
Debt service	170,782	-	170,782
Total expenditures/expenses	<u>13,040,613</u>	<u>35,798</u>	<u>13,076,411</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	142,615	7,446	150,061
Other financing sources (uses), 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	150,061	-	150,061
Balance beginning of year	<u>1,793,004</u>	<u>-</u>	<u>1,793,004</u>
Balance end of year	\$ <u>1,943,065</u>	\$ <u>-</u>	\$ <u>1,943,065</u>

Budget		Final to Actual
Original	Final	Variance
\$ 4,076,762	\$ 4,084,938	\$ (335,129)
3,900,220	3,790,968	(26,295)
5,691,466	5,750,056	(38,066)
<u>13,668,448</u>	<u>13,625,962</u>	<u>(399,490)</u>
529,542	440,360	27,392
9,665,316	9,707,912	483,277
1,002,690	947,208	27,603
484,754	492,069	(1,403)
1,417,661	1,665,528	169,908
139,052	138,218	277
191,098	199,269	13,739
492,554	492,554	456,756
170,014	170,782	-
<u>14,092,681</u>	<u>14,253,900</u>	<u>1,177,489</u>
(424,233)	(627,938)	777,999
<u>                    </u>	<u>                    </u>	<u>                    </u>
(424,233)	(627,938)	777,999
<u>1,381,085</u>	<u>1,793,004</u>	<u>                    </u>
\$ <u>956,852</u>	\$ <u>1,165,066</u>	\$ <u>777,999</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

YEAR ENDED JUNE 30, 2005

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 comparison 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 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.

Anderson, Larkin & Co. P.C.

OTHER SUPPLEMENTARY INFORMATION

Anderson, Larkin & Co. P.C.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>Special Revenue</u>		
	<u>Juvenile</u>	<u>Special</u>	
	<u>Home</u>	<u>Education</u>	
	<u>Education</u>	<u>Instruction</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and pooled investments	\$ 195,177	\$ -	\$ 195,177
Due from other governments	<u>-</u>	<u>44,358</u>	<u>44,358</u>
TOTAL ASSETS	\$ <u>195,177</u>	\$ <u>44,358</u>	\$ <u>239,535</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Excess warrants issued over bank balance	\$ -	\$ 14,889	\$ 14,889
Accounts payable	1,752	2,856	4,608
Salaries and benefits payable	57,056	26,613	83,669
Early retirement benefits	5,817	-	5,817
Deferred revenue:			
Federal grants	<u>130,552</u>	<u>-</u>	<u>130,552</u>
Total liabilities	195,177	44,358	239,535
Fund balances:			
Reserved for special purposes	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>195,177</u>	\$ <u>44,358</u>	\$ <u>239,535</u>

## SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	<u>Special Revenue</u>			<u>Total</u>
	<u>Juvenile Home Education</u>	<u>Special Education Instruction</u>	<u>Debt Service</u>	
Revenues:				
Local sources	\$ -	\$ 142,663	\$ -	\$ 142,663
State sources	<u>278,464</u>	<u>3,960</u>	-	<u>282,424</u>
Total revenues	<u>278,464</u>	<u>146,623</u>	<u>-</u>	<u>425,087</u>
Expenditures:				
Current:				
Instruction	270,248	142,720	-	412,968
Debt service	<u>-</u>	<u>-</u>	<u>170,782</u>	<u>170,782</u>
Total expenditures	<u>270,248</u>	<u>142,720</u>	<u>170,782</u>	<u>583,750</u>
Excess (deficiency) of revenues over (under) expenditures	8,216	3,903	(170,782)	(158,663)
Other financing sources (uses):				
Transfers in (out)	<u>(8,216)</u>	<u>(4,338)</u>	<u>170,782</u>	<u>158,228</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	-	(435)	-	(435)
Fund balances beginning of year	<u>-</u>	<u>435</u>	<u>-</u>	<u>435</u>
Fund balances end of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</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>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues:				
Local sources	\$ 3,706,565	\$ 3,663,835	\$ 3,562,391	\$ 3,834,403
State sources	3,764,673	3,812,383	4,284,016	4,147,610
Federal sources	<u>5,711,990</u>	<u>5,104,982</u>	<u>4,354,594</u>	<u>3,989,015</u>
Total	\$ <u>13,183,228</u>	\$ <u>12,581,200</u>	\$ <u>12,201,001</u>	\$ <u>11,971,028</u>
Expenditures:				
Current:				
Instruction	\$ 412,968	\$ 589,574	\$ 554,201	\$ 963,391
Student support services	9,224,635	9,193,111	8,060,086	7,951,326
Media services	919,605	863,720	896,323	868,082
General administration	493,472	459,908	480,786	444,405
Educational services	1,495,620	1,395,311	1,229,856	1,240,338
Plant operations and maintenance	132,101	107,823	103,701	99,690
Central and other support services	125,530	149,745	153,709	163,414
Debt service	<u>170,782</u>	<u>169,906</u>	<u>307,547</u>	<u>367,068</u>
Total	\$ <u>13,040,613</u>	\$ <u>12,933,898</u>	\$ <u>11,786,209</u>	\$ <u>12,097,714</u>

