

GREEN VALLEY AREA EDUCATION AGENCY 14

**Independent Auditor's Report
Basic Financial Statements & Supplemental Information
Schedule of Findings and Questioned Costs
June 30, 2006**

GREEN VALLEY AREA EDUCATION AGENCY 14

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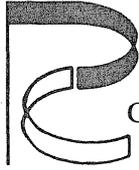
GREEN VALLEY AREA EDUCATION AGENCY 14

Officials
June 30, 2006

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------|--------------------------------------|---------------------|
| Board of Directors: | | |
| Maurice Jones | President | 2006 |
| Don Bohling | Vice President | 2007 |
| Sherry Wiley | Member | 2007 |
| Marion James | Member | 2008 |
| Lois Trinity | Member | 2008 |
| Julie Wilken | Member | 2006 |
| R. Blake Cooper | Member | 2007 |
| Raymond Storm | Member | 2006 |
| Agency: | | |
| Connie Maxson | Administrator | |
| Lori Kinyon | Business Manager and Board Treasurer | |
| Tina Smith | Board Secretary | |

AREA SERVED

| | |
|------------------------------------|------------------------------|
| Adair County: | Montgomery County: |
| Nodaway Valley Community Schools | Red Oak Community Schools |
| Orient-Macksburg Community Schools | Stanton Community Schools |
| Adams County: | Villisca Community Schools |
| Corning Community Schools | Ringgold County |
| Prescott Community Schools | Diagonal Community Schools |
| Clarke County: | Mount Ayr Community Schools |
| Clarke Community Schools | Taylor County: |
| Murray Community Schools | Bedford Community Schools |
| Decatur County: | Clearfield Community Schools |
| Central Decatur Community Schools | Lenox Community Schools |
| Lamoni Community Schools | New Market Community Schools |
| Mormon Trail Community Schools | Union County: |
| | Creston Catholic School |
| | Creston Community Schools |
| | East Union Community Schools |



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Green Valley Area Education Agency 14:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Green Valley Area Education Agency 14 as of and for the year ended June 30, 2006, 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 Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the Single Audit Act Amendment of 1996 and Office of Management and Budget (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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, each major fund, and the aggregate remaining fund information of Green Valley Area Education Agency 14, at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated October 25, 2006 on our consideration of Green Valley Area Education Agency 14's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be 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 pages 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information listed included in Schedules 1 and 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Pitman & Company, LLP

October 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Area Education Agency 14 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, 2006. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- The Iowa Legislature continued to reduce State Aid funding for Area Education Agencies statewide during fiscal year 2006 (FY06). For Area Education Agency 14 this reduction totaled \$451,814.
- General Fund Revenues decreased from \$7,158,461 in fiscal year 2005 (FY05) to \$6,971,426 in fiscal year 2006 (FY06), while General Fund Expenditures also decreased from \$7,591,952 in FY05 to \$6,929,687 in FY06. General Fund Other Financing Uses decreased from \$10,800 in FY05 to \$0 in FY06. The ultimate result to the Agency's General Fund fund balance was an increase from \$1,541,856 in FY05 to \$1,583,595 in FY06.
- The decrease in General Fund revenues was attributable to reduced state and federal funding. The decrease in expenditures is primarily due to the one time cost of replacing the roof of the central office in FY05. The General Fund balance increase can be attributed to ongoing fiscal responsibility.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Area Education Agency 14 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, and Supplementary Information provides detailed information about other items of interest.

Reporting the Agency as a Whole

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

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

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.
- The Government-wide financial statements include the Agency's basic services, such as regular and special education instruction, student and instructional staff support services and administration. Local school district fees, property taxes, state aid and federal grants finance most of these activities.

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 revenues, such as Juvenile Home funding.

The Agency's Governmental Funds include 1) the General Fund, and 2) the Special Revenue Funds. Governmental Funds account for all 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 at the bottom of the Governmental Fund statements explains the relationship or differences between the two statements.

