

**AREA EDUCATION AGENCY 267
CEDAR FALLS, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005**

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Officials

Name	Title	Term Expires
Board of Directors		
Susan Klaessy	President	June 30, 2005
Charles Vaughn	Vice President	June 30, 2006
Charlotte Upah	Member	June 30, 2005
Roberta Kraft Abrahamson	Member	June 30, 2006
Dr. George North	Member	June 30, 2007
Darrel Lind	Member	June 30, 2005
Betty Westmeyer	Member	June 30, 2006
Ella Mae Gogel	Member	June 30, 2007
Ron Crooks	Member	June 30, 2007
Agency		
Dr. Dean Meier	Chief Administrator	
Dennis Scudder	Finance Director and Treasurer	
Diana Bergeson	Board Secretary	

Independent Auditor's Report

Board of Directors
Area Education Agency 267
Cedar Falls, 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 Area Education Agency 267 as of and for the year ended June 30, 2005, which collectively comprise the Area Education Agency's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Area Education Agency 267 at June 30, 2005, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005 on our consideration of Area Education Agency 267'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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 9 and Page 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Area Education Agency 267'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 year ended June 30, 2004 (which is not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information on Pages 31 through 40, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 21, 2005

AREA EDUCATION AGENCY 267 MANAGEMENT'S DISCUSSION AND ANALYSIS

Area Education Agency 267 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

The year ended June 30, 2005 marks the second year of operation for Area Education Agency 267. Financial comparison with the previous year will be more meaningful than were comparisons in the 2004 audit, however, the transition period of the merger still warrants notice. The merging of the three agencies will take time.

2005 FINANCIAL HIGHLIGHTS

General Fund revenues increased from \$39,352,211 in fiscal 2004 to \$40,510,162 in fiscal 2005 while General Fund expenditures increased from \$38,919,872 in fiscal 2004 to \$40,637,360 in fiscal 2005. Revenue for 2004-05 was impacted by the previous state legislative cuts of approximately \$2,700,000, substantial increases in federal dollars and by controlled state funding of less than the 4% allowed growth due to a continued decline in enrollment. Expenditures increased due to a wage and benefit agreement that exceeded the revenue growth percentage, partially due to health insurance costs. The resulting total fund balance of \$5,653,951 is \$314,433 less than the starting balance of \$5,968,384. The final balance of \$5,653,951 includes an unreserved and undesignated fund balance of \$4,962,613. The unreserved, undesignated General Fund balance represents 11.4% of the 2005 fiscal year expenditures in the General Fund.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consists of a statement of net assets and a statement of activities. These provide information about the activities of Area Education Agency 267 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the Government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

Reporting the Agency as a Whole

The Statements of Net Assets and the Statement of Activities

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

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

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

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

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenue, such as federal grants.

The Agency has three kinds of funds:

1. Governmental funds account for most of the Agency's basic services. These focus on how cash, and other financial assets that can readily be converted to cash, flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information following the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, (c) the Debt Service Fund and (d) Capital Projects Fund.

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

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

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

- Fiduciary funds are used to account for assets held by the Agency as an agent for others. These funds include an Agency Fund.

Agency Funds – These are funds through which the Agency administers and accounts for certain federal and/or state grants on behalf of Cedar Valley Promise and certain revenue collected for Agency employee purchases of pop and related expenditures.

The Agency is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

A summary reconciliation between the Government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Area Education Agency 267's net assets at the end of fiscal year 2005 totaled approximately \$14.7 million. This compared to approximately \$14.9 million at the end of fiscal 2004. The analysis that follows provides a summary of the Agency's net assets at June 30, 2005 for the governmental and business-type activities:

	Condensed Statement of Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2005	2004	2005	2004	2005	2004
Current and other assets.....	\$ 20,603,519	\$ 20,134,144	\$ 32,265	\$ 771,857	\$ 20,635,784	\$ 20,906,001
Capital assets.....	9,710,585	8,410,521	—	—	9,710,585	8,410,521
Total Assets	30,314,104	28,544,665	32,265	771,857	30,346,369	29,316,522
Long-term obligations.....	2,180,000	1,355,000	—	—	2,180,000	1,355,000
Other liabilities.....	13,476,333	12,313,402	32,265	771,857	13,508,598	13,085,259
Total Liabilities	15,656,333	13,668,402	32,265	771,857	15,688,598	14,440,259
Net Assets						
Invested in capital assets, net of related debt.....	7,530,585	7,055,521	—	—	7,530,585	7,055,521
Restricted.....	1,766,850	2,097,355	—	—	1,766,850	2,097,355
Unrestricted.....	5,360,336	5,723,387	—	—	5,360,336	5,723,387
Total Net Assets	\$ 14,657,771	\$ 14,876,263	\$ —	\$ —	\$ 14,657,771	\$ 14,876,263

The Agency's combined net assets decreased by approximately \$220,000 from the beginning of the year. The decrease occurred in the governmental funds as a result of the use of unrestricted reserves.

The following analysis shows the changes in net assets for the year ended June 30, 2005.

	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2005	2004	2005	2004	2005	2004
Revenue						
Program Revenue						
Charges for service	\$ 20,393,496	\$ 18,120,628	\$ 1,705,409	\$ 1,293,594	\$ 22,098,905	\$ 19,414,222
Operating grants and contributions	23,848,284	23,672,595	87,121	73,639	23,935,405	23,746,234
General Revenue						
Unrestricted state aid	16,394,127	16,179,373	—	—	16,394,127	16,179,373
Unrestricted investment earnings	331,444	83,674	—	—	331,444	83,674
Miscellaneous	40,314	—	—	—	40,314	—
Total Revenue	<u>61,007,665</u>	<u>58,056,270</u>	<u>1,792,530</u>	<u>1,367,233</u>	<u>62,800,195</u>	<u>59,423,503</u>
Program Expenses						
Instruction.....	20,605,965	19,845,418	—	—	20,605,965	19,845,418
Student support services	17,895,734	16,812,518	—	—	17,895,734	16,812,518
Instructional staff support services	11,012,006	9,068,026	—	—	11,012,006	9,068,026
General administration	5,577,700	5,701,384	—	—	5,577,700	5,701,384
Business administration.....	2,696,482	1,687,453	—	—	2,696,482	1,687,453
Plant operations and maintenance	2,989,112	1,360,691	—	—	2,989,112	1,360,691
Central and other support services	225,226	3,463,840	—	—	225,226	3,463,840
Facility acquisition and construction	65,838	—	—	—	65,838	—
Debt service	134,767	86,519	—	—	134,767	86,519
Noninstructional programs	—	—	1,817,444	1,444,696	1,817,444	1,444,696
Total Expenses	<u>61,202,830</u>	<u>58,025,849</u>	<u>1,817,444</u>	<u>1,444,696</u>	<u>63,020,274</u>	<u>59,470,545</u>
Change in Net Assets Before Other						
Financing Sources (Uses)	(195,165)	30,421	(24,914)	(77,463)	(220,079)	(47,042)
Other Financing Sources (Uses)	<u>(23,327)</u>	<u>(77,463)</u>	<u>24,914</u>	<u>77,463</u>	<u>1,587</u>	<u>—</u>
Decrease in Net Assets.....	(218,492)	(47,042)	—	—	(218,492)	(47,042)
Net Assets - Beginning of Year	<u>14,876,263</u>	<u>14,923,305</u>	<u>—</u>	<u>—</u>	<u>14,876,263</u>	<u>14,923,305</u>
Net Assets - End of Year	<u>\$ 14,657,771</u>	<u>\$ 14,876,263</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,657,771</u>	<u>\$ 14,876,263</u>

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for 64.2% of the total revenue. A substantial percentage of the remaining revenue comes from tuition charges for special education instructional programs. The Agency's expenses primarily relate to instruction, student support services and instructional staff support services which account for 78.6% of the total expenses.