Anderson, Lakin & Co. P.C.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005

	<u>CFDA</u>	Pass-through	<u>Expenditures</u>
	<u>Number</u>	<u>Grantor's</u>	
		<u>Number</u>	
<u>Indirect:</u>			
U.S. Department of Education:			
Passed through Iowa Department of Education:			
Success 4	84.027	4K75-15	\$ 22,929
Handicapped Preschool Program	84.027	40515	3,524,941
Handicapped Preschool Program (Lea Flowthrough)	84.027	5KB2-15	1,148,087
Handicapped Preschool Program (Learning Support)	84.027	4K75-15	39,301
Parent Education	84.027	47415	80,944
Second Opinion	84.027	4K71-15	8,055
Transition Grant	84.027	4K09-15	12,616
Para Educator Project	84.027	4K76-15	13,568
			<u>4,850,441</u>
Section 619 Ages 3-5	84.173	04619-15	265,046
			<u>5,115,487</u>
Part C Infants and Toddlers	84.181	C04-15	167,793
Part C Infants and Toddlers (Regional Coordinator)	84.181	--	5,183
Parent Ed Measures Survey	84.181	G4KC1-11	900
			<u>173,876</u>
Assistive Technology	84.224A	--	3,414
Eisenhower Math/Science Block Grant	84.281A	--	4,081
E2T2	84.318	--	191,344
State Improvement Grant	84.323	G-5P13-15	16,100
Title I Accountability Grant	84.348	--	13,881
Reading First	84.357	--	23,634
Title III ELL/LEP	84.365	--	33,941
Service Learning	94.004	05SL015	2,000
Total			\$ <u>5,577,758</u>

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005

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.

Anderson, Larkin & Co. P.C.

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

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

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, 2005, which collectively comprise the Entity's basic financial statements listed in the table of contents, and have issued our report thereon dated August 4, 2005. 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 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 an opinion 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 reportable 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 caused by error or fraud 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 are material weaknesses. Prior year reportable conditions have all been resolved.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters 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, 2005, 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.

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, 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.

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 4, 2005

Anderson, Larkin & Co. P.C.

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, 2005. 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 grant agreements 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 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 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, 2005.

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 grant agreements 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 reportable 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 caused by error or fraud 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 4, 2005

Anderson, Larkin & Co. P.C.

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005

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, none of which are considered to be material weaknesses.
- 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 -

Expense Approval - It is the policy of Southern Prairie Area Education Agency 15 to have employee expenditures approved by their supervisor or department head. We noted one instance where this policy was not complied with.

Recommendation - The Agency should make every effort to enforce this policy.

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:

- 05-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, 2005

SOUTHERN PRAIRIE AREA EDUCATION AGENCY 15

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005

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

- 05-IV-B Budget - Expenditures during the year ended June 30, 2005, did not exceed the amount budgeted.
- 05-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
- 05-IV-D Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted
- 05-IV-E Business Transactions - No business transactions between Southern Prairie Area Education Agency 15 and Agency officials or employees were noted.
- 05-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.
- 05-IV-G Board Minutes -- No transactions were found that we believe should have been approved in the Board minutes but were not
- 05-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.
- 05-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