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, 2006

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Officials

Name	Title	Term Expires
Board of Directors		
Susan Klaessy	President	June 30, 2008
Charles Vaughn	Vice President	June 30, 2006
Charlotte Upah	Member	June 30, 2008
Roberta Kraft Abrahamson	Member	June 30, 2006
Dr. George North	Member	June 30, 2007
Darrel Lind	Member	June 30, 2008
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, 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 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, 2006, 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 September 28, 2006 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 conducted 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 three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions 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
September 28, 2006

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

The year ended June 30, 2006 marks the third 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.

2006 FINANCIAL HIGHLIGHTS

General Fund revenue and other sources increased from $40,510,162 in fiscal year 2005 to $42,501,237 in fiscal year 2006. General fund expenditures and other financing uses increased to $43,150,111. Revenue for 2005-2006 was impacted by a continuing legislative cut of approximately $2,700,000. The Agency received a controlled funding increase of less than the 4% allowable growth because of declining enrollment. Increase of revenue was due in large part to additional federal dollars. Expenditure increases were due primarily to costs associated with personnel, including wages and benefits. The unreserved fund balance dropped to $4,380,786. The unreserved fund balance at the end of the year 2006 represents 10.1% of the 2006 fiscal year expenditures and other funding uses.

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.

2. 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.

3. 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 2006 totaled approximately $15.9 million. This compared to approximately $14.7 million at the end of fiscal 2005. The analysis that follows provides a summary of the Agency's net assets at June 30, 2006 for the governmental and business-type activities:

	Condensed Statement of Net Assets					
	Governmental Activities June 30,		Business-Type Activities June 30,		Total June 30,	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 18,756,711	$ 20,603,519	$ 109,439	$ 32,265	$ 18,866,150	$ 20,635,784
Capital assets	11,073,512	9,710,585	—	—	11,073,512	9,710,585
Total Assets	**29,830,223**	**30,314,104**	**109,439**	**32,265**	**29,939,662**	**30,346,369**
Long-term obligations	1,900,000	2,180,000	—	—	1,900,000	2,180,000
Other liabilities	13,955,789	13,476,333	109,439	32,265	14,065,228	13,508,598
Total Liabilities	15,855,789	**15,656,333**	**109,439**	**32,265**	**15,965,228**	**15,688,598**
Net Assets						
Invested in capital assets, net of related debt	9,173,512	7,530,585	—	—	9,173,512	7,530,585
Restricted	193,224	1,766,850	—	—	193,224	1,766,850
Unrestricted	4,607,698	5,360,336	—	—	4,607,698	5,360,336
Total Net Assets	**$ 13,974,434**	**$ 14,657,771**	**$ —**	**$ —**	**$ 13,974,434**	**$ 14,657,771**

The Agency's combined net assets decreased by approximately $683,000 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, 2006.

	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2006	2005	2006	2005	2006	2005
Revenue						
Program Revenue						
Charges for service	$ 21,783,577	$ 20,393,496	$ 1,627,698	$ 1,705,409	$ 23,411,275	$ 22,098,905
Operating grants and contributions	22,198,237	23,848,284	91,688	87,121	22,289,925	23,935,405
General Revenue						
Property taxes, levied	9,859,290	6,581,227	—	—	9,859,290	6,581,227
State foundation aid	10,249,575	9,812,900	—	—	10,249,575	9,812,900
Unrestricted investment earnings	463,080	331,444	—	—	463,080	331,444
Miscellaneous	66,271	40,314	—	—	66,271	40,314
Total Revenue	**64,620,030**	**61,007,665**	**1,719,386**	**1,792,530**	**66,339,416**	**62,800,195**
Program Expenses						
Instruction	21,885,887	20,605,965	—	—	21,885,887	20,605,965
Student support services	15,453,790	17,895,734	—	—	15,453,790	17,895,734
Instructional staff support services	11,797,534	11,012,006	—	—	11,797,534	11,012,006
General administration	5,485,567	5,577,700	—	—	5,485,567	5,577,700
Business administration	2,699,132	2,696,482	—	—	2,699,132	2,696,482
Plant operations and maintenance	2,243,844	2,989,112	—	—	2,243,844	2,989,112
Central and other support services	1,708,612	225,226	—	—	1,708,612	225,226
Facility acquisition and construction	128,187	65,838	—	—	128,187	65,838
Debt service	83,735	134,767	—	—	83,735	134,767
Noninstructional programs	—	—	1,733,104	1,817,444	1,733,104	1,817,444
Total Expenses	**61,486,288**	**61,202,830**	**1,733,104**	**1,817,444**	**63,219,392**	**63,020,274**
Change in Net Assets Before Other Financing Sources (Uses)	**3,133,742**	**(195,165)**	**(13,718)**	**(24,914)**	**3,120,024**	**(220,079)**
Other Financing Sources (Uses)	**(3,694,922)**	**(23,327)**	**13,718**	**24,914**	**(3,681,204)**	**1,587**
Decrease in Net Assets	**(561,180)**	**(218,492)**	**—**	**—**	**(561,180)**	**(218,492)**
Net Assets - Beginning of Year, as restated (Note 11)	14,535,614	14,876,263	—	—	14,535,614	14,876,263
Net Assets - End of Year	**$ 13,974,434**	**$ 14,657,771**	**$ —**	**$ —**	**$ 13,974,434**	**$ 14,657,771**

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for 63.9% 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 77.7% of the total expenses.