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

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 14's net assets at the end of FY06 totaled approximately \$2.6 million. The analysis that follows provides a summary of the Agency's net assets at June 30, 2006 for the governmental activities. The agency does not have business-type activities, therefore that column, although shown, is zero.

| | Condensed Statement of Net Assets | | |
|--|--|----------------------|--------------|
| | Governmental | Business-Type | |
| | Activities | Activities | Total |
| Current and other assets | \$ 2,528,698 | -0- | \$ 2,528,698 |
| Capital assets | 1,020,842 | -0- | 1,020,842 |
| Total assets | 3,549,540 | -0- | 3,549,540 |
| Long-term obligations | -0- | -0- | -0- |
| Other liabilities | 945,104 | -0- | 945,104 |
| Total liabilities | 945,104 | -0- | 945,104 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 1,020,842 | -0- | 1,020,842 |
| Restricted (See Note 7) | 22,426 | -0- | 22,426 |
| Unrestricted | 1,561,168 | -0- | 1,561,168 |
| Total net assets | \$ 2,604,436 | -0- | \$ 2,604,436 |

The Agency's combined net assets increased by approximately \$15,000 from FY05.

The following analysis shows the changes in net assets for the year ended June 30, 2006.

| | Changes in Net-Assets | | |
|--------------------------------------|----------------------------|-----------------------------|-------------|
| | Governmental Activities | Business-Type Activities | Total |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | 295,240 | -0- | \$295,240 |
| Operating grants and contributions | 3,336,919 | -0- | 3,336,919 |
| General revenues | | | |
| Property tax | 1,616,389 | -0- | 1,616,389 |
| State aid | 1,661,704 | -0- | 1,661,704 |
| Unrestricted investment earnings | 63,508 | -0- | 63,508 |
| Miscellaneous | -0- | -0- | -0- |
| Total revenues | 6,973,760 | -0- | 6,973,760 |
| Program expenses: | | | |
| Instruction | 291,039 | -0- | 291,039 |
| Student support services | 2,384,157 | -0- | 2,384,157 |
| Instructional staff support services | 1,705,329 | -0- | 1,705,329 |
| General administration | 629,432 | -0- | 629,432 |
| Building administration | 313,963 | -0- | 313,963 |
| Business administration | 592,197 | -0- | 592,197 |
| Printing and Delivery | 148,183 | -0- | 148,183 |
| Plant operations and maintenance | 220,783 | -0- | 220,783 |
| Central and other support services | 13,906 | -0- | 13,906 |
| Community Service operations | 69,733 | -0- | 69,733 |
| LEA part B flow-through | 590,413 | -0- | 590,413 |
| Total expenses | 6,959,135 | -0- | 6,959,135 |
| Increase in net assets | 14,625 | -0- | 14,625 |
| Net assets beginning of year | 2,589,811 | -0- | 2,589,811 |
| Net assets end of year | \$2,604,436 | -0- | \$2,604,436 |

State formula funding, consisting of State aid and Property taxes, accounts for 47% of the total revenue. Operating grants and contributions from local, state and federal sources account for an additional 48% of the total revenue. The Agency's expenses primarily relate to instruction and support services provided to local school districts, including administrators, teachers, and students. Services provided to schools are reported above in the areas of Instruction, Student support services, Instructional staff support services, Printing and Delivery, Community Service Operations, LEA part B flow-through and a large portion of the Building and Business administration services.

Governmental Activities

Revenues for governmental activities were \$6,973,760 and expenses were \$6,959,135, resulting in the \$14,625 increase to net assets. Because of continuing loss of students in Area 14 and the leveling off of federal funding sources, the Agency recognized the need to instigate cost saving measures during FY06 to keep the revenues and operating expenditures relatively balanced.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As previously noted, Area Education Agency 14 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's Governmental Funds reported combined fund balances of \$1,583,594, a modest increase of \$41,738 from last year's ending fund balances of \$1,541,856.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. 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 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. Over the course of the year, the Agency amended its annual operating budget one time to reflect adjustments to revenue and expenditures associated with the services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report. Variances from the amended budget were relatively insignificant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the Agency had invested \$1,020,842, net of accumulated depreciation and related debt, in a broad range of capital assets, including land, buildings, computers, equipment, and an extensive library/media collection. This is a net decrease of approximately \$27,000 from last year.

Area Education Agency 14 had depreciation expense of \$165,879 in FY06 and total accumulated depreciation of \$1,717,624 at June 30, 2006. More detailed information about capital assets is available in Note 3 to the financial statements.