Governmental Activities

Revenue for governmental activities was \$61,007,665 and expenses were \$61,202,830. In a difficult budget year the Agency was able to use some of the carry over balances to pay for the services provided to local school districts.

Business-Type Activities

Revenue for the Agency's Business-Type Activities totaled \$1,792,530 and expenses were \$1,817,444 for the fiscal year. A transfer of \$24,914 was made to the Nutrition Fund from the General Fund and Special Education Instructional Fund to defer costs in the Nutrition Fund.

Expenses totaled \$1,152,668, \$142,658 and \$522,118 for the Cooperative Purchasing Fund, Nutrition Fund and Technology and Repair Services Fund, respectively.

INDIVIDUAL FUND ANALYSIS

As previously noted, Area Education Agency 267 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$7,420,801, which is a decrease from the beginning of the year fund balances of \$8,065,739. The primary reasons for the decrease in the combined fund balance are large debt service payments and an increase in capital projects expenditures.

Governmental Fund Highlights

The General Fund balance decreased mainly due to transfers to the Debt Service Fund for payments on long-term debt. Debt Service Fund balance decreased from \$1,972,452 to \$185,217. A large principal payment was made in the 2004-05 year for the Pleasant Hill project using previously accumulated fund balance. The Capital Project Fund balance increased from \$124,903 to \$1,581,633. This was due to receiving proceeds from a lease purchase agreement on a construction project for the Pleasant Hill building in Marshalltown. The entire \$2,700,000 of proceeds had been received by year end but over \$1,300,000 of the project had not been completed as of June 30, 2005.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund-type level. After a 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 approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. The amendment process can be done only at budget submission time for the following budget year. That deadline is February 10. Area Education Agency 267's budget amendment for 2004-05 is represented by the re-estimated 2004-05 column of the original 2005-06 budget submitted February 2, 2005 totaling \$62,224,205. A schedule showing the budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the Agency had invested \$9,710,585, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net increase of \$1,300,064 from the beginning of the year.

Area Education Agency 267 had depreciation expenses of \$1,204,621 in 2005 and total accumulated depreciation of \$10,544,616 at June 30, 2005. More detailed information about capital assets is available in Note 4 to the financial statements.

Debt

At June 30, 2005, the Agency had \$1,180,000 in long-term debt outstanding compared to \$1,355,000 at July 1, 2004. On September 15, 2004 the Agency entered into a capital lease agreement that issued debt proceeds of \$2,700,000 and called for a principal repayment of \$1,700,000 leaving an outstanding balance of \$1,000,000 as of June 30, 2005. More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Revenue increases in the future are expected to be very limited. The allowable growth pattern resulting from the state's economic status coupled with enrollment declines project low controlled funding increases. State legislative cuts to area education agencies during the past two years totaled approximately \$2,700,000 for Area Education Agency 267 which will likely not be restored. Federal funds which make up approximately 43% of the general fund budget have been increasing at a substantial pace; however, beginning with the 2005-06 year, this trend has stopped. IDEA part B which represents the largest federal grant will increase less than 1.5% in 2005-06. Projections for part B and other federal grants are for very limited increases in the foreseeable future. Beginning with the 2006-07 year, the change in federal funding will have a dramatic impact on the Agency's General Fund.

The Agency has continued to increase staff in the service areas utilizing budget power provided by the merger. As was earlier explained, limited growth through both state and federal sources will impact staffing levels in the future. The Agency has begun a comprehensive effort to adjust to the reality of estimated increases in resources for the foreseeable future.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance's office of Area Education Agency 267, 3712 Cedar Heights Drive, Cedar Falls, Iowa 50613-6290.

Basic Financial Statements

Statement of Net Assets

At June 30, 2005

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash, cash equivalents and certificates of deposit	\$ 7,329,928	\$ 8,790	\$ 7,338,718
Receivables			
Accounts	584,766	482,279	1,067,045
Due from other governmental units.....	6,484,954	—	6,484,954
Due from other funds	795,268	(795,268)	—
Inventories	81,468	336,464	417,932
Prepaid expenses.....	73,694	—	73,694
Restricted cash and pooled investments.....	185,217	—	185,217
Restricted ISCAP Assets			
Investments.....	5,022,150	—	5,022,150
Accrued interest receivable.....	46,074	—	46,074
Capital assets, net of accumulated depreciation	<u>9,710,585</u>	<u>—</u>	<u>9,710,585</u>
Total Assets	<u>\$ 30,314,104</u>	<u>\$ 32,265</u>	<u>\$ 30,346,369</u>
Liabilities			
Accounts payable	\$ 2,095,811	\$ 20,985	\$ 2,116,796
Salaries and benefits payable	5,798,692	11,280	5,809,972
Accrued interest.....	6,715	—	6,715
ISCAP warrants payable	5,000,000	—	5,000,000
ISCAP accrued interest payable.....	68,109	—	68,109
Deferred revenue.....	220,106	—	220,106
Long-Term Liabilities			
Portion Due or Payable Within One Year			
Certificates of participation.....	180,000	—	180,000
Capital lease	100,000	—	100,000
Compensated absences	286,900	—	286,900
Portion Due or Payable After One Year			
Certificates of participation.....	1,000,000	—	1,000,000
Capital lease	900,000	—	900,000
Total Liabilities	<u>15,656,333</u>	<u>32,265</u>	<u>15,688,598</u>
Net Assets			
Invested in capital assets, net of related debt	7,530,585	—	7,530,585
Restricted For			
Debt Service	185,217	—	185,217
Capital Projects.....	1,581,633	—	1,581,633
Unrestricted	<u>5,360,336</u>	<u>—</u>	<u>5,360,336</u>
Total Net Assets	<u>14,657,771</u>	<u>—</u>	<u>14,657,771</u>
Total Liabilities and Net Assets	<u>\$ 30,314,104</u>	<u>\$ 32,265</u>	<u>\$ 30,346,369</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2005

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses), Revenue and Changes in Net Assets		
				Governmental Activities	Business- Type Activities	Total
Governmental Activities						
Instruction.....	\$ 20,605,965	\$ 19,191,803	\$ 1,755,637	\$ 341,475	\$ —	\$ 341,475
Student support services.....	17,895,734	28,914	16,186,726	(1,680,094)	—	(1,680,094)
Instructional staff support services.....	11,012,006	1,040,889	5,905,921	(4,065,196)	—	(4,065,196)
General administration.....	5,577,700	—	—	(5,577,700)	—	(5,577,700)
Business administration.....	2,696,482	—	—	(2,696,482)	—	(2,696,482)
Plant operations and maintenance.....	2,989,112	—	—	(2,989,112)	—	(2,989,112)
Central and other support services.....	225,226	131,890	—	(93,336)	—	(93,336)
Facility acquisition and construction.....	65,838	—	—	(65,838)	—	(65,838)
Debt service.....	134,767	—	—	(134,767)	—	(134,767)
Total Governmental Activities	61,202,830	20,393,496	23,848,284	(16,961,050)	—	(16,961,050)
Business-Type Activities						
Noninstructional Programs						
Nutrition services.....	142,658	30,623	87,121	—	(24,914)	(24,914)
Technology and repair services.....	522,118	522,118	—	—	—	—
Co-op purchasing.....	1,152,668	1,152,668	—	—	—	—
Total Business-Type Activities	1,817,444	1,705,409	87,121	—	(24,914)	(24,914)
Total	\$ 63,020,274	\$ 22,098,905	\$ 23,935,405	(16,961,050)	(24,914)	(16,985,964)
General Revenue						
Unrestricted foundation aid.....				16,394,127	—	16,394,127
Unrestricted investment earnings.....				331,444	—	331,444
Miscellaneous.....				40,314	—	40,314
Total General Revenue				16,765,885	—	16,765,885
Change in Net Assets Before Other Financing Sources (Uses)				(195,165)	(24,914)	(220,079)
Other Financing Sources (Uses)						
Gain from disposal of assets.....				1,587	—	1,587
Transfers.....				(24,914)	24,914	—
Total Other Financing Sources (Uses)				(23,327)	24,914	1,587
Change in Net Assets				(218,492)	—	(218,492)
Net Assets - Beginning of Year.....				14,876,263	—	14,876,263
Net Assets - End of Year				\$ 14,657,771	\$ —	\$ 14,657,771