Governmental Activities

Revenue for governmental activities was $64,620,030 and expenses and other financial uses were $65,181,210. 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 $1,719,386 and expenses were $1,733,104 for the fiscal year. A transfer of $13,718 was made to the Nutrition Fund from the General Fund and Special Education Instructional Fund to defer costs in the Nutrition Fund.

Expenses totaled $1,107,079, $136,589 and $489,436 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 $5,198,301, which is a decrease from the beginning of the year fund balances of $7,420,801. 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 the use of fund balance to maintain programs. The Capital Project Fund balance decreased from $1,581,633 to $8,007. This was due to the completion and final payment of the construction project for the Pleasant Hill building in Marshalltown.

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 2005-06 is represented by the re-estimated 2005-06 column of the original 2006-07 budget submitted February 1, 2006 totaling $64,160,853. 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 on Page 30.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the Agency had invested $11,073,512, 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 $1,362,927 from the beginning of the year.

Area Education Agency 267 reported depreciation expense of $1,163,070 in 2006 and total accumulated depreciation of $11,258,029 at June 30, 2006. More detailed information about capital assets is available in Note 4 to the financial statements.

Debt

At June 30, 2006, the Agency had $1,000,000 in long-term debt outstanding compared to $1,180,000 at June 30, 2005, and $900,000 in capital lease obligations outstanding compared to $1,000,000 at 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 has become more difficult to project. Declining enrollment has continued to negatively impact the limited allowable growth received from the state. The legislature did reduce the cuts previously made for 2005-2006. AEA 267 benefited by this restoration by almost $529,000. There is room to be optimistic that the legislature may restore all or some part of the nonpermanent cuts it had made in the past. That is over $1,119,000 for AEA 267. Federal funds, which make up more than 40% of the general funds, are very questionable in the near future. In 2006-2007 Part B, which represents our largest grant, increased by less than 1% and no increase is projected for fiscal year 2008. A continued trend of small increases in federal funding will have a dramatic impact on the Agency.

AEA 267 has maintained a strong balance in excess of 10% of balance to expenditures in the general fund. At the same time the Agency has made budget reductions in recognition of the limited revenue increases received.

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, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash, cash equivalents and certificates of deposit	$ 5,266,446	$ 9,487	$ 5,275,933
Receivables			
Accounts	147,329	412,304	559,633
Due from other governments	7,177,668	—	7,177,668
Due from other funds	790,719	(790,719)	—
Inventories	100,483	478,367	578,850
Prepaid expenses	47,096	—	47,096
Restricted cash and pooled investments	187,367	—	187,367
Restricted ISCAP Assets			
Investments	4,993,050	—	4,993,050
Accrued interest receivable	46,553	—	46,553
Capital assets, net of accumulated depreciation	11,073,512	—	11,073,512
Total Assets	**$ 29,830,223**	**$ 109,439**	**$ 29,939,662**
Liabilities			
Accounts payable	$ 2,102,965	$ 96,655	$ 2,199,620
Salaries and benefits payable	6,305,123	12,784	6,317,907
Accrued interest	5,940	—	5,940
ISCAP warrants payable	5,000,000	—	5,000,000
ISCAP accrued interest payable	39,283	—	39,283
Deferred revenue	111,039	—	111,039
Long-Term Liabilities			
Portion Due or Payable Within One Year			
Certificates of participation	100,000	—	100,000
Capital lease	190,000	—	190,000
Compensated absences	309,420	—	309,420
Early retirement benefits	30,529	—	30,529
Portion Due or Payable After One Year			
Certificates of participation	800,000	—	800,000
Capital lease	810,000	—	810,000
Early retirement benefits	51,490	—	51,490
Total Liabilities	**15,855,789**	**109,439**	**15,965,228**
Net Assets			
Invested in capital assets, net of related debt	9,173,512	—	9,173,512
Restricted For			
Debt Service	8,007	—	8,007
Capital Projects	185,217	—	185,217
Unrestricted	4,607,698	—	4,607,698
Total Net Assets	**13,974,434**	**—**	**13,974,434**
Total Liabilities and Net Assets	**$ 29,830,223**	**$ 109,439**	**$ 29,939,662**