Debt

At June 30, 2006, the Agency had no long-term debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

- The Agency has experienced an increase in the number of students being served by its programs in the past three years, even though overall student enrollment has been declining.
- The Iowa legislature reduced state aid to AEA's during both FY05 and FY06. In both years AEA 14 received \$451,814 less than provided under the state aid funding formula. This amount is composed of \$177,639 attributable to House File 755 and \$236,777 attributable to Senate File 453. In addition, on October 10, 2003 the Governor of the State of Iowa announced a 2.5% across-the-board cut amounting to approximately \$37,398 for AEA 14, which continued for both FY05 and FY06. The state funding reductions will continue in FY07, although the legislature did return \$3.8 million in state aid revenues to the AEA system, which amounts to \$86,858 for AEA 14. This reduces the state aid reduction in FY07 for AEA 14 to \$364,956.
- The State of Iowa is currently experiencing greater revenue growth than originally estimated for the 2006 fiscal year.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Area Education Agency 14, 1405 North Lincoln, Creston, Iowa 50801.

Green Valley Area Education Agency 14
Statement of Net Assets
June 30, 2006

ASSETS

| | |
|-------------------------------------|-------------------------|
| Cash and Cash Equivalents | \$ (3,559) |
| Investments | \$ 1,818,637 |
| Due from Other Governments | 665,958 |
| Other Receivables | 12,732 |
| Inventories | 34,931 |
| Capital Assets, Net of Depreciation | <u>1,020,842</u> |
| Total Assets | <u>3,549,541</u> |

LIABILITIES

| | |
|------------------------------|-----------------------|
| Accounts Payable | 267,068 |
| Accrued Payroll and Benefits | 499,217 |
| Deferred Revenues | <u>178,820</u> |
| Total Liabilities | <u>945,105</u> |

NET ASSETS

| | |
|--|----------------------------|
| Invested in Capital Assets, Net of Related Del Restricted | 1,020,842 |
| Media Materials | 22,426 |
| Unrestricted | <u>1,561,168</u> |
| Total net assets | <u>\$ 2,604,436</u> |

See accompany notes to financial statements.

Green Valley Area Education Agency 14
Statement of Activities
For the Year Ended June 30, 2006

| Functions/Programs | Expenses | Program Revenues | | Capital Grants and Contribution | Net (Expense) Revenues and Changes in Net Assets Governmental Activities |
|---|---------------------|----------------------|------------------------------------|---------------------------------|--|
| | | Charges for Services | Operating Grants and Contributions | | |
| Governmental activities: | | | | | |
| Instruction | 291,038 | | 57,470 | - | (233,568) |
| Student support services | 2,384,158 | 17,803 | 1,390,082 | - | (976,273) |
| Instructional staff support services | 1,705,329 | 188,810 | 719,233 | - | (797,286) |
| General administration | 629,432 | 3,514 | 96,165 | - | (529,752) |
| Building administration | 313,963 | - | 250,650 | - | (63,313) |
| Business administration | 592,197 | 33,281 | 163,172 | - | (395,744) |
| Printing & van delivery | 148,183 | 51,831 | - | - | (96,352) |
| Plant operations and maintenance | 220,783 | - | - | - | (220,783) |
| Central & other support services | 13,906 | - | - | - | (13,906) |
| Community Service Operations | 69,733 | | 69,733 | - | 0 |
| LEA Part B Flowthrough | 590,413 | - | 590,413 | - | - |
| Total primary government | <u>\$ 6,959,135</u> | <u>\$ 295,240</u> | <u>\$ 3,336,919</u> | <u>\$ -</u> | <u>\$ (3,326,976)</u> |
| General Revenues | | | | | |
| Property taxes, levied for general purposes | | | | | 1,616,389 |
| State aid-formula grants | | | | | 1,661,704 |
| Non-Categorical federal funding | | | | | - |
| Unrestricted investment earnings | | | | | 63,508 |
| Total general revenues | | | | | <u>3,341,601</u> |
| Change in net assets | | | | | 14,625 |
| Net assets-beginning | | | | | <u>2,589,811</u> |
| Net assets-ending | | | | | <u>\$ 2,604,436</u> |

