

**KEYSTONE AREA EDUCATION  
AGENCY 1**

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

**JUNE 30, 2007**

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KEYSTONE AREA EDUCATION AGENCY 1

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
<b>Board of Directors</b>		
Walter Pregler	President	2008
Francis Peterson	Vice President	2007
Gary Gassett	Member	2009
Merle Gaber	Member	2009
Robert Brown	Member	2008
John Ganshirt	Member	2007
Norman Miller	Member	2008
Bill Withers	Member	2007
John Perrenoud	Member	2009
<b>Agency</b>		
Robert Vittengl	Administrator	
Bob Shaw	Director of Administrative Services and Treasurer	
Candace Brockmeyer	Board Secretary	
Audie Baumgartner	Business Department Team Leader	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Keystone Area Education Agency 1  
Elkader, 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 Keystone Area Education Agency 1 as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 at June 30, 2007, 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 report dated October 29, 2007, on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 26 through 27 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 required supplementary information. 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 Keystone Area Education Agency 1'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, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U. S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fort Dodge, Iowa  
October 29, 2007

## KEYSTONE AREA EDUCATION AGENCY 1

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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Keystone Area Education Agency 1 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, 2007. We encourage readers to consider this information in conjunction with the Agency's financial statements which follow.

#### 2007 FINANCIAL HIGHLIGHTS

General Fund revenues in 2007 (FY07) were \$20,971,887<sup>✓</sup> while General Fund expenditures for FY07 were \$20,245,219<sup>✓</sup>. Financing uses for FY07 were \$456,040<sup>✓</sup>. This resulted in an increase in the Agency's General Fund balance from \$1,306,967<sup>✓</sup> in FY06 to \$1,577,595<sup>✓</sup> in FY07, a 21% increase from the prior year.

#### 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 Keystone Area Education Agency 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 the non-major funds.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **USING THIS ANNUAL REPORT (Continued)**

#### **Reporting the Agency as a Whole**

##### **Government-wide Financial Statements**

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.

In the Government-wide financial statements, the Agency's activities consist of one category:

- *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.

##### **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 federal grants.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **USING THIS ANNUAL REPORT (Continued)**

#### **Reporting the Agency as a Whole (Continued)**

##### **Fund Financial Statements (continued)**

The Agency has one kind of fund:

- 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 at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Debt Service Fund.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net assets at the end of fiscal year 2007 totaled approximately \$2.4 million. The analysis that follows provides a summary of the Agency's net assets at June 30, 2007 for the governmental activities.

#### Condensed Statement

	Governmental Activities		Business-type Activities	
	2006	2007	2006	2007
Current and other assets	\$ 8,398,333	\$ 7,017,912	\$ -	
Capital assets	4,811,748	4,600,556 <sup>v</sup>	-	
<b>Total assets</b>	<b>13,210,081</b>	<b>11,618,468<sup>v</sup></b>	-	-
Long-term obligations	4,636,169	4,179,527 <sup>v</sup>	-	-
Other liabilities	6,661,426	5,017,287	-	
<b>Total liabilities</b>	<b>11,297,595</b>	<b>9,196,814<sup>v</sup></b>	-	-
Net assets:				
Invested in capital assets, net of related debt	783,845	870,153 <sup>v</sup>	-	
Restricted	429,940	423,030 <sup>v</sup>	-	
Unrestricted	698,701	1,128,471 <sup>v</sup>	-	
<b>Total net assets</b>	<b>\$ 1,912,486</b>	<b>\$ 2,421,654</b>	<b>\$ -</b>	<b>\$ -</b>

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**of Net Assets**

<b>Total Agency</b>		<b>Percentage</b>
<b>2006</b>	<b>2007</b>	<b>Change (%)</b>
\$ 8,398,333	\$ 7,017,912	(16.4)
4,811,748	4,600,556	(4.4)
13,210,081	11,618,468	(12.0)
4,636,169	4,179,527	(9.8)
6,661,426	5,017,287	(24.7)
11,297,595	9,196,814	(18.6)
783,845	870,153	11.0
429,940	423,030	(1.6)
698,701	1,128,471	61.5
\$ 1,912,486	\$ 2,421,654	26.6

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

The following analysis shows the changes in net assets for the year ended June 30, 2007:

