

**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, 2007**

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# Officials

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Name	Title	Term Expires
<b>Prior to September 30, 2006</b>		
<b>Board of Directors</b>		
Susan Klaessy	President	September 30, 2008
Charles Vaughn	Vice President	September 30, 2006
Charlotte Upah	Member	September 30, 2008
Roberta Kraft Abrahamson	Member	September 30, 2006
Dr. George North	Member	September 30, 2007
Darrel Lind	Member	September 30, 2008
Betty Westmeyer	Member	September 30, 2006
Ella Mae Gogel	Member	September 30, 2007
Ron Crooks	Member	September 30, 2007
<b>After September 30, 2006</b>		
<b>Board of Directors</b>		
Charlotte Upah	President	September 30, 2008
Betty Westmeyer	Vice President	September 30, 2009
Susan Klaessy	Member	September 30, 2008
Charles Vaughn	Member	September 30, 2009
Roberta Kraft Abrahamson	Member	September 30, 2009
Dr. George North	Member	September 30, 2007
Darrel Lind	Member	September 30, 2008
Ella Mae Gogel	Member	September 30, 2007
Ron Crooks	Member	September 30, 2007
<b>Agency</b>		
Dr. Dean Meier	Chief Administrator	
Dennis Scudder	Finance Director and Treasurer	
Diana Bergeson	Board Secretary	

## Independent Auditor's Report

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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, 2007 and the discretely presented component unit at December 31, 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, 2007 and the discretely presented component unit at December 31, 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 January 9, 2008 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 31 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 four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information on Pages 32 through 41, 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  
January 9, 2008

## **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, 2007. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

General Fund revenue and other sources increased from \$42,501,237 in fiscal year 2006 to \$43,436,266 in fiscal year 2007. General fund expenditures and other financing uses increased from \$43,150,111 in fiscal year 2006 to \$43,485,549 in fiscal year 2007. 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 state funding. Expenditure increases were due primarily to costs associated with personnel, including wages and benefits. The general fund balance dropped to \$4,955,794. The fund balance consists of a reserved fund balance of \$189,681 and an unreserved balance of \$4,766,113. The unreserved fund balance at the end of the year 2007 represents 11% of the 2007 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.

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Area Education Agency 267's net assets at the end of fiscal year 2007 totaled approximately \$13.9 million. This compared to approximately \$14 million at the end of fiscal 2006. The analysis that follows provides a summary of the Agency's net assets at June 30, 2007 for the governmental and business-type activities:

	Condensed Statement of Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2007	2006	2007	2006	2007	2006
Current and other assets.....	\$ 18,049,833	\$ 18,756,711	\$ 127,455	\$ 109,439	\$ 18,177,288	\$ 18,866,150
Capital assets.....	<u>10,825,807</u>	<u>11,073,512</u>	<u>—</u>	<u>—</u>	<u>10,825,807</u>	<u>11,073,512</u>
<b>Total Assets</b> .....	<b><u>28,875,640</u></b>	<b><u>29,830,223</u></b>	<b><u>127,455</u></b>	<b><u>109,439</u></b>	<b><u>29,003,095</u></b>	<b><u>29,939,662</u></b>
Long-term obligations.....	1,461,325	1,661,490	—	—	1,461,325	1,661,490
Other liabilities.....	<u>13,545,310</u>	<u>14,194,299</u>	<u>96,386</u>	<u>109,439</u>	<u>13,641,696</u>	<u>14,303,738</u>
<b>Total Liabilities</b> .....	<b><u>15,006,635</u></b>	<b><u>15,855,789</u></b>	<b><u>96,386</u></b>	<b><u>109,439</u></b>	<b><u>15,103,021</u></b>	<b><u>15,965,228</u></b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt.....	9,056,777	9,173,512	—	—	9,056,777	9,173,512
Restricted.....	193,224	193,224	—	—	193,224	193,224
Unrestricted.....	<u>4,619,004</u>	<u>4,607,698</u>	<u>31,069</u>	<u>—</u>	<u>4,650,073</u>	<u>4,607,698</u>
<b>Total Net Assets</b> .....	<b><u>\$ 13,869,005</u></b>	<b><u>\$ 13,974,434</u></b>	<b><u>\$ 31,069</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 13,900,074</u></b>	<b><u>\$ 13,974,434</u></b>

The Agency's combined net assets decreased by approximately \$74,000 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, 2007.