See accompanying notes to the financial statements

Green Valley Area Education Agency 14
Balance Sheet
Governmental Funds
June 30, 2006

| | Non-Major Governmental Funds | | | | | Government- Wide Total |
|--|------------------------------|-----------------|------------------|---------------------|---------------------------------|------------------------------|
| | General | Special Revenue | | Capital Projects | Non-Major Funds Sub-Total | |
| | | Instructional | Shelter Care | | | |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ (3,559) | - | \$ - | - | \$ - | \$ (3,559) |
| Investments | \$ 1,796,039 | - | 22,598 | - | \$ 22,598 | \$ 1,818,637 |
| Due from other governments | 665,958 | - | - | - | - | 665,958 |
| Other receivables | 12,732 | - | - | - | - | 12,732 |
| Inventories | 34,931 | - | - | - | - | 34,931 |
| Total assets | \$ 2,506,101 | \$ - | \$ 22,598 | \$ - | \$ 22,598 | \$ 2,528,699 |
| LIABILITIES AND FUND BALANCE | | | | | | |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 244,470 | - | \$ 22,598 | - | \$ 22,598 | \$ 267,068 |
| Accrued Payroll and benefits | \$ 499,217 | - | \$ - | - | - | 499,217 |
| Deferred revenues | 178,820 | - | - | - | - | 178,820 |
| Total liabilities | \$ 922,507 | \$ - | \$ 22,598 | \$ - | \$ 22,598 | \$ 945,105 |
| Fund Balance | | | | | | |
| Reserved/Restricted | | | | | | |
| Inventory | \$ 34,931 | - | - | - | - | \$ 34,931 |
| Encumbrances | 20,055 | - | - | - | - | 20,055 |
| Media Materials | 22,426 | - | - | - | - | 22,426 |
| Designated | | | | | | |
| Cash Flow | 800,000 | - | - | - | - | 800,000 |
| Unreserved/Undesignated | 706,182 | - | - | - | - | 706,182 |
| Total fund balance | \$ 1,583,594 | \$ - | \$ - | \$ - | \$ - | \$ 1,583,594 |
| Total liabilities and Fund Balances | \$ 2,506,101 | \$ - | \$ 22,598 | \$ - | \$ 22,598 | \$ 2,528,699 |

See accompanying notes to the financial statements.

**Green Valley Area Education Agency 14
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets**

Total fund balances-governmental funds \$ 1,583,594

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

Capital assets used in governmental activities are not financ 1,020,842
resources and therefore are not reported as assets in govt
funds. The cost of the assets is \$2,738,466, less the accu
depreciation of \$1,717,624.

Total net assets-governmental activities \$ 2,604,436

See accompanying notes to financial statements.

Green Valley Area Education Agency 14
Statement of Revenues, Expenditures and
Changes in Fund Balances-Governmental Funds
For the Year Ended June 30, 2006

| | General | Non-Major Governmental Funds | | | Non-Major Funds Sub-Total | Total |
|--|---------------------|------------------------------|-----------------|---------------------|---------------------------------|---------------------|
| | | Special Revenue | | Capital Projects | | |
| | | Spec Ed Instructiona | Shelter Care | | | |
| Revenues | | | | | | |
| Local Sources & Intermediate Sources | \$ 1,985,407 | | - | - | \$ - | \$ 1,985,407 |
| State Sources | 1,737,980 | | \$ 2,334 | - | 2,334 | 1,740,314 |
| Federal Sources | 3,248,019 | - | - | - | - | 3,248,019 |
| Other Sources | 20 | | | | | 20 |
| Total Revenues | \$ 6,971,426 | \$ - | \$ 2,334 | - | \$ 2,334 | \$ 6,973,760 |
| Expenditures | | | | | | |
| Instruction | \$ 288,704 | | \$ 2,334 | - | \$ 2,334 | \$ 291,038 |
| Student support services | 2,380,612 | - | - | - | - | 2,380,612 |
| Instructional staff support services | 1,715,113 | - | - | - | - | 1,715,113 |
| General administration | 625,061 | - | - | - | - | 625,061 |
| Building administration | 313,963 | - | - | - | - | 313,963 |
| Business administration | 580,679 | - | - | - | - | 580,679 |
| Printing and delivery services | 142,021 | - | - | - | - | 142,021 |
| Plant operations and maintenance | 209,482 | - | - | - | - | 209,482 |
| Central & other support services | 13,906 | - | - | - | - | 13,906 |
| Community service operations | 69,733 | - | - | - | - | 69,733 |
| LEA Part B Flowthrough | 590,413 | - | - | - | - | 590,413 |
| Total expenditures | \$ 6,929,687 | \$ - | \$ 2,334 | \$ - | \$ 2,334 | \$ 6,932,021 |
| Excess (deficiency) of revenues over (under) expenditures | \$ 41,739 | \$ - | \$ - | \$ - | \$ - | \$ 41,739 |
| Fund Balances beginning of year | \$ 1,541,856 | - | - | - | \$ - | \$ 1,541,856 |
| Fund Balances end of year | \$ 1,583,595 | - | - | - | \$ - | \$ 1,583,595 |