	<b>Changes in</b>			
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2006	2007	2006	2007
<b>Revenues:</b>				
Program revenues:				
Charges for service	\$ 671,789	\$ 753,883 <sup>✓</sup>	\$ -	\$ -
Operating grants and contributions	9,408,104	9,170,048 <sup>✓</sup>	-	-
General revenues:				
Property taxes	5,492,301	5,568,398 <sup>✓</sup>	-	-
State foundation aid	4,828,923	5,331,747 <sup>✓</sup>	-	-
Unrestricted investment earnings	197,971	317,196 <sup>✓</sup>	-	-
<b>Total revenues</b>	<b>20,599,088</b>	<b>21,141,272</b>	<b>-</b>	<b>-</b>
<b>Program expenses:</b>				
Instruction	294,757	377,841 <sup>✓</sup>	-	-
Student support services	9,525,936	9,243,619 <sup>✓</sup>	-	-
Instructional staff support services	5,762,343	5,728,419 <sup>✓</sup>	-	-
General administration	3,112,269	2,848,311 <sup>✓</sup>	-	-
Business administration	1,235,980	1,293,594 <sup>✓</sup>	-	-
Plant operations and maintenance	755,680	885,710 <sup>✓</sup>	-	-
Central and other support services	2,421	576 <sup>✓</sup>	-	-
Community service operations	85,713	88,584 <sup>✓</sup>	-	-
Facilities acquisition and construction	127,727	-	-	-
Interest on long-term debt	176,013	165,450 <sup>✓</sup>	-	-
<b>Total expenses</b>	<b>21,078,839</b>	<b>20,632,104</b>	<b>-</b>	<b>-</b>
Increase (decrease) in net assets	(479,751)	509,168 <sup>✓</sup>	-	-
Net assets beginning of year	2,392,237	1,912,486 <sup>-</sup>	-	-
Net assets end of year	\$ 1,912,486	\$ 2,421,654 <sup>✓</sup>	\$ -	\$ -

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**Net Assets**

<b>Total Agency</b>		<b>Percentage</b>
<b>2006</b>	<b>2007</b>	<b>Change (%)</b>
<hr/>		<hr/>
\$ 671,789	\$ 753,883	12.2
9,408,104	9,170,048	(2.5)
5,492,301	5,568,398	1.4
4,828,923	5,331,747	10.4
197,971	317,196	60.2
<hr/> 20,599,088	<hr/> 21,141,272	2.6
294,757	377,841	28.2
9,525,936	9,243,619	(3.0)
5,762,343	5,728,419	(0.6)
3,112,269	2,848,311	(8.5)
1,235,980	1,293,594	4.7
755,680	885,710	17.2
2,421	576	(76.2)
85,713	88,584	3.3
127,727	-	(100.0)
176,013	165,450	(6.0)
<hr/> 21,078,839	<hr/> 20,632,104	(2.1)
(479,751)	509,168	(206.1)
<hr/> 2,392,237	<hr/> 1,912,486	(20.1)
<hr/> <b>\$ 1,912,486</b>	<hr/> <b>\$ 2,421,654</b>	26.6

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

Operating grants and contributions from local, state, and federal sources account for 43% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 74% of the total expenses.

#### **Governmental Activities**

Revenues for governmental activities were \$21,141,272 and expenses were \$20,632,104.

### **FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

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

The Agency's governmental funds reported a combined fund balance that increased from \$1,736,907 to \$2,000,625.

#### **Governmental Fund Highlights**

The Agency's general fund financial position improved at the end of the 2006-2007 fiscal year because of partial restoration of state aid cuts, reductions in personnel costs in central administration, unfilled vacancies, and increases in miscellaneous local revenues received for providing services to educational partners such as empowerment zones. Increasing service needs and demands that are being imposed by federal legislation such as the No Child Left Behind Act and the Individuals with Disabilities Education Act will continue to provide financial challenges.