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2006

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	$ 21,885,887	$ 20,475,527	$ 1,615,949	$ 205,589	$ —	$ 205,589
Student support services	15,453,790	13,048	17,586,100	2,145,358	—	2,145,358
Instructional staff support services	11,797,534	1,114,553	2,996,188	(7,686,793)	—	(7,686,793)
General administration	5,485,567	—	—	(5,485,567)	—	(5,485,567)
Business administration	2,699,132	—	—	(2,699,132)	—	(2,699,132)
Plant operations and maintenance	2,243,844	—	—	(2,243,844)	—	(2,243,844)
Central and other support services	1,708,612	180,449	—	(1,528,163)	—	(1,528,163)
Facility acquisition and construction	128,187	—	—	(128,187)	—	(128,187)
Debt service	83,735	—	—	(83,735)	—	(83,735)
Total Governmental Activities	**61,486,288**	**21,783,577**	**22,198,237**	**(17,504,474)**	**—**	**(17,504,474)**
Business-Type Activities						
Noninstructional Programs						
Nutrition services	136,589	31,183	91,688	—	(13,718)	(13,718)
Technology and repair services	489,436	489,436	—	—	—	—
Co-op purchasing	1,107,079	1,107,079	—	—	—	—
Total Business-Type Activities	**1,733,104**	**1,627,698**	**91,688**	**—**	**(13,718)**	**(13,718)**
Total	**$ 63,219,392**	**$ 23,411,275**	**$ 22,289,925**	**(17,504,474)**	**(13,718)**	**(17,518,192)**
General Revenue						
Property tax levied for general purposes				9,859,290	—	9,859,290
State foundation aid				10,249,575	—	10,249,575
Unrestricted investment earnings				463,080	—	463,080
Miscellaneous				66,271	—	66,271
Total General Revenue				**20,638,216**	**—**	**20,638,216**
Change in Net Assets Before Other Financing Sources (Uses)				**3,133,742**	**(13,718)**	**3,120,024**
Other Financing Sources (Uses)						
LEA flow through				(3,664,774)	—	(3,664,774)
Loss from disposal of assets				(16,430)	—	(16,430)
Transfers				(13,718)	13,718	—
Total Other Financing Sources (Uses)				**(3,694,922)**	**13,718**	**(3,681,204)**
Change in Net Assets				**(561,180)**	**—**	**(561,180)**
Net Assets - Beginning of Year, as restated (Note 11)				14,535,614	—	14,535,614
Net Assets - End of Year				**$ 13,974,434**	**$ —**	**$ 13,974,434**

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2006

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
Assets				
Cash, certificates of deposit and pooled investments	$ 5,122,903	$ 900	$ 142,643	$ 5,266,446
Receivables				
Accounts	147,329	—	—	147,329
Due from other governmental units	4,399,767	2,777,901	—	7,177,668
Due from other funds	1,011,576	—	—	1,011,576
Inventories	100,483	—	—	100,483
Prepaid expenditures	47,096	—	—	47,096
Restricted cash and pooled investments	—	—	187,367	187,367
Restricted ISCAP Assets				
Investments	4,993,050	—	—	4,993,050
Accrued interest receivable	46,553	—	—	46,553
Total Assets	**$ 15,868,757**	**$ 2,778,801**	**$ 330,010**	**$ 18,977,568**
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 1,832,243	$ 254,189	$ 16,533	$ 2,102,965
Salaries and benefits payable	3,894,310	2,303,755	107,058	6,305,123
ISCAP warrants payable	5,000,000	—	—	5,000,000
ISCAP accrued interest payable	39,283	—	—	39,283
Due to other funds	—	220,857	—	220,857
Deferred revenue	97,844	—	13,195	111,039
Total Liabilities	**10,863,680**	**2,778,801**	**136,786**	**13,779,267**
Fund Balances				
Reserved For				
Inventories	100,483	—	—	100,483
Prepaid expenditures	47,096	—	—	47,096
Unreserved				
Designated for				
Media resources	466,618	—	—	466,618
Special purposes	10,094	—	—	10,094
Undesignated Reported in				
General Fund	4,380,786	—	—	4,380,786
Capital Projects Fund	—	—	8,007	8,007
Debt Service Fund	—	—	185,217	185,217
Total Fund Balances	**5,005,077**	**—**	**193,224**	**5,198,301**
Total Liabilities and Fund Balances	**$ 15,868,757**	**$ 2,778,801**	**$ 330,010**	**$ 18,977,568**

See accompanying notes to the financial statements.

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

At June 30, 2006

Total Fund Balances for Governmental Funds (Page 12).....		**$ 5,198,301**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		11,073,512
Long-term liabilities, including certificates of participation payable, accrued interest, compensated absences and early retirement benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Accrued interest payable.....	$ 5,940	
Certificates of participation.....	1,000,000	
Lease purchase.....	900,000	
Compensated absences	309,420	
Early retirement benefits	82,019	(2,297,379)
Net Assets of Governmental Activities (Page 10)		**$ 13,974,434**

See accompanying notes to the financial statements.

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

Year Ended June 30, 2006

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
Revenue				
Local sources	$ 12,816,392	$ 20,474,963	$ 17,762	$ 33,309,117
State sources	11,237,751	445,912	1,022,646	12,706,309
Federal sources	18,444,876	159,728	—	18,604,604
Total Revenue	**42,499,019**	**21,080,603**	**1,040,408**	**64,620,030**
Expenditures				
Current				
Instruction	3,526,326	17,353,454	883,598	21,763,378
Student support services	15,333,950	112,999	648	15,447,597
Instructional staff support services	11,891,744	44,757	3,685	11,940,186
General administration	4,230,746	1,082,146	83,393	5,396,285
Business administration	2,510,109	303,864	—	2,813,973
Plant operations and maintenance	1,352,029	824,331	36,953	2,213,313
Central and other support services	297,215	1,345,334	—	1,642,549
Facilities acquisition and construction	—	—	1,584,465	1,584,465
Debt service	—	—	364,510	364,510
Total Expenditures	**39,142,119**	**21,066,885**	**2,957,252**	**63,166,256**
Revenue Over (Under) Expenditures	**3,356,900**	**13,718**	**(1,916,844)**	**1,453,774**
Other Financing Sources (Uses)				
LEA flow through	(3,664,774)	—	—	(3,664,774)
Proceeds from disposal of assets.	2,218	—	—	2,218
Transfers, net	(343,218)	(13,718)	343,218	(13,718)
Total Other Financing Sources (Uses)	**(4,005,774)**	**(13,718)**	**343,218**	**(3,676,274)**
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	**(648,874)**	**—**	**(1,573,626)**	**(2,222,500)**
Fund Balances - Beginning of Year	5,653,951	—	1,766,850	7,420,801
Fund Balances - End of Year	**$ 5,005,077**	**$ —**	**$ 193,224**	**$ 5,198,301**