Balance Sheet - Governmental Funds

At June 30, 2005

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
Assets				
Cash, certificates of deposit and pooled investments	\$ 5,348,575	\$ —	\$ 1,981,353	\$ 7,329,928
Receivables				
Accounts	574,729	—	10,037	584,766
Due from other governmental units.....	3,976,071	2,508,883	—	6,484,954
Due from other funds	1,250,725	—	—	1,250,725
Inventories	81,468	—	—	81,468
Prepaid expenditures.....	73,694	—	—	73,694
Restricted cash and pooled investments.....	—	—	185,217	185,217
Restricted ISCAP Assets				
Investments.....	5,022,150	—	—	5,022,150
Accrued interest receivable.....	<u>46,074</u>	<u>—</u>	<u>—</u>	<u>46,074</u>
Total Assets	<u>\$ 16,373,486</u>	<u>\$ 2,508,883</u>	<u>\$ 2,176,607</u>	<u>\$ 21,058,976</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,861,993	\$ 160,455	\$ 73,363	\$ 2,095,811
Salaries and benefits payable	3,583,179	2,114,306	101,207	5,798,692
ISCAP warrants payable	5,000,000	—	—	5,000,000
ISCAP accrued interest payable...	68,109	—	—	68,109
Due to other funds	—	234,122	221,335	455,457
Deferred revenue.....	<u>206,254</u>	<u>—</u>	<u>13,852</u>	<u>220,106</u>
Total Liabilities	<u>10,719,535</u>	<u>2,508,883</u>	<u>409,757</u>	<u>13,638,175</u>
Fund Balances				
Reserved For				
Inventories	81,468	—	—	81,468
Prepaid expenditures	73,694	—	—	73,694
Unreserved				
Designated for				
Media resources.....	526,866	—	—	526,866
Special purposes.....	9,310	—	—	9,310
Undesignated Reported in				
General Fund	4,962,613	—	—	4,962,613
Capital Projects Fund.....	—	—	1,581,633	1,581,633
Debt Service Fund	—	—	185,217	185,217
Total Fund Balances	<u>5,653,951</u>	<u>—</u>	<u>1,766,850</u>	<u>7,420,801</u>
Total Liabilities and Fund Balances	<u>\$ 16,373,486</u>	<u>\$ 2,508,883</u>	<u>\$ 2,176,607</u>	<u>\$ 21,058,976</u>

See accompanying notes to the financial statements.

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

At June 30, 2005

Total Fund Balances for Governmental Funds (Page 12).....		\$ 7,420,801
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		9,710,585
Long-term liabilities, including certificates of participation payable, accrued interest and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Accrued interest payable.....	\$ (6,715)	
Certificates of participation.....	(1,180,000)	
Lease purchase.....	(1,000,000)	
Compensated absences	<u>(286,900)</u>	<u>(2,473,615)</u>
 Net Assets of Governmental Activities (Page 10)		 <u>\$ 14,657,771</u>

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2005

	General	<u>Special Revenue</u> Special Education Instruction	Nonmajor Governmental Funds	Total
Revenue				
Local sources	\$ 12,329,565	\$ 19,077,846	\$ 46,485	\$ 31,453,896
State sources.....	10,740,625	306,185	973,789	12,020,599
Federal sources.....	<u>17,439,972</u>	<u>93,198</u>	<u>—</u>	<u>17,533,170</u>
Total Revenue.....	<u>40,510,162</u>	<u>19,477,229</u>	<u>1,020,274</u>	<u>61,007,665</u>
Expenditures				
Current				
Instruction	3,526,912	16,106,550	833,983	20,467,445
Student support services	17,769,736	119,230	349	17,889,315
Instructional staff support services	11,133,661	68,747	5,228	11,207,636
General administration.....	4,280,968	1,108,394	85,516	5,474,878
Business administration.....	2,596,138	277,221	—	2,873,359
Plant operations and maintenance.....	1,225,813	1,772,173	37,113	3,035,099
Central and other support services	104,132	—	—	104,132
Facilities acquisition and construction.....	—	—	1,286,662	1,286,662
Debt service.....	—	—	<u>2,007,784</u>	<u>2,007,784</u>
Total Expenditures.....	<u>40,637,360</u>	<u>19,452,315</u>	<u>4,256,635</u>	<u>64,346,310</u>
Revenue Over (Under) Expenditures	<u>(127,198)</u>	<u>24,914</u>	<u>(3,236,361)</u>	<u>(3,338,645)</u>
Other Financing Sources (Uses)				
Capital lease.....	2,700,000	—	—	2,700,000
Proceeds from disposal of assets.	18,621	—	—	18,621
Transfers, net	<u>(2,905,856)</u>	<u>(24,914)</u>	<u>2,905,856</u>	<u>(24,914)</u>
Total Other Financing Sources (Uses)	<u>(187,235)</u>	<u>(24,914)</u>	<u>2,905,856</u>	<u>2,693,707</u>
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(314,433)</u>	<u>—</u>	<u>(330,505)</u>	<u>(644,938)</u>
Fund Balances - Beginning of Year	<u>5,968,384</u>	<u>—</u>	<u>2,097,355</u>	<u>8,065,739</u>
Fund Balances - End of Year.....	<u>\$ 5,653,951</u>	<u>\$ —</u>	<u>\$ 1,766,850</u>	<u>\$ 7,420,801</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities

Year Ended June 30, 2005

Change in Fund Balances - Total Governmental Funds (Page 14) \$ (644,938)

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense and loss on disposal for the year are as follows:

Capital outlays.....	\$ 2,521,718	
Depreciation expense	(1,204,622)	
Net book value of disposed assets	(17,034)	1,300,062

Capital lease proceeds is revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets.....		(2,700,000)
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Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		1,875,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.....		(1,982)
--	--	---------

Salaries and benefits in the Statement of Activities differ from the amount reported in the governmental funds because vacation pay is recorded as an expenditure in the funds when paid. In the Statement of Activities, the expense is recognized as the vacation pay accrues, regardless of when it is paid.....		(46,634)
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Change in Net Assets of Governmental Activities (Page 11) \$ (218,492)

Statement of Net Assets - Nonmajor Proprietary Funds

At June 30, 2005

	Nonmajor Proprietary Funds
Assets	
Cash and pooled investments	\$ 8,790
Accounts receivable	482,279
Inventory	<u>336,464</u>
Total Assets	<u>\$ 827,533</u>
Liabilities	
Accounts payable	\$ 20,985
Salaries and benefits payable	11,280
Due to other funds	<u>795,268</u>
Total Liabilities	<u>827,533</u>
Net Assets	<u>—</u>
Total Liabilities and Net Assets	<u>\$ 827,533</u>

See accompanying notes to the financial statements.