#### **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 State Board review, the State Board either approves the budget or returns it 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 additional revenue and expenditures associated with the additional 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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

On June 30, 2007, the Agency had invested \$4.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, building, computers, Media lending library and audio-visual equipment. Keystone Area Education Agency had depreciation expense of \$481,797 in FY07 and total accumulated depreciation of \$5.7 million on June 30, 2007. More detailed information about capital assets is available in Note 4 to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

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

- The state aid reduction of \$1,113,981 has been reduced by \$193,731 to \$920,250 for the 2007-2008 fiscal year. This additional funding will assist the Agency as it attempts to meet its service requirements while maintaining an acceptable solvency ratio. Providing adequate compensation for the Agency's employees while maintaining an acceptable financial solvency ratio will continue to be a challenge. Very small increases or, in some cases, no increase in health and dental insurance rates have been helpful in meeting the aforementioned challenge.
- Collective bargaining settlements that continue to exceed increases in controlled funding as well as other funding is an on-going concern that will be addressed either through erosion of financial position or erosion of services to schools and children. All of the aforementioned variables must be balanced with the need to compensate the Agency's employees in a competitive manner.
- Declining enrollment is an on-going concern, since controlled funding is driven by per pupil amounts, plus allowable growth, multiplied by the number of students. Although student population is declining, student needs are increasing.
- As an Agency, we must explore options to provide more effective, efficient, and economical service within an environment of declining enrollment, reduced state aid, a very competitive labor market for the professional employees that we need, and the requirement to maintain financial solvency.

### **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 Keystone Area Education Agency, 1400 2<sup>nd</sup> St N.W., Elkader, Iowa, 52043-9564.

**KEYSTONE AREA EDUCATION AGENCY 1**

**BASIC FINANCIAL STATEMENTS**

**STATEMENT OF NET ASSETS**  
**June 30, 2007**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ 2,802,078	\$ -	\$ 2,802,078
Receivables:			
Accounts	145,016	-	145,016
Due from other governments	1,167,573	-	1,167,573
Inventories	29,459	-	29,459
Prepaid expenses	167,498	-	167,498
Restricted ISCAP assets:			
Investments	2,685,750	-	2,685,750
Accrued interest receivable	20,538	-	20,538
Capital assets (net of accumulated depreciation)	4,600,556	-	4,600,556
<b>Total assets</b>	<b>11,618,468</b>	<b>-</b>	<b>11,618,468</b>
<b>Liabilities</b>			
Accounts payable	353,452	-	353,452
Salaries and benefits payable	1,784,117	-	1,784,117
Interest payable	26,724	-	26,724
ISCAP warrants payable	2,690,000	-	2,690,000
Deferred revenue:			
Federal	72,227	-	72,227
Miscellaneous	90,767	-	90,767
Long-term liabilities			
Portion due or payable within one year:			
Capital leases	260,000	-	260,000
Early retirement obligation	162,601	-	162,601
Compensated absences	12,856	-	12,856
Portion due or payable after one year:			
Capital leases	3,470,403	-	3,470,403
Early retirement obligation	80,182	-	80,182
Compensated absences	193,485	-	193,485
<b>Total liabilities</b>	<b>9,196,814</b>	<b>-</b>	<b>9,196,814</b>

(Continued on next page)

**KEYSTONE AREA EDUCATION AGENCY 1**

**Exhibit A  
(Continued)**

**STATEMENT OF NET ASSETS  
June 30, 2007**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Total Liabilities</b>	\$ 9,196,814	\$ -	\$ 9,196,814
<b>Net Assets</b>			
Invested in capital assets, net of related debt	870,153	-	870,153
Restricted for:			
Debt service	423,030	-	423,030
Unrestricted	1,128,471	-	1,128,471
<b>Total net assets</b>	<u>2,421,654</u>	<u>-</u>	<u>2,421,654</u>
<b>Total liabilities and net assets</b>	<u>\$ 11,618,468</u>	<u>\$ -</u>	<u>\$ 11,618,468</u>

See Notes to Financial Statements.

**KEYSTONE AREA EDUCATION AGENCY 1**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2007**

	<b>Program Revenues</b>	
	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b>Expenses</b>		
<b>Functions/Programs:</b>		
<b>Governmental Activities:</b>		
Instruction	\$ 377,841	\$ 377,243
Student support services	9,243,619	8,211,166
Instructional staff support services	5,728,419	484,033
General administration	2,848,311	1,500
Business administration	1,293,594	-
Plant operations and maintenance	885,710	-
Central and other support services	576	-
Community service operations	88,584	96,106
Interest on long-term debt	165,450	-
<b>Total</b>	<b>\$ 20,632,104</b>	<b>\$ 9,170,048</b>