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, 2006

Change in Fund Balances - Total Governmental Funds (Page 14)		**$ (2,222,500)**
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	$ 2,544,645	
Depreciation expense	(1,163,070)	
Net book value of disposed assets	(18,648)	1,362,927
Capital lease proceeds is revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets		
Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		280,000
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		775
Salaries and benefits in the Statement of Activities differ from the amount reported in the governmental funds because vacation pay and early retirement benefits are 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.		17,618
Change in Net Assets of Governmental Activities (Page 11)		**$ (561,180)**

See accompanying notes to the financial statements.

Statement of Net Assets - Proprietary Funds

At June 30, 2006

	Cooperative Purchasing	Nonmajor Proprietary Funds	Total
Assets			
Cash and pooled investments	$ —	$ 9,487	$ 9,487
Accounts receivable	332,335	79,969	412,304
Inventory	402,779	75,588	478,367
Total Assets	**$ 735,114**	**$ 165,044**	**$ 900,158**
Liabilities			
Accounts payable	$ 82,227	$ 14,428	$ 96,655
Salaries and benefits payable	4,849	7,935	12,784
Due to other funds	648,038	142,681	790,719
Total Liabilities	**735,114**	**165,044**	**900,158**
Net Assets	**—**	**—**	**—**
Total Liabilities and Net Assets	**$ 735,114**	**$ 165,044**	**$ 900,158**

See accompanying notes to the financial statements.

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

Year Ended June 30, 2006

	Cooperative Purchasing	Nonmajor Proprietary Funds	Total
Operating Revenue			
Charges for services	$ 1,107,079	$ 520,619	$ 1,627,698
Operating Expenses			
Noninstructional Programs			
Business Administration			
Salaries	20,669	—	20,669
Benefits	2,770	—	2,770
Purchased services	14,928	—	14,928
Materials and supplies	1,068,712	—	1,068,712
Total Business Administration	1,107,079	—	1,107,079
Central and Other Support Services			
Salaries	—	263,590	263,590
Benefits	—	104,839	104,839
Purchased services	—	8,483	8,483
Materials and supplies	—	248,918	248,918
Other	—	195	195
Total Central and Other Support Services	—	626,025	626,025
Total Operating Expenses	**1,107,079**	**626,025**	**1,733,104**
Loss From Operations	**—**	**(105,406)**	**(105,406)**
Nonoperating Revenue			
State sources	—	1,395	1,395
Federal sources	—	90,293	90,293
Total Nonoperating Revenue	**—**	**91,688**	**91,688**
Change in Net Assets Before Transfers	**—**	**(13,718)**	**(13,718)**
Transfers in	—	13,718	13,718
Change in Net Assets	**—**	**—**	**—**
Net Assets - Beginning of Year	—	—	—
Net Assets - End of Year	**$ —**	**$ —**	**$ —**

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

At June 30, 2006

	Cooperative Purchasing	Nonmajor Proprietary Funds	Total
Cash Flows From Operating Activities			
Cash received from customers	$ 1,126,518	$ 571,155	$ 1,697,673
Cash paid to employees for services	(21,540)	(368,824)	(390,364)
Cash paid to suppliers for goods and services	(1,119,706)	(287,763)	(1,407,469)
Net Cash Used in Operating Activities	**(14,728)**	**(85,432)**	**(100,160)**
Cash Flows From Noncapital Financing Activities			
State grants received	—	1,395	1,395
Federal grants received	—	90,293	90,293
Advances from other funds	648,038	142,681	790,719
Repayment of advances from other funds	(633,310)	(161,958)	(795,268)
Transfers in	—	13,718	13,718
Net Cash Provided by Noncapital Financing Activities	**14,728**	**86,129**	**100,857**
Net Increase in Cash and Cash Equivalents	**—**	**697**	**697**
Cash and Cash Equivalents at Beginning of Year	—	8,790	8,790
Cash and Cash Equivalents at End of Year	**$ —**	**$ 9,487**	**$ 9,487**
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities			
Loss from operations	$ —	$ (105,406)	$ (105,406)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities			
Changes in Assets and Liabilities			
Decrease in accounts receivable	19,439	50,536	69,975
Increase in inventory	(98,403)	(43,500)	(141,903)
Increase in accounts payable	62,337	13,333	75,670
Increase (decrease) in accrued salaries and benefits	1,899	(395)	1,504
Net Cash Used in Operating Activities	**$ (14,728)**	**$ (85,432)**	**$ (100,160)**

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets - Fiduciary Funds - Agency

At June 30, 2006

Assets	
Cash and pooled investments	**$ 712,819**
Liabilities	
Accounts payable	$ 164,950
Deposits held in custody for others	547,869
Total Liabilities	**$ 712,819**

See accompanying 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.

(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 one major proprietary fund:

The Cooperative Purchasing Fund is used to account for the purchasing of supplies in bulk and resale of these supplies to schools in its 18-county area.

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.

(1) Summary of Significant Accounting Policies and Other Matters

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

The proprietary 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 funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All 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

(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, 2006. 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.