Statement of Revenue, Expenses and Changes in Net Assets - Nonmajor Proprietary Funds

Year Ended June 30, 2005

	Nonmajor Proprietary Funds
Operating Revenue	
Charges for services.....	<u>\$ 1,705,409</u>
Operating Expenses	
Noninstructional Programs	
Business Administration	
Salaries	53,577
Benefits	14,968
Purchased services.....	30,615
Materials and supplies	<u>1,053,508</u>
Total Business Administration.....	<u>1,152,668</u>
Central and Other Support Services	
Salaries	252,063
Benefits	110,049
Purchased services.....	19,979
Materials and supplies	232,404
Capital outlay	50,086
Other	<u>195</u>
Total Central and Other Support Services	<u>664,776</u>
Total Operating Expenses	<u>1,817,444</u>
Loss From Operations	<u>(112,035)</u>
Nonoperating Revenue	
State sources.....	1,476
Federal sources.....	<u>85,645</u>
Total Nonoperating Revenue	<u>87,121</u>
Change in Net Assets Before Transfers	(24,914)
Transfers in.....	<u>24,914</u>
Change in Net Assets	—
Net Assets - Beginning of Year	<u>—</u>
Net Assets - End of Year	<u>\$ —</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Nonmajor Proprietary Funds

At June 30, 2005

	Nonmajor Proprietary Funds
Cash Flows From Operating Activities	
Cash received from customers.....	\$ 1,583,220
Cash paid to employees for services.....	(430,253)
Cash paid to suppliers for goods and services.....	<u>(1,334,360)</u>
Net Cash Used in Operating Activities	<u>(181,393)</u>
Cash Flows From Noncapital Financing Activities	
State grants received.....	1,476
Federal grants received.....	85,645
Advances from other funds.....	795,268
Repayment of advances from other funds.....	(727,581)
Transfers in.....	<u>24,914</u>
Net Cash Provided by Noncapital Financing Activities	<u>179,722</u>
Net Decrease in Cash and Cash Equivalents	(1,671)
Cash and Cash Equivalents at Beginning of Year.....	<u>10,461</u>
Cash and Cash Equivalents at End of Year	<u>\$ 8,790</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities	
Loss from operations.....	\$ (112,035)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Changes in Assets and Liabilities	
Increase in accounts receivable	(122,189)
Decrease in inventory	64,842
Decrease in accounts payable.....	(12,415)
Increase in accrued salaries and benefits	<u>404</u>
Net Cash Used in Operating Activities	<u>\$ (181,393)</u>

Statement of Fiduciary Net Assets - Fiduciary Funds - Agency ---

At June 30, 2005

Assets

Cash and pooled investments \$ 748,167

Liabilities

Accounts payable \$ 148,664

Deposits held in custody for others 599,503

Total Liabilities \$ 748,167

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Organization and Function

Area Education Agency 267 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 61 school districts and 24 private schools in an 18-county area. The Agency is governed by a Board of Directors whose members are elected on a nonpartisan basis.

Reporting Entity

For financial reporting purposes, the Agency has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. Area Education Agency 267 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 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 revenue, 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 that are 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 that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but 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 revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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 other nonmajor governmental funds.

The Agency had the following major governmental funds:

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

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

The Agency had no major proprietary funds.

The Agency also reports fiduciary funds which focus on net assets. The Agency's fiduciary fund was as follows:

The Agency funds are used to account for assets held by the Agency as an agent for individuals, private organizations and other governments. The Agency funds are custodial in nature, assets equal liabilities and do not involve measurement of results of operations.

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. The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenue to be available if it is collected within 60 days after year end.

Intergovernmental revenue (shared revenue, 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

The proprietary funds of the Agency apply 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 revenue and expenses from nonoperating items. Operating revenue 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 revenue of the Agency's enterprise fund is charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

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 consists 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 value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings.....	10,000
Improvements other than buildings	2,000
Furniture and equipment	2,000
Library books and films	No threshold

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings.....	50 Years
Improvements other than buildings	20 - 50 Years
Technological equipment	5 Years
Furnishings.....	7 - 20 Years
Other equipment	10 - 15 Years
Vehicles.....	8 Years
Library books and films	5 Years

Salaries and Benefits Payable

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

Deferred Revenue

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

Compensated Absences

Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund noncurrent 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 that are 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 or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Notes to the Financial Statements

(2) Cash, Certificates of Deposit 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 that 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; and, certain joint investment trusts and warrants or improvement certificates of a drainage district.

The Agency's investments at June 30, 2005 consist of the following:

Type	Fair Value
Governmental Securities Material Fund	<u>\$ 185,217</u>

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust which are valued at amortized cost of \$8,197 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk

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

Credit Risk

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

(3) Iowa School Cash Anticipation Program (ISCAP)

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and are provided monthly statements regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Company, N.A. is the trustee of the program. These accounts are reflected as restricted assets on the statement of net assets and balance sheet. A summary of the Agency's participation in ISCAP as of June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A.....	6-30-05	6-30-06	<u>\$ 5,022,150</u>	<u>\$ 46,074</u>	<u>\$ 5,000,000</u>	<u>\$ 68,109</u>

Notes to the Financial Statements

(3) Iowa School Cash Anticipation Program (ISCAP)

The Agency pledges its state foundation aid payments and general fund receipts as security for warrants issued. Repayments must be made when general fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, the Agency must repay the outstanding withdrawal from its general fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount.

ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance - Beginning of Year	Advances Received	Advances Repaid	Balance - End of Year
2004-05A.....	<u>\$ —</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ —</u>

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A.....	3.5%	3.9030%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 809,308	\$ —	\$ —	\$ 809,308
Construction in progress.....	<u>—</u>	<u>1,220,824</u>	<u>—</u>	<u>1,220,824</u>
Total Capital Assets Not Being Depreciated.....	<u>809,308</u>	<u>1,220,824</u>	<u>—</u>	<u>2,030,132</u>
Capital Assets Being Depreciated				
Buildings and improvements.....	8,234,555	—	—	8,234,555
Furniture and equipment.....	4,529,952	342,755	148,237	4,724,470
Library books and films.....	<u>5,625,241</u>	<u>958,140</u>	<u>1,317,337</u>	<u>5,266,044</u>
Total Capital Assets Being Depreciated.....	<u>18,389,748</u>	<u>1,300,895</u>	<u>1,465,574</u>	<u>18,225,069</u>
Less Accumulated Depreciation For				
Buildings and improvements.....	2,771,982	176,714	—	2,948,696
Furniture and equipment.....	3,620,447	302,043	131,203	3,791,287
Library books and films.....	<u>4,396,106</u>	<u>725,864</u>	<u>1,317,337</u>	<u>3,804,633</u>
Total Accumulated Depreciation	<u>10,788,535</u>	<u>1,204,621</u>	<u>1,448,540</u>	<u>10,544,616</u>
Net Total Capital Assets Being Depreciated.....	<u>7,601,213</u>	<u>96,274</u>	<u>17,034</u>	<u>7,680,453</u>
Net Governmental Activities Capital Assets.....	<u>\$ 8,410,521</u>	<u>\$ 1,317,098</u>	<u>\$ 17,034</u>	<u>\$ 9,710,585</u>