	<b>Changes in Net Assets</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenue</b>						
Program Revenue						
Charges for service .....	\$ 22,580,839	\$ 21,783,577	\$ 1,918,300	\$ 1,627,698	\$ 24,499,139	\$ 23,411,275
Operating grants and contributions .....	21,729,479	22,198,237	93,069	91,688	21,822,548	22,289,925
General Revenue						
Property taxes, levied .....	10,100,779	9,859,290	—	—	10,100,779	9,859,290
State foundation aid .....	11,234,527	10,249,575	—	—	11,234,527	10,249,575
Unrestricted investment earnings	656,891	463,080	—	—	656,891	463,080
Miscellaneous .....	23,968	66,271	—	—	23,968	66,271
<b>Total Revenue .....</b>	<b><u>66,326,483</u></b>	<b><u>64,620,030</u></b>	<b><u>2,011,369</u></b>	<b><u>1,719,386</u></b>	<b><u>68,337,852</u></b>	<b><u>66,339,416</u></b>
<b>Program Expenses</b>						
Instruction.....	23,214,807	21,885,887	—	—	23,214,807	21,885,887
Student support services .....	15,272,605	15,453,790	—	—	15,272,605	15,453,790
Instructional staff support services	11,980,382	11,797,534	—	—	11,980,382	11,797,534
General administration .....	5,566,792	5,485,567	—	—	5,566,792	5,485,567
Business administration.....	2,928,463	2,699,132	—	—	2,928,463	2,699,132
Plant operations and maintenance	2,085,722	2,243,844	—	—	2,085,722	2,243,844
Central and other support services	1,758,509	1,708,612	—	—	1,758,509	1,708,612
Facility acquisition and construction	—	128,187	—	—	—	128,187
Debt service .....	76,446	83,735	—	—	76,446	83,735
Noninstructional programs .....	—	—	2,003,116	1,733,104	2,003,116	1,733,104
<b>Total Expenses .....</b>	<b><u>62,883,726</u></b>	<b><u>61,486,288</u></b>	<b><u>2,003,116</u></b>	<b><u>1,733,104</u></b>	<b><u>64,886,842</u></b>	<b><u>63,219,392</u></b>
<b>Change in Net Assets Before Other</b>						
<b>Financing Sources (Uses) .....</b>	<b>3,442,757</b>	<b>3,133,742</b>	<b>8,253</b>	<b>(13,718)</b>	<b>3,451,010</b>	<b>3,120,024</b>
<b>Other Financing Sources (Uses)</b>	<b><u>(3,548,186)</u></b>	<b><u>(3,694,922)</u></b>	<b><u>22,816</u></b>	<b><u>13,718</u></b>	<b><u>(3,525,370)</u></b>	<b><u>(3,681,204)</u></b>
<b>Decrease in Net Assets .....</b>	<b>(105,429)</b>	<b>(561,180)</b>	<b>31,069</b>	<b>—</b>	<b>(74,360)</b>	<b>(561,180)</b>
Net Assets - Beginning of Year ....	13,974,434	14,535,614	—	—	13,974,434	14,535,614
<b>Net Assets - End of Year .....</b>	<b><u>\$ 13,869,005</u></b>	<b><u>\$ 13,974,434</u></b>	<b><u>\$ 31,069</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 13,900,074</u></b>	<b><u>\$ 13,974,434</u></b>

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for 65% 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 80% of the total expenses.

### Governmental Activities

Revenue for governmental activities was \$66,326,483 and expenses and other financial uses were \$66,431,912. 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 \$2,011,369 and expenses were \$2,003,116 for the fiscal year. A transfer of \$22,816 was made to the Nutrition Fund from the General Fund and Special Education Instructional Fund to defer costs in the Nutrition Fund.

Expenses totaled \$1,346,603, \$145,286 and \$511,527 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 \$5,149,018, which is a decrease from the beginning of the year fund balances of \$5,198,301. 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.