See accompanying notes to the financial statements.

**Green Valley Area Education Agency 14
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures, and Changes in Fund Balances to the Statement of Activities**

Total net change in fund balances-government funds **\$ 41,739**

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

Capital outlays are reported in governmental funds as expenditures. (24,141)
 However, in the statement of activities, the cost of those assets is allocated over their estimated useful life as depreciation expense. This is the amount by which depreciation expense (\$165,879) exceeds capital outlays (\$141,738)

The net effect of various miscellaneous transactions involving capital assets (i.e. donations and write-offs) is to decrease net assets. (2,972)

Change in net assets of governmental activities \$ 14,626

See accompanying notes to financial statements.

GREEN VALLEY AREA EDUCATION AGENCY 14
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

Green Valley Area Education Agency 14 is an intermediate school corporation between the State Department of Education and the local school districts in its area as provided by Chapter 273 of the Code of Iowa. The agency provides programs and support services necessary to meet the identified educational needs in the local school districts to enable them to operate efficiently and effectively. The Agency serves 21 school districts and non-public schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Green Valley Area Education Agency 14 has included all funds, organizations, agencies, boards, commissions, and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency.

B. Basis of Presentation

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

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in 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 segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to clients 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. Property taxes, state aid, non-categorical funds, and unrestricted interest income are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for the Governmental Funds. All of the Agency's individual Governmental Funds are reported as separate columns in the Fund Financial Statements. Only the General Fund is considered a major fund.

The Agency reports the following major Governmental Fund:

The General Fund is the general operating fund of the Agency. All general revenues 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 Agency reports the following non-major Governmental Fund:

The Special Revenue, Shelter School Fund is used to account for instructional programs where the Area Education Agency employs teachers to provide instruction to pupils in juvenile shelters and juvenile detention facilities. The facility was actually closed in FY 2005, and only minimal expenditures were incurred during FY 2006 for unemployment costs.

C. Use of Estimates

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

D. Measurement Focus

The Government-Wide Financial Statements are reported using the economic resources measurement focus. Also, they are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 90 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenues 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 judgements 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 recorded as other financing sources.

F. Budgets and Budgetary Accounting

The Agency's Board of Directors annually prepares a budget on a basis consistent with generally accepted accounting principles. 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. Budgetary control is based on total expenditures.

G. Assets, Liabilities and Fund Equity

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

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

Inventories - Inventories are stated at lower of cost (first-in, first-out method) or market and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption. The coop purchasing inventory consists of items acquired by the Agency for resale to the local education agencies.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable Governmental or Business-Type Activities column in the Government-Wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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 \$3,000 and estimated useful lives in excess of two years.

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

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|-------------------------|--|
| Buildings | 50 |
| Improvements | 20 |
| Furniture and equipment | 5-10 |
| Film and book library | 5 |

Salaries and Benefits Payable - Payroll and related expenses for staff 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.

Long-term obligations – 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.

Encumbrances - Encumbrances outstanding at year-end represent the amount ultimately - estimated to result in expenditures if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

Fund Balances – In the Governmental Fund Financial Statements, Reserved Fund Balances are reported for amounts that are not available for appropriation or are legally reserved by outside parties for a specific purpose.

Designated Fund Balance - The portion of the fund balance shown as Designated represents the amount Green Valley Area Education Agency 14 has designated for facility and equipment needs and other special purposes.

Restricted Net Assets – In the Government-Wide Statement of Net Asset, 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.