**General revenues:**

Property taxes  
State foundation aid  
Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (598)	\$ -	\$ (598)
(928,881)	-	(928,881)
(4,945,856)	-	(4,945,856)
(2,846,811)	-	(2,846,811)
(941,813)	-	(941,813)
(885,710)	-	(885,710)
(576)	-	(576)
7,522	-	7,522
(165,450)	-	(165,450)
(10,708,173)	-	(10,708,173)
5,568,398		5,568,398
5,331,747		5,331,747
317,196		317,196
509,168	-	509,168
1,912,486	-	1,912,486
<u>\$ 2,421,654</u>	<u>\$ -</u>	<u>\$ 2,421,654</u>

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2007**

	Nonmajor Governmental		
	General	Funds	Total
<b>Assets</b>			
Cash	\$ 2,288,860	\$ 513,218	\$ 2,802,078 ✓
Receivables:			
Accounts	145,016	-	145,016 ✓
Due from other governments	1,167,573	-	1,167,573 ✓
Inventories	29,459	-	29,459 ✓
Prepaid expenditures	166,083	1,415	167,498 ✓
Restricted ISCAP assets:			
Investments	2,685,750	-	2,685,750 ✓
Accrued interest receivable	20,538	-	20,538 ✓
<b>Total assets</b>	<b>\$ 6,503,279 ✓</b>	<b>\$ 514,633 ✓</b>	<b>\$ 7,017,912 ✓</b>
<b>Liabilities and Fund Balances</b>			
Accounts payable	\$ 301,002	\$ 52,450	\$ 353,452 ✓
Salaries and benefits payable	1,771,026	13,091	1,784,117 ✓
Interest payable	662	26,062	26,724 ✓
ISCAP warrants payable	2,690,000	-	2,690,000 ✓
Deferred revenue:			
Federal	72,227	-	72,227 ✓
Miscellaneous	90,767	-	90,767 ✓
<b>Total liabilities</b>	<b>4,925,684</b>	<b>91,603</b>	<b>5,017,287</b>
Fund balances:			
Reserved for:			
Inventories	29,459	-	29,459 ✓
Prepaid expenditures	166,083	-	166,083
Media materials	94	-	94
Other	3,089	-	3,089
Unreserved:			
Designated for subsequent year's expenditures	701,807	-	701,807
Undesignated	677,063	423,030	1,100,093
<b>Total fund balances</b>	<b>1,577,595</b>	<b>423,030</b>	<b>2,000,625 ✓</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,503,279 ✓</b>	<b>\$ 514,633 ✓</b>	<b>\$ 7,017,912 ✓</b>

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET--  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2007**

**Total governmental fund balances (page 14)** \$ 2,000,625

*Amounts reported for governmental activities in the  
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,328,803 and the accumulated depreciation is \$5,728,247.

4,600,556

Long-term liabilities, including capital leases and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

(4,179,527)

**Net assets of governmental activities (page 12)**

\$ 2,421,654

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES -- GOVERNMENTAL FUNDS  
Year Ended June 30, 2007**

	Nonmajor Governmental		Total
	General	Funds	
<b>Revenues:</b>			
Local sources	\$ 6,699,556	\$ -	\$ 6,699,556
State sources	5,552,360	169,385	5,721,745
Federal sources	8,719,971	-	8,719,971
<b>Total revenues</b>	<b>20,971,887</b>	<b>169,385</b>	<b>21,141,272</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Instruction	232,741	144,502	377,243
Student support services	9,337,230	-	9,337,230
Instructional staff support services	5,718,734	1,288	5,720,022
General administration	2,859,327	13,313	2,872,640
Business administration	1,293,886	706	1,294,592
Plant operations and maintenance	715,433	9,576	725,009
Central and other support services	576	-	576
Community service operations	87,292	-	87,292
Debt service	-	462,950	462,950
<b>Total expenditures</b>	<b>20,245,219</b>	<b>632,335</b>	<b>20,877,554</b>
Excess (deficiency) of revenues over (under) expenditures	726,668	(462,950)	263,718
<b>Other financing sources (uses):</b>			
Transfers in	-	464,791	464,791
Transfers out	(456,040)	(8,751)	(464,791)
<b>Total financing sources (uses)</b>	<b>(456,040)</b>	<b>456,040</b>	<b>-</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	270,628	(6,910)	263,718
Fund balances, beginning of year	1,306,967	429,940	1,736,907
Fund balances, end of year	\$ 1,577,595 ✓	\$ 423,030 ✓	\$ 2,000,625 ✓

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES --  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007**

**Net change in fund balances - total governmental funds (page 16)** \$ 263,718<sup>v</sup>

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 289,758 <sup>v</sup>	
Depreciation expense	<u>(481,797)<sup>v</sup></u>	(192,039)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources

(19,153)<sup>v</sup>

Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

297,500<sup>v</sup>

Compensated absence and early retirement expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.