## **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 2006-07 is represented by the re-estimated 2006-07 column of the original 2007-08 budget submitted February 1, 2007 totaling \$66,254,476. 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 31.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2007, the Agency had invested \$10,825,807, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net decrease of \$247,705 from the beginning of the year.

Area Education Agency 267 reported depreciation expense of \$1,291,785 in 2007 and total accumulated depreciation of \$12,176,259 at June 30, 2007. More detailed information about capital assets is available in Note 4 to the financial statements.

## Debt

A summary of the Agency's long-term debt is summarized below.

	<b>Balance - June 30</b>	
	<b>2007</b>	<b>2006</b>
Certificate of participation.....	\$ 810,000	\$ 1,000,000
Capital lease.....	800,000	900,000
Asset purchase agreement .....	159,030	—
	<b><u>\$ 1,769,030</u></b>	<b><u>\$ 1,900,000</u></b>

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. 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**

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## Statement of Net Assets

At June 30, 2007

	Governmental Activities	Business- Type Activities	Total	Component Unit AEA6 Foundation
<b>Assets</b>				
Cash, certificates of deposit and pooled investments .....	\$ 5,205,400	\$ 1,992	\$ 5,207,392	\$ 785,860
Receivables				
Accounts .....	38,154	599,028	637,182	—
Due from other governments .....	6,255,403	—	6,255,403	—
Due from other funds .....	1,135,491	(1,135,491)	—	—
Inventories .....	89,023	661,926	750,949	—
Prepaid expenses.....	100,658	—	100,658	—
Restricted cash and pooled investments	187,112	—	187,112	—
Restricted ISCAP Assets				
Investments.....	4,992,100	—	4,992,100	—
Accrued interest receivable.....	46,492	—	46,492	—
Capital assets, net of accumulated depreciation .....	10,825,807	—	10,825,807	—
<b>Total Assets</b> .....	<b><u>\$ 28,875,640</u></b>	<b><u>\$ 127,455</u></b>	<b><u>\$ 29,003,095</u></b>	<b><u>\$ 785,860</u></b>
<b>Liabilities</b>				
Accounts payable .....	\$ 1,475,604	\$ 92,355	\$ 1,567,959	\$ —
Salaries and benefits payable .....	6,298,386	4,031	6,302,417	—
Accrued interest.....	5,842	—	5,842	—
ISCAP warrants payable .....	5,000,000	—	5,000,000	—
ISCAP accrued interest payable.....	38,329	—	38,329	—
Deferred revenue.....	88,496	—	88,496	—
Long-Term Liabilities				
Portion Due or Payable Within One Year				
Certificates of participation.....	195,000	—	195,000	—
Capital lease .....	105,000	—	105,000	—
Asset purchase agreement .....	38,831	—	38,831	—
Compensated absences .....	279,458	—	279,458	—
Early retirement benefits .....	20,364	—	20,364	—
Portion Due or Payable After One Year				
Certificates of participation.....	615,000	—	615,000	—
Capital lease .....	695,000	—	695,000	—
Asset purchase agreement .....	120,199	—	120,199	—
Early retirement benefits .....	31,126	—	31,126	—
<b>Total Liabilities</b> .....	<b><u>15,006,635</u></b>	<b><u>96,386</u></b>	<b><u>15,103,021</u></b>	<b><u>—</u></b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt .....	9,056,777	—	9,056,777	—
Restricted For				
Debt Service .....	8,007	—	8,007	—
Capital Projects.....	185,217	—	185,217	—
Unrestricted .....	4,619,004	31,069	4,650,073	785,860
<b>Total Net Assets</b> .....	<b><u>13,869,005</u></b>	<b><u>31,069</u></b>	<b><u>13,900,074</u></b>	<b><u>785,860</u></b>
<b>Total Liabilities and Net Assets</b> .....	<b><u>\$ 28,875,640</u></b>	<b><u>\$ 127,455</u></b>	<b><u>\$ 29,003,095</u></b>	<b><u>\$ 785,860</u></b>

See accompanying notes to the financial statements.