Notes to the Financial Statements

(4) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities	
Instruction.....	\$ 172,002
Student support services.....	6,419
Instructional staff support services.....	762,510
General administration.....	80,595
Business administration.....	29,399
Plant operations and maintenance.....	33,025
Central support.....	<u>120,671</u>
Total Governmental Activities Depreciation Expense	<u>\$ 1,204,621</u>

(5) 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	\$ 1,355,000	\$ —	\$ 175,000	\$ 1,180,000
Capital lease.....	—	2,700,000	1,700,000	1,000,000
Compensated absences.....	240,266	286,900	240,266	286,900
Early retirement benefits.....	<u>159,765</u>	<u>3,416</u>	<u>41,024</u>	<u>122,157</u>
	<u>\$ 1,755,031</u>	<u>\$ 2,990,316</u>	<u>\$ 2,156,290</u>	<u>\$ 2,589,057</u>

Certificates of Participation

On May 1, 2001, the Agency sold certificates of participation for two buildings for a total of \$1,840,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of ten years with interest rates ranging from 3.5% to 4.55%. The following is a schedule by year of the future minimum payments required:

Year Ending June 30,	Principal	Interest	Total
2006.....	\$ 180,000	\$ 50,636	\$ 230,636
2007.....	190,000	43,436	233,436
2008.....	195,000	35,646	230,646
2009.....	205,000	27,357	232,357
2010.....	215,000	18,440	233,440
2011-2019	<u>195,000</u>	<u>8,872</u>	<u>203,872</u>
Total	<u>\$ 1,180,000</u>	<u>\$ 184,387</u>	<u>\$ 1,364,387</u>

Capital Lease

On September 15, 2004, the Agency entered into a capital lease agreement with a bank. The agreement was for a period of ten years ending in June, 2014 at an interest rates ranging from 2.1% to 4.05%. This lease is secured by land and a building.

Notes to the Financial Statements

(5) Long-Term Liabilities

The following is a schedule by years of future payments required:

Year Ending June 30,	Principal	Interest	Total
2006.....	\$ 100,000	\$ 33,876	\$ 133,876
2007.....	100,000	31,326	131,326
2008.....	105,000	28,576	133,576
2009.....	105,000	25,426	130,426
2010.....	110,000	22,066	132,066
2011-2019	480,000	47,372	527,372
Total	<u>\$ 1,000,000</u>	<u>\$ 188,642</u>	<u>\$ 1,188,642</u>

Total interest expenditures were \$106,944 for the certificates of participation and capital lease for the year ended June 30, 2005.

Early Retirement Benefits Payable

In 2002, Area Education Agencies 6 and 7 offered post-retirement health care to all employees who retired from the Agencies on or before September 30, 2002. The Agency will pay the cost of single health insurance premiums until age 65. The Agency paid for ten employees in the current year. The Agency also has entered into an agreement to pay the health insurance premiums for the former chief administrator of Area Education Agency 7 through March, 2006.

The expenditures are recognized on a pay-as-you-go basis, with net assets reserved for future benefit payments. Future maturities of these benefits are as follows:

2006.....	\$ 40,138
2007.....	30,529
2008.....	20,364
2009.....	15,945
2010.....	8,041
Future years	7,140
	<u>\$ 122,157</u>

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer From	Amount
General	Special Revenue Juvenile Home	\$ 11,600
Capital Projects	General	2,700,000
Debt Service	General	217,456
Proprietary - Nutrition	Special Revenue - Special Education Instruction	24,914
Total		<u>\$ 2,953,970</u>

Notes to the Financial Statements

(7) Due From and Due to Other Funds

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue - Special Education Instruction	\$ 234,122
	Capital Projects	221,335
	Proprietary	
	Technology and Repair Services	161,958
	Cooperative Purchasing	633,310
Total General Fund		<u>\$ 1,250,725</u>

These balances result from interfund loans to finance individual funds' accounts receivable and inventory. Repayments will be made from future revenue.

(8) Operating Leases

The Agency leases several copiers, with terms ranging from three to five years, under operating leases. In addition, the Agency leases land on which its Clear Lake building is located under an operating lease which expires in 2033. The Agency has also leased various facilities within the area to house its different divisions under annual leases. These leases have been classified as operating leases and, accordingly, all rents are recorded as expenditures when incurred. 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 years of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005.

Year Ending June 30,	Amount
2006.....	\$ 59,176
2007.....	41,928
2008.....	23,748
2009.....	23,748
2010.....	23,748
Later years.....	7,916
Total.....	<u>\$ 180,264</u>

Total rental expenditures for the year ended June 30, 2005 for all operating leases, except those with terms of a month or less that were not renewed, was \$541,538.

Notes to the Financial Statements

(9) 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. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the year ended June 30, 2005 was \$2,079,963 and \$3,221,772 for the year ended June 30, 2004 which was equal to the required contribution for the years.

(10) Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2005.

(11) Construction Commitment

The Agency has entered into a contract totaling \$2,362,656 for the remodeling costs for the Pleasant Hill (Marshalltown Facility). As of June 30, 2005, costs of \$1,062,426 had been incurred against the contract. The balance of \$1,300,230 remaining at June 30, 2005 will be paid as the work on the project progresses.

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2005

	<u>Actual</u>		Total	<u>Budget Amount</u>		Final to Actual Variance
	Governmental Fund Types	Proprietary Fund Type		Original	Final	
Revenue						
Local sources	\$ 31,453,896	\$ 1,705,409	\$ 33,159,305	\$ 29,404,469	\$ 32,023,170	\$ 1,136,135
State sources	12,020,599	1,476	12,022,075	14,103,076	12,443,611	(421,536)
Federal sources	17,533,170	85,645	17,618,815	17,797,624	17,624,571	(5,756)
Total Revenue.....	61,007,665	1,792,530	62,800,195	61,305,169	62,091,352	708,843
Expenditures						
Instruction.....	20,467,445	—	20,467,445	19,831,096	20,622,286	154,841
Student support services	17,889,315	—	17,889,315	14,125,600	14,778,651	(3,110,664)
Instructional staff support services	11,207,636	—	11,207,636	9,378,500	10,432,251	(775,385)
General administration	5,474,878	—	5,474,878	5,585,717	5,560,512	85,634
Business administration	2,873,359	—	2,873,359	709,754	1,804,073	(1,069,286)
Plant operations and maintenance.....	3,035,099	—	3,035,099	1,381,518	2,124,880	(910,219)
Central and other support services	104,132	—	104,132	3,755,452	87,353	(16,779)
Facilities acquisition and construction.....	1,286,662	—	1,286,662	133,422	1,700,000	413,338
Noninstructional programs	—	1,817,444	1,817,444	1,284,000	3,132,175	1,314,731
Debt service	2,007,784	—	2,007,784	244,000	1,982,024	(25,760)
Total Expenditures.....	64,346,310	1,817,444	66,163,754	56,429,059	62,224,205	(3,939,549)
Revenue Under Expenditures	(3,338,645)	(24,914)	(3,363,559)	4,876,110	(132,853)	(3,230,706)
Other Financing Sources						
(Uses)	2,693,707	24,914	2,718,621	(3,609,800)	(757,764)	3,476,385
Revenue and Other Financing Sources Under Expenditures and Other Financing Uses						
	(644,938)	—	(644,938)	1,266,310	(890,617)	245,679
Balance - Beginning of Year ...	8,065,739	—	8,065,739	8,561,149	8,069,420	(3,681)
Balance - End of Year	\$ 7,420,801	\$ —	\$ 7,420,801	\$ 9,827,459	\$ 7,178,803	\$ 241,998

This budgetary comparison is presented as required supplementary information in accordance with *Governmental Accounting Standards Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the general fund and each major special revenue fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not at the 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.