159,142<sup>v</sup>

**Change in net assets of governmental activities (page 13)** \$ 509,168

See Notes to Financial Statements.

# KEYSTONE AREA EDUCATION AGENCY 1

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 25 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U. S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity:

For financial reporting purposes, Keystone Area Education Agency 1 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. The Keystone Area Education Agency 1 has no component units which meet the Governmental Accounting Standards Board criteria.

#### 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 attributable 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.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

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 reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues 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.

#### C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

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

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Fund Equity:

Cash – Cash includes amounts in demand deposits, money market funds and certificates of deposit.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets 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 the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Improvements other than buildings	5,000
Furniture and equipment	1,000
Library books	Aggregated annual purchases

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July 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.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Fund Equity (continued):

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2007. 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.

### Note 2. Cash and Pooled Investment

The Agency's deposits in banks at June 30, 2007 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

**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.

**NOTES TO FINANCIAL STATEMENTS**

**Note 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 Co., NA is 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, 2007 is as follows:

<b>Series</b>	<b>Warrant Date</b>	<b>Final Warrant Maturity</b>	<b>Investments</b>	<b>Accrued Interest Receivable</b>	<b>Warrants Payable</b>	<b>Accrued Interest Payable</b>
2006-2007A	6/28/2006	6/28/2007	\$ -	\$ 19,735	\$ -	\$ -
2007-2008A	6/28/2007	6/27/2008	2,685,750	803	2,690,000	685
			<u>\$ 2,685,750</u>	<u>\$ 20,538</u>	<u>\$ 2,690,000</u>	<u>\$ 685</u>

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, then 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 that 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, 2007 is as follows:

<b>Series</b>	<b>Balance Beginning of Year</b>	<b>Advances Received</b>	<b>Advances Repaid</b>	<b>Balance End of Year</b>
2006-2007A	\$ -	\$ 3,900,000	\$ 3,900,000	\$ -
2007-2008A	-	-	-	-
	<u>\$ -</u>	<u>\$ 3,900,000</u>	<u>\$ 3,900,000</u>	<u>\$ -</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

<b>Series</b>	<b>Interest Rates on Warrants</b>	<b>Interest Rates on Investments</b>
2006-2007A	4.500%	5.676%
2007-2008A	4.500%	5.455%

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	343,373	-	-	343,373
Capital assets being depreciated:				
Buildings	5,624,750	-	-	5,624,750
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	858,735	70,536	12,350	916,921
Library books	3,271,116	219,222	139,579	3,350,759
Total capital assets being depreciated	9,847,601	289,758	151,929	9,985,430
Less accumulated depreciation for:				
Buildings	2,308,719	189,855	-	2,498,574
Improvements other than buildings	46,035	4,185	-	50,220
Furniture and equipment	669,782	39,980	7,155	702,607
Library books and films	2,354,690	247,777	125,621	2,476,846
	5,379,226	481,797	132,776	5,728,247
Total capital asset being depreciated, net	4,468,375	(192,039)	19,153	4,257,183
Governmental activities capital assets, net	\$ 4,811,748	\$ (192,039)	\$ 19,153	\$ 4,600,556

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

Governmental activities:	
Student support services	\$ 5,172
Instructional staff support services	259,765
General administration	6,533
Business administration	11,134
Plant operations and maintenance	199,193
<b>Total governmental activities depreciation expense</b>	<b>\$ 481,797</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance End of Year</b>	<b>Due Within One Year</b>
Capital leases	\$ 4,027,903	\$ -	\$ 297,500	\$ 3,730,403	\$ 260,000
Early retirement obligation	424,798	-	182,015	242,783	162,601
Compensated absences	183,468	92,082	69,209	206,341	12,856
	<u>\$ 4,636,169</u>	<u>\$ 92,082</u>	<u>\$ 548,724</u>	<u>\$ 4,179,527</u>	<u>\$ 435,457</u>

#### Capital leases:

The Agency is obligated under a lease accounted for as a capital lease. Fixed assets under a capital lease included in buildings totaled \$4,687,173 at June 30, 2007. The lease matures May 1, 2017 and requires interest at an interest rate of 4.25%. The following is a schedule of future minimum lease payments required under the capital lease as of June 30, 2007:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 260,000	\$ 155,780	\$ 415,780
2009	290,000	144,411	434,411
2010	315,000	131,873	446,873
2011	345,000	118,167	463,167
2012	360,000	95,642	455,642
2013 and later years	2,160,403	306,191	2,466,594
<b>Total</b>	<u>\$ 3,730,403</u>	<u>\$ 952,064</u>	<u>\$ 4,682,467</u>

Payments under these agreements for the year ended June 30, 2007, including interest of \$165,450, totaled \$462,950. The total payments include payments on a capital lease that was paid off during the year ended June 30, 2007.