(2) Cash and Cash Equivalents

The Agency's cash and cash equivalents at June 30, 2006 were entirely covered by Federal depository insurance, collateralized with securities or letter of credit held by the Agency or the Agency's agent in the Agency's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

The Agency's cash and cash equivalents are categorized to give an indication of the level of risk assumed by the Agency at year end. Except for the Agency's investment in the Iowa School Joint Investment Trust, the Agency's investment are all Category 1, which means that the investments are insured or registered or the securities are held by the Agency or its agent in the Agency's name.

Investments in the Iowa Schools Joint Investment Trust are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

The Agency's investments at June 30, 2006 consisted of the following:

| | <u>Cost</u> | <u>Market Value</u> |
|-------------------------------------|---------------------|---------------------|
| Iowa Schools Joint Investment Trust | \$ <u>1,818,637</u> | \$ <u>1,818,637</u> |

(3) Capital Assets

A summary of changes in Capital Assets for the year ended June 30, 2006 is shown below.

| | Balance Beginning of Year | Additions | Deletions | Balance Ending of Year |
|--|---------------------------------|-----------|-----------|------------------------------|
| Governmental Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 70,210 | -0- | -0- | \$ 70,210 |
| Capital Assets Being Depreciated: | | | | |
| Buildings | 784,252 | -0- | -0- | 784,252 |
| Furniture and Equipment | 895,429 | 81,997 | -19,427 | 957,999 |
| Library/Media Collection | 866,264 | 59,741 | -0- | 926,005 |
| Total Capital Assets Being Depreciated | \$ 2,545,945 | 141,738 | -19,427 | \$ 2,668,256 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | \$ 306,632 | 19,901 | -0- | \$ 326,533 |
| Furniture and Equipment | 530,354 | 70,375 | -16,455 | 584,274 |
| Library/Media Collection | 731,214 | 75,603 | -0- | 806,817 |
| Total Accumulated Depreciation | \$ 1,568,200 | 165,879 | -16,455 | \$ 1,717,624 |
| Total Capital Assets Being Depreciated, Net | \$ 977,745 | -24,141 | -2,972 | \$ 950,632 |
| Governmental Activities Capital Assets, Net | \$ 1,047,955 | -24,141 | -2,972 | \$ 1,020,842 |

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

Governmental Activities:

| | |
|--|-----------|
| Instructional Staff Support Services | \$ 78,536 |
| Student Support Services | 3,545 |
| Plant, Central, and Other Support Services | 46,060 |
| Business Administration | 33,367 |
| General Administration | 4,371 |

Total Governmental Activities Depreciation Expense \$ 165,879

(4) 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 the 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 years ended June 30, 2006, 2005, and 2004 was approximately \$222,000, \$232,000, and \$219,000 respectively, equal to the required contributions for each year.

(5) Risk Management

Green Valley Area Education Agency 14 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Legislative Action effecting AEA finances

The Iowa legislature has reduced State Aid to AEA's several times in the last few years. In fiscal year 2006 AEA 14 received approximately \$452,000 less than provided for under the State Aid Funding Formula. Approximately \$87,000 of the original \$452,000 reduction in State Aid will be returned to AEA 14 for fiscal year 2007. At this time it is uncertain whether any more of the original reduction will be returned in future years.

(7) Commitment

Agency employees accumulate sick leave hours for subsequent use. These accumulations are not recognized as expenditures until used and are not payable in the event of the employee's termination, retirement or death. At June 30, 2006, the Agency's approximate maximum liability for accumulated sick leave benefits was approximately \$1,127,000.

(8) Annual Budget

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2006, expenditures did exceed budgeted amounts in Building Administration, Business Administration and Non-instructional Programs, however, the total budget was not exceeded.

(9) Juvenile Home

The 5B Judicial District Youth Services Shelter Home was closed by the State of Iowa for financial reasons during FY05. The agency received minimal funding from the state for final employment costs resulting from the termination of AEA 14 Juvenile Home Instructional Program employees. FY06 was the final year the agency will have any activity in the Juvenile Home Special Revenue Fund.