The Agency overexpended its total budget by \$3,939,549 or the year.

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds ---

At June 30, 2005

	<u>Special Revenue</u> Juvenile Home	Capital Projects	Debt Service	Total
Assets				
Cash, certificates of deposit and pooled investments	\$ 129,999	\$ 1,851,354	\$ —	\$ 1,981,353
Receivables				
Accounts	—	10,037	—	10,037
Restricted cash and pooled investments	<u>—</u>	<u>—</u>	<u>185,217</u>	<u>185,217</u>
Total Assets	<u>\$ 129,999</u>	<u>\$ 1,861,391</u>	<u>\$ 185,217</u>	<u>\$ 2,176,607</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 14,940	\$ 58,423	\$ —	\$ 73,363
Salaries and benefits payable	101,207	—	—	101,207
Due to other funds	—	221,335	—	221,335
Deferred revenue.....	<u>13,852</u>	<u>—</u>	<u>—</u>	<u>13,852</u>
Total Liabilities	<u>129,999</u>	<u>279,758</u>	<u>—</u>	<u>409,757</u>
 Fund Balances				
Unreserved, undesignated	<u>—</u>	<u>1,581,633</u>	<u>185,217</u>	<u>1,766,850</u>
Total Liabilities and Fund Balance	<u>\$ 129,999</u>	<u>\$ 1,861,391</u>	<u>\$ 185,217</u>	<u>\$ 2,176,607</u>

Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2005

	<u>Special Revenue</u>			
	Juvenile Home	Capital Projects	Debt Service	Total
Revenue				
Local sources	\$ —	\$ 43,392	\$ 3,093	\$ 46,485
State sources.....	<u>973,789</u>	<u>—</u>	<u>—</u>	<u>973,789</u>
Total Revenue	<u>973,789</u>	<u>43,392</u>	<u>3,093</u>	<u>1,020,274</u>
Expenditures				
Instruction	833,983	—	—	833,983
Student support services	349	—	—	349
Instructional staff support services	5,228	—	—	5,228
General administration	85,516	—	—	85,516
Plant operations and maintenance	37,113	—	—	37,113
Facilities acquisition and construction .	—	1,286,662	—	1,286,662
Debt service.....	<u>—</u>	<u>—</u>	<u>2,007,784</u>	<u>2,007,784</u>
Total Expenditures.....	<u>962,189</u>	<u>1,286,662</u>	<u>2,007,784</u>	<u>4,256,635</u>
Revenue Over (Under) Expenditures	<u>11,600</u>	<u>(1,243,270)</u>	<u>(2,004,691)</u>	<u>(3,236,361)</u>
Other Financing Sources (Uses)				
Transfers, net	<u>(11,600)</u>	<u>2,700,000</u>	<u>217,456</u>	<u>2,905,856</u>
Revenue and Other Financing Sources Over (Under) Expenditures	—	1,456,730	(1,787,235)	(330,505)
Fund Balances - Beginning of year	<u>—</u>	<u>124,903</u>	<u>1,972,452</u>	<u>2,097,355</u>
Fund Balances - End of Year	<u>\$ —</u>	<u>\$ 1,581,633</u>	<u>\$ 185,217</u>	<u>\$ 1,766,850</u>

Combining Statement of Net Assets - Nonmajor Proprietary Funds

At June 30, 2005

	Nutrition	Technology and Repair Services	Cooperative Purchasing	Total
Assets				
Cash and pooled investments	\$ 8,790	\$ —	\$ —	\$ 8,790
Accounts receivable	—	130,505	351,774	482,279
Inventory	—	32,088	304,376	336,464
Total Assets	<u>\$ 8,790</u>	<u>\$ 162,593</u>	<u>\$ 656,150</u>	<u>\$ 827,533</u>
Liabilities				
Accounts payable	\$ 460	\$ 635	\$ 19,890	\$ 20,985
Salaries and benefits payable	8,330	—	2,950	11,280
Due to other funds	—	161,958	633,310	795,268
Total Liabilities	<u>8,790</u>	<u>162,593</u>	<u>656,150</u>	<u>827,533</u>
Net Assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Liabilities and Net Assets	<u>\$ 8,790</u>	<u>\$ 162,593</u>	<u>\$ 656,150</u>	<u>\$ 827,533</u>

Combining Statement of Revenue, Expenses and Changes in Net Assets - Nonmajor Proprietary Funds

Year Ended June 30, 2005

	Nutrition	Technology and Repair Services	Cooperative Purchasing	Total
Operating Revenue				
Charges for services.....	<u>\$ 30,623</u>	<u>\$ 522,118</u>	<u>\$ 1,152,668</u>	<u>\$ 1,705,409</u>
Noninstructional Programs				
Business Administration				
Salaries	—	—	53,577	53,577
Benefits	—	—	14,968	14,968
Purchased services.....	—	—	30,615	30,615
Materials and supplies	—	—	<u>1,053,508</u>	<u>1,053,508</u>
Total Business Administration	<u>—</u>	<u>—</u>	<u>1,152,668</u>	<u>1,152,668</u>
Central and Other Support Services				
Salaries	45,612	206,451	—	252,063
Benefits	22,586	87,463	—	110,049
Purchased services.....	8,611	11,368	—	19,979
Materials and supplies	65,849	166,555	—	232,404
Capital outlay	—	50,086	—	50,086
Other	—	<u>195</u>	<u>—</u>	<u>195</u>
Total Central and Other Support Services	<u>142,658</u>	<u>522,118</u>	<u>—</u>	<u>664,776</u>
Total Operating Expenses	<u>142,658</u>	<u>522,118</u>	<u>1,152,668</u>	<u>1,817,444</u>
Loss From Operations	<u>(112,035)</u>	<u>—</u>	<u>—</u>	<u>(112,035)</u>
Nonoperating Revenue				
State sources.....	1,476	—	—	1,476
Federal sources.....	<u>85,645</u>	<u>—</u>	<u>—</u>	<u>85,645</u>
Total Nonoperating Revenue....	<u>87,121</u>	<u>—</u>	<u>—</u>	<u>87,121</u>
Change in Net Assets Before Transfers.....	<u>(24,914)</u>	<u>—</u>	<u>—</u>	<u>(24,914)</u>
Transfers in.....	<u>24,914</u>	<u>—</u>	<u>—</u>	<u>24,914</u>
Change in Net Assets.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net Assets - Beginning of Year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net Assets - End of Year	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>