# Statement of Activities

Year Ended June 30, 2007

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses), Revenue and Changes in Net Assets			Component Unit AEA6 Foundation
				Governmental Activities	Business- Type Activities	Total	
<b>Governmental Activities</b>							
Instruction .....	\$ 23,214,807	\$ 21,183,632	\$ 1,837,256	\$ (193,919)	\$ —	\$ (193,919)	\$ —
Student support services .....	15,272,605	35,646	17,038,465	1,801,506	—	1,801,506	—
Instructional staff support services .....	11,980,382	1,118,368	2,853,758	(8,008,256)	—	(8,008,256)	—
General administration .....	5,566,792	—	—	(5,566,792)	—	(5,566,792)	—
Business administration.....	2,928,463	—	—	(2,928,463)	—	(2,928,463)	—
Plant operations and maintenance .....	2,085,722	—	—	(2,085,722)	—	(2,085,722)	—
Central and other support services.....	1,758,509	243,193	—	(1,515,316)	—	(1,515,316)	—
Debt service.....	76,446	—	—	(76,446)	—	(76,446)	—
<b>Total Governmental Activities .....</b>	<b>62,883,726</b>	<b>22,580,839</b>	<b>21,729,479</b>	<b>(18,573,408)</b>	<b>—</b>	<b>(18,573,408)</b>	<b>—</b>
<b>Business-Type Activities</b>							
Noninstructional Programs							
Nutrition services.....	145,286	29,401	93,069	—	(22,816)	(22,816)	—
Technology and repair services .....	511,227	493,464	—	—	(17,763)	(17,763)	—
Co-op purchasing.....	1,346,603	1,395,435	—	—	48,832	48,832	—
<b>Total Business-Type Activities .....</b>	<b>2,003,116</b>	<b>1,918,300</b>	<b>93,069</b>	<b>—</b>	<b>8,253</b>	<b>8,253</b>	<b>—</b>
<b>Total .....</b>	<b>\$ 64,886,842</b>	<b>\$ 24,499,139</b>	<b>\$ 21,822,548</b>	<b>(18,573,408)</b>	<b>8,253</b>	<b>(18,565,155)</b>	<b>—</b>
<b>Component Unit</b>							
AEA6 Foundation .....	\$ 59,490	\$ —	\$ —	—	—	—	(59,490)
<b>General Revenue</b>							
Property tax levied for general purposes.....				10,100,779	—	10,100,779	—
State foundation aid.....				11,234,527	—	11,234,527	—
Unrestricted investment earnings .....				656,891	—	656,891	34,138
Miscellaneous.....				23,968	—	23,968	—
<b>Total General Revenue .....</b>				<b>22,016,165</b>	<b>—</b>	<b>22,016,165</b>	<b>34,138</b>
<b>Change in Net Assets Before Other Financing Sources (Uses)</b>				<b>3,442,757</b>	<b>8,253</b>	<b>3,451,010</b>	<b>(25,352)</b>
<b>Other Financing Sources (Uses)</b>							
LEA flow through .....				(3,522,165)	—	(3,522,165)	—
Loss from disposal of assets .....				(3,205)	—	(3,205)	—
Transfers .....				(22,816)	22,816	—	—
<b>Total Other Financing Sources (Uses).....</b>				<b>(3,548,186)</b>	<b>22,816</b>	<b>(3,525,370)</b>	<b>—</b>
<b>Change in Net Assets.....</b>				<b>(105,429)</b>	<b>31,069</b>	<b>(74,360)</b>	<b>(25,352)</b>
Net Assets - Beginning of Year .....				13,974,434	—	13,974,434	811,212
<b>Net Assets - End of Year.....</b>				<b>\$ 13,869,005</b>	<b>\$ 31,069</b>	<b>\$ 13,900,074</b>	<b>\$ 785,860</b>

See accompanying notes to the financial statements.