Required Supplementary Information

**Required Supplementary Information
Green Valley Area Education Agency 14
Budgetary Comparison Schedule
All Governmental Funds
For the Year Ended June 30, 2006**

| | <u>Budgeted Amounts</u> | | <u>Actual (Budgetary)</u> | <u>Variance with Final Budget- Positive (Negative)</u> |
|--|-------------------------|---------------------|-------------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local and Intermediate sources | \$ 1,971,390 | \$ 1,970,389 | \$ 1,985,407 | \$ 15,018 |
| State sources | 2,036,878 | 1,764,704 | 1,740,314 | (24,390) |
| Federal sources | 3,275,000 | 3,300,000 | 3,248,019 | (51,981) |
| Total revenues | <u>\$ 7,283,268</u> | <u>\$ 7,035,093</u> | <u>\$ 6,973,740</u> | <u>\$ (61,353)</u> |
| EXPENDITURES | | | | |
| Instruction | 60,000 | 400,000 | 291,038 | 108,962 |
| Student support services | 3,675,000 | 2,495,000 | 2,380,612 | 114,388 |
| Instructional staff support services | 1,450,000 | 1,750,000 | 1,715,113 | 34,887 |
| General administration | 560,000 | 725,000 | 625,061 | 99,939 |
| Building administration | 319,250 | 275,000 | 313,963 | (38,963) |
| Business administration | 460,000 | 400,000 | 580,679 | (180,679) |
| Printing, van delivery and coop purchasing | 210,000 | 200,000 | 142,021 | 57,979 |
| Plant operations and maintenance | 200,000 | 210,000 | 209,482 | 518 |
| Central & other support services | 160,000 | 380,000 | 13,906 | 366,094 |
| Noninstructional programs | - | 69,000 | 69,733 | (733) |
| LEA Part B Flow-Through | 600,000 | 590,593 | 590,413 | 180 |
| Total Expenditures | <u>\$ 7,694,250</u> | <u>\$ 7,494,593</u> | <u>\$ 6,932,021</u> | <u>562,572</u> |
| Excess (deficiency) of revenues over expenditures | \$ (410,982) | \$ (459,500) | \$ 41,719 | \$ 501,219 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sales of Equipment | \$ 10,000 | \$ 5,000 | \$ 20 | \$ (4,980) |
| Excess (deficiency) of revenues over expenditures and other financing (uses) | <u>\$ (400,982)</u> | <u>\$ (454,500)</u> | <u>\$ 41,739</u> | <u>\$ 496,239</u> |

See accompanying independent auditor's report

GREEN VALLEY AREA EDUCATION AGENCY 14

Note to Required Supplementary Information

Budgetary Reporting

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 14 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Other Supplementary Information

GREEN VALLEY AREA EDUCATION AGENCY 14

Schedule 1

Schedule of Revenues by Source and Expenditures by Function -
All Governmental Fund Types
For the Last Three Years

| | Modified Accrual Basis | | |
|--------------------------------------|-------------------------|-------------------------|-------------------------|
| | Years ended June 30, | | |
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Revenues: | | | |
| Local sources | \$ 1,985,427 | \$ 1,958,012 | \$ 1,943,190 |
| State | 1,740,314 | 1,893,167 | 1,914,798 |
| Federal | <u>3,248,019</u> | <u>3,307,282</u> | <u>3,049,070</u> |
| Total | <u>\$ 6,973,760</u> | <u>\$ 7,158,461</u> | <u>\$ 6,907,058</u> |
| Expenditures: | | | |
| Instruction | \$ 291,038 | \$ 632,137 | \$ 218,133 |
| Student support services | 2,380,612 | 2,366,240 | 3,264,465 |
| Instructional staff support services | 1,715,113 | 1,683,038 | 1,114,311 |
| General administration | 625,061 | 888,458 | 783,989 |
| Building administration | 313,963 | - | - |
| Business administration | 580,679 | 384,522 | 350,997 |
| Printing, van delivery | 142,021 | 240,963 | |
| Plant operations and maintenance | 209,482 | 399,406 | 179,040 |
| Student transportation | - | 5,929 | 8,820 |
| Central and other support services | 13,906 | 419,948 | 357,672 |
| Community Service Operations | 69,733 | - | - |
| LEA Part B flow through | <u>590,413</u> | <u>571,311</u> | <u>517,657</u> |
| Total | <u>\$ 6,932,021</u> | <u>\$ 7,591,952</u> | <u>\$ 6,795,084</u> |