(2) Cash, Certificates of Deposit and Pooled Investments

The Agency's deposits in banks at June 30, 2006 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, 2006 consist of the following:

Type	Fair Value
Governmental Securities Material Fund	$ 187,367

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust which are valued at amortized cost of $8,518 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, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6-30-06	6-30-07	$ 4,993,050	$ 46,553	$ 5,000,000	$ 39,283

(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, 2006 is as follows:

Series	Balance - Beginning of Year	Advances Received	Advances Repaid	Balance - End of Year
2005-06A	$ —	$ 3,100,000	$ 3,100,000	$ —

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
2006-07A	4%	3.9%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 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	1,220,824	—	1,220,824	—
Total Capital Assets Not Being Depreciated	2,030,132	—	1,220,824	809,308
Capital Assets Being Depreciated				
Buildings and improvements	8,234,555	2,677,103	—	10,911,658
Furniture and equipment	4,724,470	268,719	118,661	4,874,528
Library books and films	5,266,044	819,647	349,644	5,736,047
Total Capital Assets Being Depreciated	18,225,069	3,765,469	468,305	21,522,233
Less Accumulated Depreciation For				
Buildings and improvements	2,948,696	176,713	—	3,125,409
Furniture and equipment	3,791,287	260,923	100,014	3,952,196
Library books and films	3,804,633	725,434	349,643	4,180,424
Total Accumulated Depreciation	10,544,616	1,163,070	449,657	11,258,029
Net Total Capital Assets Being Depreciated	7,680,453	2,602,399	18,648	10,264,204
Net Governmental Activities Capital Assets	**$ 9,710,585**	**$ 2,602,399**	**$ 1,239,472**	**$ 11,073,512**

(4) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities	
Instruction	$ 162,647
Student support services	6,193
Instructional staff support services	757,419
General administration	78,360
Business administration	29,350
Plant operations and maintenance	28,382
Central support	100,719
Total Governmental Activities Depreciation Expense	**$ 1,163,070**

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year
Certificates of participation	$ 1,180,000	$ —	$ 180,000	$ 1,000,000
Capital lease	1,000,000	—	100,000	900,000
Compensated absences	286,900	309,420	286,900	309,420
Early retirement benefits	122,157	—	40,138	82,019
	$ 2,589,057	**$ 309,420**	**$ 607,038**	**$ 2,291,439**

Certificates of Participation
On May 1, 2001, the Agency sold certificates of participation totaling $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
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	195,000	8,872	203,872
Total	**$ 1,000,000**	**$ 133,751**	**$ 1,133,751**

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

(5) Long-Term Liabilities

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

Year Ending June 30,	Principal	Interest	Total
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	115,000	18,326	133,326
2012-2014	365,000	29,046	394,046
Total	**$ 900,000**	**$ 154,766**	**$ 1,054,766**

Total interest expenditures for the certificates of participation and capital lease were $84,512 for the year ended June 30, 2006.

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. Actual expenditures for the year ended June 30, 2006 totaled $40,138.

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:

2007	$ 30,529
2008	20,364
2009	15,945
2010	8,040
2011	4,510
Future years	2,631
	$ 82,019

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer From	Amount
General	Special Revenue Juvenile Home	$ 14,369
Debt Service	General	357,587
Proprietary - Nutrition	Special Revenue - Special Education Instruction	13,718
Total		**$ 385,674**

(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, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue - Special Education Instruction	$ 220,857
	Proprietary	
	Technology and Repair Services	142,681
	Cooperative Purchasing	648,038
Total General Fund		**$ 1,011,576**

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, 2006.

Year Ending June 30,	
2007	$ 136,552
2008	117,652
2009	77,052
2010	77,052
2011	16,800
Total	**$ 425,108**

Total rental expenditures for the year ended June 30, 2006 for all operating leases, except those with terms of a month or less that were not renewed, was $493,376.

(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 for the years ended 2006, 2005 and 2004. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the year ended June 30, 2006, 2005 and 2004 were $2,232,364, $2,079,963 and $3,221,772, respectively, 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 in any of the past three fiscal years.

(11) Accounting Change

Governmental Accounting Standards Board (GASB) Statement 47 - *Accounting for Termination Benefits* was implemented during the year ended June 30, 2006. The interpretation establishes guidance on involuntary termination benefits and provides clarification on measurement issues concerning all termination benefits.

Government-Wide Funds

	Governmental Activities	Business-Type Activities	Total
Net assets at June 30, 2005, as previously reported	$ 14,657,771	$ —	$ 14,657,771
GASB 47 Adjustments			
Early retirement benefit liability	(122,157)	—	(122,157)
Net Assets at June 30, 2005, as Restated	**$ 14,535,614**	**$ —**	**$ 14,535,614**