Combining Statement of Cash Flows - Nonmajor Proprietary Funds

At June 30, 2005

	Nutrition	Technology and Repair Services	Cooperative Purchasing	Total
Cash Flows From Operating Activities				
Cash received from customers.....	\$ 30,623	\$ 465,964	\$ 1,086,633	\$ 1,583,220
Cash paid to employees for services..	(67,823)	(293,914)	(68,516)	(430,253)
Cash paid to suppliers for goods and services.....	<u>(76,506)</u>	<u>(250,965)</u>	<u>(1,006,889)</u>	<u>(1,334,360)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(113,706)</u>	<u>(78,915)</u>	<u>11,228</u>	<u>(181,393)</u>
Cash Flows From Noncapital Financing Activities				
State grants received.....	1,476	—	—	1,476
Federal grants received.....	85,645	—	—	85,645
Advances from other funds.....	—	161,958	633,310	795,268
Repayment of advances from other funds	—	(83,043)	(644,538)	(727,581)
Transfers in.....	<u>24,914</u>	<u>—</u>	<u>—</u>	<u>24,914</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>112,035</u>	<u>78,915</u>	<u>(11,228)</u>	<u>179,722</u>
Net Decrease in Cash and Cash Equivalents	(1,671)	—	—	(1,671)
Cash and cash equivalents at beginning of year	<u>10,461</u>	<u>—</u>	<u>—</u>	<u>10,461</u>
Cash and Cash Equivalents at End of Year	<u>\$ 8,790</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,790</u>
Reconciliation of Loss From Operations to Net Cash Provided by (Used in) Operating Activities				
Loss from operations	\$ (112,035)	\$ —	\$ —	\$ (112,035)
Adjustments to Reconcile Loss From Operations to Net Cash Provided by (Used in) Operating Activities				
Changes in Assets and Liabilities				
Increase in accounts receivable	—	(56,154)	(66,035)	(122,189)
(Increase) decrease in inventory	—	(13,736)	78,578	64,842
Decrease in accounts payable	(2,046)	(9,025)	(1,344)	(12,415)
Increase in accrued salaries and benefits.....	<u>375</u>	<u>—</u>	<u>29</u>	<u>404</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (113,706)</u>	<u>\$ (78,915)</u>	<u>\$ 11,228</u>	<u>\$ (181,393)</u>

Statement of Changes in Fiduciary Assets and Liabilities - Agency Funds ▬

Year Ended June 30, 2005

	Balance 7-1-04	Additions	Deductions	Balance 6-30-05
Assets				
Cash and pooled investments.....	<u>\$ 1,085,735</u>	<u>\$ 1,247,013</u>	<u>\$ 1,584,581</u>	<u>\$ 748,167</u>
Liabilities				
Accounts payable	\$ 303,399	\$ 148,664	\$ 303,399	\$ 148,664
Deposits held in custody of others.....	<u>782,336</u>	<u>1,098,349</u>	<u>1,281,182</u>	<u>599,503</u>
Total Liabilities	<u>\$ 1,085,735</u>	<u>\$ 1,247,013</u>	<u>\$ 1,584,581</u>	<u>\$ 748,167</u>

**Schedule of Revenue By Source and Expenditures By Function -
All Governmental Fund Types (Modified Accrual Basis)**

Year Ended June 30, 2005

	<u>Years Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Revenue		
Local sources	\$ 31,453,896	\$ 28,896,038
State sources.....	12,020,599	12,563,121
Federal sources.....	<u>17,533,170</u>	<u>16,597,111</u>
Total Revenue	<u>\$ 61,007,665</u>	<u>\$ 58,056,270</u>
Expenditures		
Current		
Instruction	\$ 20,467,445	\$ 19,755,699
Student support services	17,889,315	16,782,631
Instructional staff support services.....	11,207,636	8,912,793
General administration.....	5,474,878	5,821,850
Business administration	2,873,359	1,684,665
Plant operations and maintenance	3,035,099	1,339,828
Central and other support services	104,132	3,406,867
Facilities acquisition and construction	1,286,662	653,771
Debt service.....	<u>2,007,784</u>	<u>523,519</u>
Total Expenditures	<u>\$ 64,346,310</u>	<u>\$ 58,881,623</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Agriculture - Indirect			
Pass-Through Iowa Department of Education			
National School Lunch Program	10.555	N/A	<u>\$ 85,645</u>
U.S. Department of Education - Direct			
Fund for the Improvement of Education			
Our Kids Program	84.215	N/A	48,641
History Program	84.215	N/A	<u>109,078</u>
Total U.S. Department of Education - Direct.....			<u>157,719</u>
U.S. Department of Education - Indirect			
Pass-Through Center of Civic Education			
Civic Education - Cooperative Education Exchange Program			
Miscellaneous programs	84.304	N/A	22,837
Citizen and Constitution	84.304	58011A	24,356
Project Citizen	84.304	R929A03000	<u>9,610</u>
Total Pass-Through Center of Civic Education.....			<u>56,803</u>
Pass-Through School Administration of Iowa			
Parental Assistance Centers.....	84.310	N/A	<u>244,427</u>
Pass-Through Iowa Department of Education			
Title 1 Program for Neglected and Delinquent Children			
Children	84.013	* N/A	<u>1,200</u>
Special Education - Grants to States			
Overtime Contract	84.027	** N/A	11,312
Preschool Handicapped Program	84.027	** 030407	9,951,558
Preschool Handicapped Program - Flowthrough.....	84.027	** 030407	3,475,265
Supplemental Support Services	84.027	** 030407	214,452
Success 4.....	84.027	** 3K75-07	138,509
PSB Drake.....	84.027	** N/A	2,974
Self-Assessment Data Collection	84.027	** 3K79-07MON	17,500
DE Web Leland	84.027	** N/A	29,655
Enhancing the Parent Educator Connection	84.027	** 37407	136,612
Diagnostic Evaluation Program	84.027	** 2K71-07	14,611
Parent Education Survey.....	84.027	** N/A	3,350
Conflicts Training.....	84.027	** N/A	17,477
Work Experience SE Grant	84.027	** N/A	3,600
Part B	84.027	** N/A	<u>134,287</u>
			<u>14,151,162</u>
Special Education - Preschool Grants			
Special Education Preschool Grant.....	84.173	03619-07	<u>525,125</u>
Vocational Education - Basic Grants to States			
Perkins III	84.048	*** N/A	<u>641,955</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number		Pass-Through Grantor's Number	Federal Expenditures
Special Education - Grants for Infants and Families With Disabilities	84.181		C03-07	\$ 375,156
Fund for the Improvement of Education.....	84.215		N/A	<u>5,000</u>
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children With Disabilities.....	84.326		N/A	<u>8,500</u>
Special Education - State Personnel Development Grants for Children With Disabilities.....	84.323		SGP/IEP	<u>18,118</u>
Reading First State Grants	84.357		Various	<u>44,054</u>
English Language Acquisition Grants	84.365		N/A	<u>141,004</u>
Total Pass-Through Iowa Department of Education				<u>15,911,274</u>
Pass-Through Iowa Valley Community College Vocational Education - Basic Grants to States Perkins III	84.048	***	N/A	<u>16,000</u>
Pass-Through University of Iowa Assistive Technology	84.224		1-36010-00	<u>10,394</u>
Pass-Through Waterloo Community School District Twenty-First Century Community Learning Centers Echoes Grant	84.287		5287a01/222	413,077
Title 1 Program for Neglected and Delinquent Children	84.013	*	N/A	<u>1,523</u>
Total Pass-Through Waterloo Community School District				<u>414,600</u>
Pass-Through Grant Wood AEA Education Technology State Grants	84.318		N/A	<u>267,818</u>
Pass-Through Mason City Community School District Title I Program for Neglected and Delinquent Children	84.013	*	N/A	<u>48,641</u>
Total U.S. Department of Education - Indirect				<u>16,969,957</u>
Total U.S. Department of Education.....				<u>17,127,676</u>
U.S. Department of Health and Human Services - Direct Medical Assistance Program.....	93.778		N/A	<u>250,981</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services - Indirect			
Pass-Through Marshall County			
Temporary Assistance for Needy Families	93.558	N/A	\$ <u>4,352</u>
Pass-Through Pathways Community Behavioral Healthcare, Inc.			
Block Grants for Prevention and Treatment of Substance Abuse.....	93.959	N/A	50,526
Pass-Through Iowa Department of Public Health			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	<u>110,267</u>
			<u>160,793</u>
Total U.S. Department of Health and Human Services - Indirect.....			<u>165,145</u>
Total U.S. Department of Health and Human Services.....			<u>416,126</u>
Corporation for National and Community Service - Direct			
Learn and Serve America - School and Community Based Programs			
	94.004	N/A	<u>3,487</u>
Total Federal Financial Assistance.....			<u>\$ 17,632,934</u>
* Total Expenditures for CFDA Number 84.013 were	\$ 51,364		
** Total Expenditures for CFDA Number 84.027 were	14,151,162		
*** Total Expenditures for CFDA Number 84.048 were	657,955		