#### Early retirement obligation:

The Agency offered a voluntary early retirement plan to its employees that was discontinued effective June 30, 2006. Eligible employees must have completed at least fifteen years of full-time service to the Agency and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Directors. Early retirement benefits are equal to 20% of the employee's regular contractual salary in effect during the employee's last year of employment, with additional benefits available related to unused sick leave days and health insurance. Early retirement benefits will be paid in four equal installments in January and June in the years following the start of retirement. Health insurance benefits will be paid for up to five consecutive years after retirement or until the employee's 65th birthday, whichever comes first. At June 30, 2007, the Agency has obligations to twenty-four participants with a total liability of \$242,783. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$182,015.

## NOTES TO FINANCIAL STATEMENTS

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### Note 6. Operating Leases

The Agency has leases for copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from July 2007 through November 2010.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2007.

<u>Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 60,486
2009	49,445
2010	48,445
2011	34,167
2012	25,844
	<u>\$ 218,387</u>

Total rental expenditures for the year ended June 30, 2007 for all operating leases, except those with terms of a month or less that were not renewed, was \$114,697.

### Note 7. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$665,571, \$666,971 and \$626,564, respectively, equal to the required contributions for each year.

### Note 8. 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 have not exceeded commercial insurance coverage in any of the past three fiscal years.

**KEYSTONE AREA EDUCATION AGENCY 1**

**REQUIRED SUPPLEMENTARY INFORMATION**

**KEYSTONE AREA EDUCATION AGENCY 1**

**STATEMENT OF REVENUES, EXPENDITURES/EXPENSES  
AND CHANGES IN BALANCES -- BUDGET AND ACTUAL  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND  
Required Supplementary Information  
Year Ended June 30, 2007**

	<b>Governmental Fund Types Actual</b>	<b>Proprietary Fund Types Actual</b>	<b>Total Actual</b>
<b>Revenues:</b>			
Local sources	\$ 6,699,556	\$ -	\$ 6,699,556 ✓
State sources	5,721,745	-	5,721,745 ✓
Federal sources:	8,719,971	-	8,719,971 ✓
<b>Total revenues</b>	<b>21,141,272</b>	<b>-</b>	<b>21,141,272</b>
<b>Expenditures/Expenses:</b>			
<b>Current:</b>			
Instruction	377,243	-	377,243 ✓
Student support services	9,337,230	-	9,337,230 ✓
Instructional staff support services	5,720,022	-	5,720,022 ✓
General administration	2,872,640	-	2,872,640 ✓
Business administration	1,294,592	-	1,294,592 ✓
Plant operations and maintenance	725,009	-	725,009 ✓
Central and other support services	576	-	576 ✓
Community service operations	87,292	-	87,292 ✓
Debt service	462,950	-	462,950 ✓
<b>Total expenditures/expenses</b>	<b>20,877,554</b>	<b>-</b>	<b>20,877,554</b>
<b>Excess (deficiency) of revenues over (under) expenditures/expenses</b>	<b>263,718</b>	<b>-</b>	<b>263,718 ✓</b>
Other financing sources (uses)	-	-	-
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing (uses)</b>	<b>263,718</b>	<b>-</b>	<b>263,718 ✓</b>
Balance, beginning of year	1,736,907	-	1,736,907 ✓
Balance, end of year	<b>\$ 2,000,625</b>	<b>\$ -</b>	<b>\$ 2,000,625 ✓</b>

See accompanying Independent Auditor's Report.