## Balance Sheet - Governmental Funds

At June 30, 2007

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash, certificates of deposit and pooled investments .....	\$ 5,058,021	\$ —	\$ 147,379	\$ 5,205,400
Receivables				
Accounts .....	38,154	—	—	38,154
Due from other governmental units.....	3,303,641	2,951,762	—	6,255,403
Due from other funds .....	1,345,660	—	—	1,345,660
Inventories.....	89,023	—	—	89,023
Prepaid expenditures.....	100,658	—	—	100,658
Restricted cash and pooled investments.....	—	—	187,112	187,112
Restricted ISCAP Assets				
Investments.....	4,992,100	—	—	4,992,100
Accrued interest receivable.....	46,492	—	—	46,492
<b>Total Assets .....</b>	<b><u>\$ 14,973,749</u></b>	<b><u>\$ 2,951,762</u></b>	<b><u>\$ 334,491</u></b>	<b><u>\$ 18,260,002</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable .....	\$ 1,132,861	\$ 334,432	\$ 8,311	\$ 1,475,604
Salaries and benefits payable .....	3,780,585	2,409,056	108,745	6,298,386
ISCAP warrants payable .....	5,000,000	—	—	5,000,000
ISCAP accrued interest payable...	38,329	—	—	38,329
Due to other funds .....	—	208,274	1,895	210,169
Deferred revenue.....	66,180	—	22,316	88,496
<b>Total Liabilities .....</b>	<b><u>10,017,955</u></b>	<b><u>2,951,762</u></b>	<b><u>141,267</u></b>	<b><u>13,110,984</u></b>
<b>Fund Balances</b>				
Reserved For				
Inventories .....	89,023	—	—	89,023
Prepaid expenditures .....	100,658	—	—	100,658
Unreserved				
Designated for				
Media resources.....	422,918	—	—	422,918
Special purposes.....	104,848	—	—	104,848
Undesignated Reported in				
General Fund .....	4,238,347	—	—	4,238,347
Capital Projects Fund.....	—	—	8,007	8,007
Debt Service Fund .....	—	—	185,217	185,217
<b>Total Fund Balances .....</b>	<b><u>4,955,794</u></b>	<b><u>—</u></b>	<b><u>193,224</u></b>	<b><u>5,149,018</u></b>
<b>Total Liabilities and Fund Balances .....</b>	<b><u>\$ 14,973,749</u></b>	<b><u>\$ 2,951,762</u></b>	<b><u>\$ 334,491</u></b>	<b><u>\$ 18,260,002</u></b>

See accompanying notes to the financial statements.

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

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At June 30, 2007

**Total Fund Balances for Governmental Funds (Page 12).....** **\$ 5,149,018**

***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. .... 10,825,807

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.....	\$ 5,842	
Certificates of participation.....	810,000	
Lease purchase.....	800,000	
Asset purchase agreement.....	159,030	
Compensated absences .....	279,458	
Early retirement benefits .....	<u>51,490</u>	<u>(2,105,820)</u>

**Net Assets of Governmental Activities (Page 10) .....** **\$ 13,869,005**

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

Year Ended June 30, 2007

	General	<u>Special Revenue</u> Special Education Instruction	Nonmajor Governmental Funds	Total
<b>Revenue</b>				
Local sources .....	\$ 13,236,590	\$ 21,221,300	\$ 9,958	\$ 34,467,848
State sources.....	12,167,037	616,282	1,078,696	13,862,015
Federal sources.....	17,823,641	172,979	—	17,996,620
<b>Total Revenue.....</b>	<b><u>43,227,268</u></b>	<b><u>22,010,561</u></b>	<b><u>1,088,654</u></b>	<b><u>66,326,483</u></b>
<b>Expenditures</b>				
<b>Current</b>				
Instruction .....	3,627,662	18,349,874	947,419	22,924,955
Student support services .....	15,142,993	124,047	—	15,267,040
Instructional staff support services .....	11,891,692	71,038	2,664	11,965,394
General administration.....	4,541,640	1,096,246	80,120	5,718,006
Business administration .....	2,767,610	228,958	—	2,996,568
Plant operations and maintenance.....	1,228,192	801,574	32,343	2,062,109
Central and other support services .....	373,191	1,316,008	—	1,689,199
Debt service.....	—	—	416,512	416,512
<b>Total Expenditures.....</b>	<b><u>39,572,980</u></b>	<b><u>21,987,745</u></b>	<b><u>1,479,058</u></b>	<b><u>63,039,783</u></b>
<b>Revenue Over (Under) Expenditures .....</b>	<b><u>3,654,288</u></b>	<b><u>22,816</u></b>	<b><u>(390,404)</u></b>	<b><u>3,286,700</u></b>
<b>Other Financing Sources (Uses)</b>				
LEA flow through .....	(3,522,165)	—	—	(3,522,165)
Proceeds from asset purchase agreement.....	208,998	—	—	208,998
Transfers, net .....	(390,404)	(22,816)	390,404	(22,816)
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>(3,703,571)</u></b>	<b><u>(22,816)</u></b>	<b><u>390,404</u></b>	<b><u>(3,335,983)</u></b>
<b>Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses .....</b>	<b><u>(49,283)</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>(49,283)</u></b>
Fund Balances - Beginning of Year .....	5,005,077	—	193,224	5,198,301
<b>Fund Balances - End of Year.....</b>	<b><u>\$ 4,955,794</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 193,224</u></b>	<b><u>\$ 5,149,018</u></b>