(1) Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Area Education Agency 267 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

(2) Subrecipients

Area Education Agency 267 provided \$3,475,265 of federal awards to various school districts as part of the Preschool Handicapped Program.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Directors
Area Education Agency 267
Cedar Falls, 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 Area Education Agency 267 as of and for the year ended June 30, 2005, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated October 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Area Education Agency 267's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 Area Education Agency 267'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. We believe that the reportable conditions described in Part II are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Area Education Agency 267'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 noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Area Education Agency 267'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 Area Education Agency 267. 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 Area Education Agency 267 and other parties to whom Area Education Agency 267 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 21, 2005

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

Compliance

We have audited the compliance of Area Education Agency 267, 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. Area Education Agency 267's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Area Education Agency 267's management. Our responsibility is to express an opinion on Area Education Agency 267'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, 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 Area Education Agency 267'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 Area Education Agency 267's compliance with those requirements.

In our opinion, Area Education Agency 267 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 Area Education Agency 267 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 Area Education Agency 267'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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Area Education Agency 267's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. Reportable conditions are described in Part III 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 noncompliance with applicable requirements of laws, regulations, contracts and grant agreements 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. Our consideration of the internal control over compliance 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. We did not consider any of the reportable conditions 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 Area Education Agency 267 and other parties to whom Area Education Agency 267 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 21, 2005

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Part I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness identified? yes no
Reportable condition identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
Material weakness identified? yes no
Reportable condition identified not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers

84.027 and 84.173
84.048

Name of Federal Program or Cluster

Special Education Cluster
Vocational Technical Education

Dollar threshold used to distinguish between Type A and Type B programs:

\$528,988

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Reportable Conditions

05-II-R-1 Proper Payment of Payroll Expenditures

Auditor's Finding - Agency personnel did not properly remove an employee who did not turn in a written resignation from the payroll system, and they were overpaid.

Auditor's Recommendation - The Agency should review the process of employee termination notification to ensure appropriate documentation is completed to timely stop payroll payments.

Agency's Response - We will review procedures to ensure all terminated employees are properly identified and removed from the payroll system timely.

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

05-III-C-1 Proper Documentation for Reporting to the Iowa Department of Education - Special Education Cluster

Auditor's Finding - The Agency is required to obtain weighted enrollments from each of the 61 school districts in its area. The superintendent of each district signs an affidavit stating that the count attached to the affidavit is complete and correct. The affidavit gives the date that the enrollment was last updated and printed. The Agency routinely updates these lists for errors and submits a final list to the Iowa Department of Education. For each one of the 14 school districts that we tested, the enrollment submitted to the Iowa Department of Education was printed and updated after the enrollment that was approved by the superintendents.

Auditor's Recommendation - The Agency should obtain the approval of the school districts for the final enrollment that is turned into the Department of Education.

Agency's Response - The Agency will keep the original list approved by the superintendents and will obtain approval for any significant changes in the weighted enrollment for their district.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2005

05-III-C-2 Proper Documentation of Weighted Enrollment Information - Special Education Cluster

Auditor's Finding - The Agency is required to report the weighted enrollment to the Iowa Department of Education separately by each school district in the Agency. We tested 14 of the enrollment forms maintained in the Agency's files and compared them to the list submitted to the Iowa Department of Education. Three of the fourteen school district enrollment forms that we tested did not agree with the weighted enrollment submitted.

Auditor's Recommendation - We recommend that the Agency ensure that its files contain the most updated version of all enrollment reports and that they agree with amounts submitted to the Iowa Department of Education.

Agency's Response - The Agency has submitted the proper amounts to the Iowa Department of Education but had not updated its supporting information at the time of the audit. This will be updated timely in the future.

Auditor's Conclusion - Response accepted.

05-III-C-3 Proper Documentation of Claims - Vocational Technical Education

Auditor's Finding - The Agency is required to pay actual expenses with grant funds. We tested 29 claims, 2 claims, totaling \$20,624 paid by the Agency were based on estimates by the school districts and not on actual costs.

Auditor's Recommendation - The Agency should strengthen training of personnel reviewing reimbursement requests.

Agency's Response - We will provide proper training and guidelines to staff to ensure compliance with documentation requirements.

Auditor's Conclusion - Response accepted.

05-III-C-4 Proper Indirect Cost Rate - Special Education Cluster

Auditor's Finding - The Agency filed a report with the U.S. Department of Education which contained a mathematical error resulting in claiming \$1,639 too much for the federal drawdown.

Auditor's Recommendation - The Agency should ensure that all reports are checked for math errors prior to submission.

Agency's Response - We will establish procedures to check all reports for math errors.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Reportable Conditions

05-III-R-1 Proper Training of Staff - Vocational Technical Education

Proper training of staff reviewing claims for reimbursement should be provided. See audit finding 05-III-C-3 for additional information.

05-III-R-2 Proper Review of Reports - Special Education Cluster

The Agency does not have an experienced person review grant drawdown requests for mathematical accuracy before they are submitted. See audit finding 05-III-C-4 for additional information.

Part IV: Other Findings Related to Required Statutory Reporting

05-IV-CS-1 Official Depositories - A resolution naming official depositories has been adopted by the Agency. However, the Agency had deposits of less than \$100,000 at a bank not approved as an official depository until the account was closed in October, 2004.

Auditor's Recommendation - The Agency should update its depository resolution to include all banks where the Agency deposits its funds.

Agency's Response - We have closed the account in question.

Auditor's Conclusion - Response accepted.

05-IV-CS-2 Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted for student support services, instructional staff support services, business administration, plant operation and maintenance, central and other support services and debt service. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Auditor's Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Agency's Response - Future budgets will be amended in sufficient amounts to ensure the budget is not exceeded.

Auditor's Conclusion - Response accepted.

05-IV-CS-3 Questionable Expenditures - We noted no expenditures which did not appear to meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979.

05-IV-CS-4 Travel Expenses - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2005

- 05-IV-CS-5 Business Transactions** - No business transactions between the Agency and Agency officials or employees were noted.
- 05-IV-CS-6 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-CS-7 Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.
- 05-IV-CS-8 Deposits and Investments** - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa.
- 05-IV-CS-9 Certified Annual Report** - The Certified Annual Report was filed with the Department of Education timely. However, we noted deficiencies in the amounts reported for accounts payable.

Auditor's Recommendation - The Agency should review procedures to ensure accounts payable are properly stated and expenses are properly recorded in the appropriate period in the certified annual report.

Agency's Response - We will review procedures to ensure all accounts payable are properly identified.

Auditor's Conclusion - Response accepted.