Budget		Final to Actual
Original	Final	Variance - Favorable (Unfavorable)
\$ 6,356,498	\$ 6,332,584	\$ 366,972
6,253,960	5,781,660	(59,915)
9,032,635	8,799,308	(79,337)
21,643,093	20,913,552	227,720
132,781	293,072	(84,171)
9,623,621	9,530,682	193,452
6,522,245	5,961,607	241,585
3,103,979	2,959,774	87,134
876,446	1,146,076	(148,516)
783,103	766,493	41,484
	3,550	2,974
89,495	85,992	(1,300)
464,873	464,873	1,923
21,596,543	21,212,119	334,565
46,550	(298,567)	562,285
	(22,749)	22,749
46,550	(321,316)	585,034
1,736,907	1,736,907	-
\$ 1,783,457	\$ 1,415,591	\$ 585,034

**KEYSTONE AREA EDUCATION AGENCY 1**  
**June 30, 2007**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

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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 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 by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

**OTHER SUPPLEMENTARY INFORMATION**

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2007

	Special Revenue		Debt Service	Total
	Juvenile Home	Capital Project		
<b>Assets</b>				
Cash	\$ 64,126	\$ -	\$ 449,092	\$ 513,218
Prepaid expenditures	1,415	-	-	1,415
<b>Total assets</b>	<b>\$ 65,541</b>	<b>\$ -</b>	<b>\$ 449,092</b>	<b>\$ 514,633</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 52,450	\$ -	\$ -	\$ 52,450
Interest payable	-	-	26,062	26,062
Salaries and benefits payable	13,091	-	-	13,091
<b>Total liabilities</b>	<b>65,541</b>	<b>-</b>	<b>26,062</b>	<b>91,603</b>
Fund balances:				
Unreserved, undesignated fund balance	-	-	423,030	423,030
<b>Total liabilities and fund balances</b>	<b>\$ 65,541</b>	<b>\$ -</b>	<b>\$ 449,092</b>	<b>\$ 514,633</b>

See Accompanying Independent Auditor's Report.

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2007**

	Special Revenue		Debt Service	Total
	Juvenile Home	Capital Project		
Revenues:				
State sources	\$ 169,385	\$ -	\$ -	\$ 169,385
<b>Total revenues</b>	<b>169,385</b>	<b>-</b>	<b>-</b>	<b>169,385</b>
Expenditures:				
Current:				
Instruction	144,502	-	-	144,502
Instructional staff support services	1,288	-	-	1,288
General administration	13,313	-	-	13,313
Business administration	706	-	-	706
Plant operations and maintenance	9,576	-	-	9,576
Debt service	-	-	462,950	462,950
<b>Total expenditures</b>	<b>169,385</b>	<b>-</b>	<b>462,950</b>	<b>632,335</b>
<b>Deficiency of revenues under expenditures</b>	<b>-</b>	<b>-</b>	<b>(462,950)</b>	<b>(462,950)</b>
Other financing sources (uses):				
Transfers in (out)	-	(8,751)	464,791	456,040
	-	(8,751)	464,791	456,040
<b>Excess of revenues and other financing sources over expenditures</b>	<b>-</b>	<b>(8,751)</b>	<b>1,841</b>	<b>(6,910)</b>
Fund balances beginning of year	-	8,751	421,189	429,940
Fund balances end of year	\$ -	\$ -	\$ 423,030	\$ 423,030

See accompanying Independent Auditor's Report.

**KEYSTONE AREA EDUCATION AGENCY 1**

**SCHEDULE OF REVENUES BY SOURCE AND  
EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUND TYPES  
For the Last Five Years**

	<b>Modified Accrual</b>		
	<b>Years Ended June</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Revenues:			
Local	\$ 6,699,556	\$ 6,552,694	\$ 6,402,127
State	5,721,745	5,175,879	4,923,883
Federal	8,719,971	8,870,515	8,502,948
<b>Total</b>	<b>\$ 21,141,272</b>	<b>\$ 20,599,088</b>	<b>\$ 19,828,958</b>
Expenditures			
Instruction	\$ 377,243	\$ 294,653	\$ 121,543
Student support services	9,337,230	9,438,835	9,322,347
Instructional staff support services	5,720,022	5,699,278	5,402,081
General administration	2,872,640	3,005,570	2,979,545
Business administration	1,294,592	1,192,424	758,353
Plant operations and maintenance	725,009	671,528	630,566
Central and other support services	576	2,421	192,599
Community service operations	87,292	85,828	-
Facilities acquisition and construction	-	127,727	-
Debt service	462,950	453,513	361,701
<b>Total expenditures</b>	<b>\$ 20,877,554</b>	<b>\$ 20,971,777</b>	<b>\$ 19,768,735</b>

See accompanying Independent Auditor's Report.