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, 2006

	Actual			Budget Amount		
	Governmental Fund Types	Proprietary Fund Type	Total	Original	Final	Final to Actual
Revenue						
Local sources	$ 33,309,117	$ 1,627,698	$ 34,936,815	$ 33,038,106	$ 34,946,913	$ (10,098)
State sources	12,706,309	1,395	12,707,704	12,885,256	12,554,208	153,496
Federal sources	18,604,604	90,293	18,694,897	17,846,836	18,269,049	425,848
Total Revenue	**64,620,030**	**1,719,386**	**66,339,416**	**63,770,198**	**65,770,170**	**569,246**
Expenditures						
Instruction	21,763,378	—	21,763,378	20,805,600	21,615,739	(147,639)
Student support services	15,447,597	—	15,447,597	15,222,000	15,277,780	(169,817)
Instructional staff support services	11,940,186	—	11,940,186	10,745,200	11,753,183	(187,003)
General administration	5,396,285	—	5,396,285	5,727,735	5,464,765	68,480
Business administration	2,813,973	—	2,813,973	3,164,800	3,961,323	1,147,350
Plant operations and maintenance	2,213,313	—	2,213,313	1,405,941	2,010,429	(202,884)
Central and other support services	1,642,549	—	1,642,549	870,800	1,930,397	287,848
Facilities acquisition and construction	1,584,465	—	1,584,465	1,159,903	1,640,000	55,535
Noninstructional programs	—	1,733,104	1,733,104	1,940,000	143,000	(1,590,104)
Debt service	364,510	—	364,510	398,388	364,237	(273)
Total Expenditures	**63,166,256**	**1,733,104**	**64,899,360**	**61,440,367**	**64,160,853**	**(738,507)**
Revenue Over (Under) Expenditures	**1,453,774**	**(13,718)**	**1,440,056**	**2,329,831**	**1,609,317**	**(169,261)**
Other Financing Sources (Uses)	**(3,676,274)**	**13,718**	**(3,662,556)**	**(3,544,769)**	**(3,661,614)**	**(942)**
Revenue and Other Financing Sources Under Expenditures and Other Financing Uses	**(2,222,500)**	**—**	**(2,222,500)**	**(1,214,938)**	**(2,052,297)**	**(170,203)**
Balance - Beginning of Year	7,420,801	—	7,420,801	7,178,803	7,473,922	(53,121)
Balance - End of Year	**$ 5,198,301**	**$ —**	**$ 5,198,301**	**$ 5,963,865**	**$ 5,421,625**	**$ (223,324)**

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 State requires the Agency to budget its proprietary fund type using the same expenditure categories as for governmental fund types. The financial statement requires that proprietary fund types be reported as noninstructional programs.

The Agency overexpended its total budget by $169,261 for the year.

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2006

	Special Revenue Juvenile Home	Capital Projects	Debt Service	Total
Assets				
Cash, certificates of deposit and pooled investments	$ 127,376	$ 15,267	$ —	$ 142,643
Restricted cash and pooled investments	—	—	187,367	187,367
Total Assets	**$ 127,376**	**$ 15,267**	**$ 187,367**	**$ 330,010**
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 7,123	$ 7,260	$ 2,150	$ 16,533
Salaries and benefits payable	107,058	—	—	107,058
Deferred revenue	13,195	—	—	13,195
Total Liabilities	**127,376**	**7,260**	**2,150**	**136,786**
Fund Balances				
Unreserved, undesignated	**—**	**8,007**	**185,217**	**193,224**
Total Liabilities and Fund Balance	**$ 127,376**	**$ 15,267**	**$ 187,367**	**$ 330,010**

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

Year Ended June 30, 2006

	Special Revenue Juvenile Home	Capital Projects	Debt Service	Total
Revenue				
Local sources	$ —	$ 10,839	$ 6,923	$ 17,762
State sources	1,022,646	—	—	1,022,646
Total Revenue	**1,022,646**	**10,839**	**6,923**	**1,040,408**
Expenditures				
Instruction	883,598	—	—	883,598
Student support services	648	—	—	648
Instructional staff support services	3,685	—	—	3,685
General administration	83,393	—	—	83,393
Plant operations and maintenance	36,953	—	—	36,953
Facilities acquisition and construction	—	1,584,465	—	1,584,465
Debt service	—	—	364,510	364,510
Total Expenditures	**1,008,277**	**1,584,465**	**364,510**	**2,957,252**
Revenue Over (Under) Expenditures	**14,369**	**(1,573,626)**	**(357,587)**	**(1,916,844)**
Other Financing Sources (Uses)				
Transfers, net	(14,369)	—	357,587	343,218
Revenue and Other Financing Sources Under Expenditures	**—**	**(1,573,626)**	**—**	**(1,573,626)**
Fund Balances - Beginning of year	—	1,581,633	185,217	1,766,850
Fund Balances - End of Year	**$ —**	**$ 8,007**	**$ 185,217**	**$ 193,224**

Combining Statement of Net Assets - Nonmajor Proprietary Funds

At June 30, 2006

	Nutrition	Technology and Repair Services	Total
Assets			
Cash and pooled investments	$ 9,487	$ —	$ 9,487
Accounts receivable	—	79,969	79,969
Inventory	416	75,172	75,588
Total Assets	**$ 9,903**	**$ 155,141**	**$ 165,044**
Liabilities			
Accounts payable	$ 1,968	$ 12,460	$ 14,428
Salaries and benefits payable	7,935	—	7,935
Due to other funds	—	142,681	142,681
Total Liabilities	**9,903**	**155,141**	**165,044**
Net Assets	**—**	**—**	**—**
Total Liabilities and Net Assets	**$ 9,903**	**$ 155,141**	**$ 165,044**