See accompanying independent auditor's report

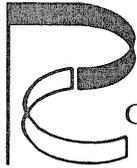
GREEN VALLEY AREA EDUCATION AGENCY 14
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2006

| Project Title | CFDA Number | Pass-through Grantor's Number | Expenditures |
|---|----------------|-------------------------------------|---------------------|
| U.S. Department of education: | | | |
| Passed-through Iowa Department of Education | | | |
| Special education | 84.027 | | |
| IDEA Part B | | 050614 | \$ 1,858,024 |
| LEA Flowthrough | | 6KB2-14 | 590,413 |
| Diagnostic evaluation | | 5K71-14 | 789 |
| Parent Educator | | 47414 | 12,107 |
| Parent Educator | | 57414 | 64,984 |
| Para-educator Training | | 5K76-14 | 11,329 |
| Supplemental support | | 4K72-14 | 5,536 |
| Learning Supports | | 4K75-14 | 32,236 |
| Learning Supports | | 5K60-14 | 7,600 |
| IEP Training | | 5K77-14 IEP | 12,500 |
| IDM | | 5K79-14 IDM | 9,909 |
| Every Child Reads | | G-5K27-14 | 5,980 |
| | | | * <u>2,611,407</u> |
| Special education | 84.181 | | |
| Education of handicapped act part C | | C05-14 | <u>106,808</u> |
| Special Education | 84.173 | | |
| Section 619-Preschool 3 through 5 | | 05619-14 | <u>146,481</u> |
| State program improvement grants | 84.323 | | |
| SIG/Quality Preschool Program Standards | | G-5PI3-14 | <u>21,945</u> |
| Carl Perkins | 84.048A | | <u>75,952</u> |
| Service Learning | 94.004 | 06SL014 | <u>3,000</u> |
| Reading First | 84.357 | | <u>23,750</u> |
| Title II-Enhancing Technology (E2T2) | 84.318 | | 129,039 |
| Title II-ESETP | | 58904 | <u>62,798</u> |
| | | | <u>191,837</u> |
| Title III-ELL | 84.365 | | <u>23,481</u> |
| ESL for Rapid Growth | 84.215 | 15906 | <u>1,600</u> |
| Total Federal Awards | | | <u>\$ 3,206,261</u> |

*These programs are considered major programs under provisions of the Single Audit Act Amendment of 1996.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Green Valley Area Education Agency and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

See accompanying independent auditor's report.



**Independent Auditor's Combined Report on Compliance
and on Internal Control over Financial Reporting**

To the Board of Directors of
Green Valley Area Education Agency 14:

We have audited the financial statements of Green Valley Area Education Agency 14 as of and for the year ended June 30, 2006, and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Green Valley Area Education Agency 14's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Governmental Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Green Valley Area Education Agency 14's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Agency and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

October 25, 2006

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

To the Board of Directors of
Green Valley Area Education Agency 14:

Compliance

We have audited the compliance of Green Valley Area Education Agency 14, 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, 2006. Green Valley Area Education Agency 14's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Green Valley Area Education Agency 14's management. Our responsibility is to express an opinion on Green Valley Area Education Agency 14's compliance, based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Green Valley Area Education Agency 14'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 Green Valley Area Education Agency 14's compliance with those requirements.

In our opinion, Green Valley Area Education Agency 14 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, 2006.

Internal Control over Compliance

The management of Green Valley Area Education Agency 14 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Green Valley Area Education Agency 14's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Agency and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Pittman & Company, LLP

October 25, 2006

GREEN VALLEY AREA EDUCATION AGENCY 14
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.027 - Special Education - Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Green Valley Area Education Agency 14 qualified as a low-risk auditee.

Part II: Findings Related to the General Purpose Financial Statements:

No Findings

Part III: Findings and Questioned Costs for Federal Awards:

No Findings

GREEN VALLEY AREA EDUCATION AGENCY 14
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2006

7112 B - 1111

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

- 06-IV-A Budget - Expenditures during the year ended June 30, 2006 exceeded the amount budgeted in building administration, business administration, and non-instructional programs, however, the total budget was not exceeded.
- 06-IV-B Questionable Expense - We noted no exceptions that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 06-IV-C Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 06-IV-D Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.
- 06-IV-E Bond Coverage - Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 06-IV-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 06-IV-G Deposits and Investments - The Agency complied with provisions of Chapters 12B and 12C of the Code of Iowa.
- 06-IV-H Annual Financial Report - The Annual Financial Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.