<b>Basis</b>	
<b>30,</b>	
2004	2003
\$ 6,135,625	\$ 5,926,165
4,891,443	5,588,592
7,665,784	6,644,135
<b>\$ 18,692,852</b>	<b>\$ 18,158,892</b>
\$ 117,248	\$ 94,162
8,422,985	7,666,455
5,624,220	5,242,624
2,691,044	2,618,878
571,982	476,412
768,618	565,719
296,276	320,905
-	-
-	-
345,683	363,047
<b>\$ 18,838,056</b>	<b>\$ 17,348,202</b>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2007**

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Part B, Education of Handicapped act (EHA)			
Special Education - Grants to States:			
Basic Entitlement	84.027	7KB-02	\$ 1,848,964
Basic Entitlement	84.027	060701	5,201,510
Supplemental Support	84.027	6K72-01	101,442
Parent-Educator Connection	84.027	67401	91,806
Diagnostic Evaluation	84.027	6K71	1,130
Para-Educator Training	84.027	6K76-01	15,563
IEP Results Work Group	84.027	070042	240
Parent Surveys	84.027	79307	4,300
Instructional Decision Making	84.027	6K79-01	61,789
Every Child Reads	84.027	6K70-78-01	5,980
			7,332,724
Special Education:			
Grants for Infants and Families			
with Disabilities:			
Part C	84.181	C06-01	194,594
Special Education - Preschool Grants:			
Section 619 Project	84.173	06619-01	301,968
Iowa Quality Preschool Act	84.323	G-7P13-1	20,649
Vocational Ed - Basic Grants to States	84.048A		227,618
Title III - English Language Acquisition	84.365		39,683
Every Learner Inquires	84.367	25607	15,905
Title II, Part A	84.367		26,386
English as Second Language	84.215	29507	10,500

(Continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2007

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect (Continued):			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Evaluating State Education Tech Program	84.318	58204	\$ 12,286
Title 1 - Reading First	84.357		24,008
Enhancing Education Through Technology	84.318		172,747
Passed-through North Iowa Community College:			
Tech Prep Education	84.243A		1,151
U. S. Department of Health and Human Services:			
Passed-through Iowa Department of Medicaid Reimbursement:			
Part B	93.778		48,097
Part C	93.778		42,827
			90,924
Direct:			
U. S. Department of Education:			
Crisis Response and Emergency Management	84.184E	Q184E040013	248,828
			248,828
			\$ 8,719,971

**Basis of Presentation:** The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

**KEYSTONE AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**KEYSTONE AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Keystone Area Education Agency 1  
Elkader, 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 Keystone Area Education Agency 1 (the "Agency"), as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated October 29, 2007. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We identified no deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with US general accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We noted no significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency'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 or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Agency's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Fort Dodge, Iowa  
October 29, 2007

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Board of Directors of  
Keystone Area Education Agency 1  
Council Bluffs, Iowa

**Compliance**

We have audited the compliance of Keystone Area Education Agency 1 (the "Agency") 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, 2007. The Agency's major federal programs are identified in Part 1 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 the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency 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, 2007.

**Internal Control Over Compliance**

The management of the Agency 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 the Agency'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Agency's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in the Agency's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control. We identified no deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control. We identified no significant deficiencies or material weaknesses in internal control over compliance.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

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

Fort Dodge, Iowa  
October 29, 2007

**KEYSTONE AREA EDUCATION AGENCY 1**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007**

**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.
- (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.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
  - CFDA Number 84.027 - Special Education - Grants to States
  - CFDA Number 84.173 - Special Education – Preschool Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

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

**Instances of Non-Compliance:**

No matters were reported.

**Reportable Conditions:**

No matters were noted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**Instances of Non-Compliance:**

No matters were reported.

**Reportable Conditions:**

No matters were noted.

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2007**

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

- IV-A-07 Budget: Expenditures during the year ended June 30, 2007 did not exceed the amounts budgeted.
- IV-B-07 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-07 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-07 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-07 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 coverage is adequate for current operations.
- IV-F-07 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-G-07 Deposits and Investments: The Agency complied with the provisions of Chapters 12B and 12C of the Code of Iowa.
- IV-H-07 Certified Annual Report: The Certified Annual Report was certified timely with the Department of Education.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Fort Dodge, Iowa  
October 29, 2007