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

Year Ended June 30, 2006

	Nutrition	Technology and Repair Services	Total
Operating Revenue			
Charges for services	$ 31,183	$ 489,436	$ 520,619
Noninstructional Programs			
Central and Other Support Services			
Salaries	42,379	221,211	263,590
Benefits	22,326	82,513	104,839
Purchased services	—	8,483	8,483
Materials and supplies	71,884	177,034	248,918
Other	—	195	195
Total Central and Other Support Services	136,589	489,436	626,025
Total Operating Expenses	**136,589**	**489,436**	**626,025**
Loss From Operations	**(105,406)**	**—**	**(105,406)**
Nonoperating Revenue			
State sources	1,395	—	1,395
Federal sources	90,293	—	90,293
Total Nonoperating Revenue	**91,688**	**—**	**91,688**
Change in Net Assets Before Transfers	**(13,718)**	**—**	**(13,718)**
Transfers in	13,718	—	13,718
Change in Net Assets	**—**	**—**	**—**
Net Assets - Beginning of Year	—	—	—
Net Assets - End of Year	**$ —**	**$ —**	**$ —**

Combining Statement of Cash Flows - Nonmajor Proprietary Funds

At June 30, 2006

	Nutrition	Technology and Repair Services	Total
Cash Flows From Operating Activities			
Cash received from customers	$ 31,183	$ 539,972	$ 571,155
Cash paid to employees for services	(65,100)	(303,724)	(368,824)
Cash paid to suppliers for goods and services	(70,792)	(216,971)	(287,763)
Net Cash Provided by (Used in) Operating Activities	**(104,709)**	**19,277**	**(85,432)**
Cash Flows From Noncapital Financing Activities			
State grants received	1,395	—	1,395
Federal grants received	90,293	—	90,293
Advances from other funds	—	142,681	142,681
Repayment of advances from other funds	—	(161,958)	(161,958)
Transfers in	13,718	—	13,718
Net Cash Provided by (Used in) Noncapital Financing Activities	**105,406**	**(19,277)**	**86,129**
Net Increase in Cash and Cash Equivalents	**697**	**—**	**697**
Cash and cash equivalents at beginning of year	8,790	—	8,790
Cash and Cash Equivalents at End of Year	**$ 9,487**	**$ —**	**$ 9,487**
Reconciliation of Loss From Operations to Net Cash Provided by (Used in) Operating Activities			
Loss from operations	$ (105,406)	$ —	$ (105,406)
Adjustments to Reconcile Loss From Operations to Net Cash Provided by (Used in) Operating Activities			
Changes in Assets and Liabilities			
Decrease in accounts receivable	—	50,536	50,536
Increase in inventory	(416)	(43,084)	(43,500)
Increase in accounts payable	1,508	11,825	13,333
Decrease in accrued salaries and benefits	(395)	—	(395)
Net Cash Provided by (Used in) Operating Activities	**$ (104,709)**	**$ 19,277**	**$ (85,432)**

Statement of Changes in Fiduciary Assets and Liabilities - Agency Funds

Year Ended June 30, 2006

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
Assets				
Cash and pooled investments.....	**$ 748,167**	**$ 1,740,781**	**$ 1,776,129**	**$ 712,819**
Liabilities				
Accounts payable	$ 148,664	$ 164,950	$ 148,664	$ 164,950
Deposits held in custody of others.....	599,503	1,575,831	1,627,465	547,869
Total Liabilities	**$ 748,167**	**$ 1,740,781**	**$ 1,776,129**	**$ 712,819**

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

Year Ended June 30, 2006

	Years Ended June 30,		
	2006	**2005**	**2004**
Revenue			
Local sources	$ 33,309,117	$ 31,453,896	$ 28,896,038
State sources	12,706,309	12,020,599	12,563,121
Federal sources	18,604,604	17,533,170	16,597,111
Total Revenue	**$ 64,620,030**	**$ 61,007,665**	**$ 58,056,270**
Expenditures			
Current			
Instruction	$ 21,763,378	$ 20,467,445	$ 19,755,699
Student support services	15,447,597	17,889,315	16,782,631
Instructional staff support services	11,940,186	11,207,636	8,912,793
General administration	5,396,285	5,474,878	5,821,850
Business administration	2,813,973	2,873,359	1,684,665
Plant operations and maintenance	2,213,313	3,035,099	1,339,828
Central and other support services	1,642,549	104,132	3,406,867
Facilities acquisition and construction	1,584,465	1,286,662	653,771
Debt service	364,510	2,007,784	523,519
Total Expenditures	**$ 63,166,256**	**$ 64,346,310**	**$ 58,881,623**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

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			
Food Donation	10.550		$ 6,163
National School Lunch Program	10.555	N/A	84,130
			90,293
U.S. Department of Education - Direct			
Fund for the Improvement of Education			
Our Kids Program	84.215	N/A	39,775
History Program	84.215	N/A	196,897
Total U.S. Department of Education - Direct			236,672
U.S. Department of Education - Indirect			
Pass-Through Center of Civic Education			
Civic Education - Cooperative Education Exchange Program			
Miscellaneous programs	84.304	N/A	11,150
Citizen and Constitution	84.304	58011A	21,654
Project Citizen	84.304	R929A03000	7,818
Total Pass-Through Center of Civic Education			40,622
Pass-Through School Administration of Iowa			
Parental Assistance Centers	84.310	N/A	184,303
Pass-Through Iowa Department of Education			
Special Education - Grants to States			
Preschool Handicapped Program	84.027*	030407	10,895,420
Preschool Handicapped Program - Flowthrough	84.027*	030407	3,664,774
Supplemental Support Services	84.027*	030407	230,706
Self-Assessment Data Collection	84.027*	3K79-07MON	8,500
DE Web Leland	84.027*	N/A	28,664
Enhancing the Parent Educator Connection	84.027*	37407	136,632
Diagnostic Evaluation Program	84.027*	2K71-07	12,349
Conflicts Training	84.027*	N/A	20,553
Part B	84.027*	N/A	246,986
			15,244,584
Special Education - Preschool Grants			
Special Education Preschool Grants	84.173*	03619-07	532,625
Vocational Education - Basic Grants to States			
Perkins III	84.048**	N/A	598,820
Special Education - Grants for Infants and Families			
With Disabilities	84.181	C03-07	375,156
State and Drug-Free School and Communities -			
State Grants	84.186		114,617
Vocational Education - Basic Grants to States			
Title II Correction Education	84.048**	N/A	8,799

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Improving Teacher Quality State Grants	84.367	N/A	$ 2,432
Special Education - State Personnel Development	84.323	SGP/IEP	33,092
Reading First State Grants	84.357	Various	57,266
English Language Acquisition Grants	84.365	N/A	252,829
Total Pass-Through Iowa Department of Education			17,220,220
Pass-Through Iowa Valley Community College			
Vocational Education - Basic Grants to States Perkins III	84.048**	N/A	16,000
Pass-Through University of Iowa			
Assistive Technology	84.224	1-36010-00	9,000
Pass-Through Waterloo Community School District			
Twenty-First Century Community Learning Centers	84.287	5287a01/222	2,124
Pass-Through Grant Wood AEA			
Education Technology State Grants	84.318	N/A	508,134
Pass-Through Mason City Community School District			
Title I Program for Neglected and Delinquent Children	84.013	N/A	67,232
Total U.S. Department of Education - Indirect			18,047,635
Total U.S. Department of Education			**18,284,307**
U.S. Department of Health and Human Services - Direct			
Medical Assistance Program	93.778	N/A	392,942
U.S. Department of Health and Human Services - Indirect			
Pass-Through Marshall County			
Temporary Assistance for Needy Families	93.558	N/A	16,480
Total U.S. Department of Health and Human Services			**409,422**
Corporation for National and Community Service - Direct			
Learn and Serve America - School and Community Based Programs	94.004	N/A	**2,510**
Total Federal Financial Assistance			**$ 18,786,532**

* Total Expenditures for CFDA Numbers 84.027 and 84.173 were $15,777,209.
** Total Expenditures for CFDA Number 84.048 were $623,619.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

(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 $3,664,774 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, 2006, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated September 28, 2006. 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. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be 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*.

Comments involving statutory and other legal matters about Area Education Agency 267's operations for the year ended June 30, 2006 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
September 28, 2006

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, 2006. 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, 2006. However, the results of our auditing procedures disclosed certain immaterial instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 06-III-C-1 and 06-III-C-2.

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.

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. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might 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
September 28, 2006

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

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	X no
Reportable condition identified not considered to be material weaknesses?	__ yes	X none reported
Noncompliance material to financial statements noted?	__ yes	X no

Federal Awards

Internal control over major programs:		
Material weakness identified?	__ yes	X no
Reportable condition identified not considered to be material weaknesses?	X 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?	X yes	__ no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster
84.048	Vocational Education - Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs:	$563,596	
Auditee qualified as low-risk auditee?	__ yes	X no

Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Reportable Conditions

There were no reportable conditions.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

CFDA Number 84.027: Special Education - Grants to States
CFDA Number 84.173: Special Education - Preschool Grants
Federal Award Year: 2006
U.S. Department of Education (Indirect Award)

06-III-C-1 Proper Documentation of Weighted Enrollment Information - Special Education Cluster

Finding - The Agency is required to report the weighted enrollment to the Iowa Department of Education (Department) separately by each school district in the Agency. We tested all of the enrollment forms maintained in the Agency's files and compared them to the list submitted to the Department. Of the 61 school district enrollment forms that we tested, 15 had immaterial differences compared to the weighted enrollment submitted to the Department.

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.

06-III-C-2 Proper Annual Evaluations - Special Education Cluster

Finding - The Agency is required to have an annual evaluation for each student included in the special education program, and this evaluation must be approved by a parent or guardian. We tested 40 files, and two students had not been evaluated within the prior 12 months and one student evaluation was not approved by a parent or guardian.

Auditor’s Recommendation - The Agency should strengthen procedures to ensure evaluations occur when required and that they are properly approved.

Agency’s Response - We will establish procedures to ensure annual evaluations are done timely and properly approved.

Auditor’s Conclusion - Response accepted.

Reportable Conditions

There were no reportable conditions.

Part IV: Other Findings Related to Required Statutory Reporting

06-IV-CS-1 **Official Depositories** - A resolution naming official depositories has been adopted by the Agency. However, the Agency's deposits exceeded the maximum approved amount for one institution during the year.

Auditor's Recommendation - The Agency should monitor and update its depository resolution as its cash balances fluctuate.

Agency's Response - We will review and change depository resolutions as needed.

Auditor's Conclusion - Response accepted.

06-IV-CS-2 **Budget** - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted for instruction, student support services, instructional staff support services, plant operation and maintenance, noninstructional programs 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 be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are 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.

06-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.

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

06-IV-CS-5 **Business Transactions** - No business transactions between the Agency and Agency officials or employees were noted.

06-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.

06-IV-CS-7 **Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.

06-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.

06-IV-CS-9 **Certified Annual Report** - The Certified Annual Report was timely filed with the Iowa Department of Education.