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, 2007

**Change in Fund Balances - Total Governmental Funds (Page 14) \$ (49,283)**

***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.....	\$ 1,047,285	
Depreciation expense .....	(1,291,785)	
Net book value of disposed assets .....	(3,205)	(247,705)

Asset purchase agreement proceeds are revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets.....		(208,998)
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Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. ....		339,968
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.....		98
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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.....		60,491
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**Change in Net Assets of Governmental Activities (Page 11) \$ (105,429)**

# Statement of Net Assets - Proprietary Funds

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At June 30, 2007

	<b>Nonmajor Proprietary Funds</b>
<b>Assets</b>	
Cash .....	\$ 1,992
Accounts receivable .....	599,028
Inventory .....	<u>661,926</u>
<b>Total Assets</b> .....	<b><u>\$ 1,262,946</u></b>
<b>Liabilities</b>	
Accounts payable .....	\$ 92,355
Salaries and benefits payable .....	4,031
Due to other funds .....	<u>1,135,491</u>
<b>Total Liabilities</b> .....	<b><u>1,231,877</u></b>
<b>Net Assets - Unrestricted</b> .....	<b><u>31,069</u></b>
<b>Total Liabilities and Net Assets</b> .....	<b><u>\$ 1,262,946</u></b>

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

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Year Ended June 30, 2007

	<b>Nonmajor Proprietary Funds</b>
<b>Operating Revenue</b>	
Charges for services.....	<u><b>\$ 1,918,300</b></u>
<b>Operating Expenses</b>	
Noninstructional Programs	
Business Administration	
Salaries .....	59,680
Benefits .....	17,194
Purchased services.....	33,201
Materials and supplies .....	<u>1,236,528</u>
Total Business Administration.....	<u>1,346,603</u>
Central and Other Support Services	
Salaries .....	254,987
Benefits .....	88,273
Purchased services.....	12,744
Materials and supplies .....	<u>300,509</u>
Total Central and Other Support Services .....	<u>656,513</u>
<b>Total Operating Expenses .....</b>	<u><b>2,003,116</b></u>
<b>Loss From Operations .....</b>	<u><b>(84,816)</b></u>
<b>Nonoperating Revenue</b>	
State sources.....	1,331
Federal sources.....	<u>91,738</u>
<b>Total Nonoperating Revenue .....</b>	<u><b>93,069</b></u>
<b>Change in Net Assets Before Transfers.....</b>	<b>8,253</b>
Transfers in.....	<u>22,816</u>
<b>Change in Net Assets.....</b>	<b>31,069</b>
Net Assets - Beginning of Year .....	<u>—</u>
<b>Net Assets - End of Year .....</b>	<u><b>\$ 31,069</b></u>

See accompanying notes to the financial statements.

## Statement of Cash Flows - Proprietary Funds

At June 30, 2007

	<b>Nonmajor Proprietary Funds</b>
<b>Cash Flows From Operating Activities</b>	
Cash received from customers.....	\$ 1,731,576
Cash paid to employees for services.....	(428,887)
Cash paid to suppliers for goods and services.....	<u>(1,770,840)</u>
<b>Net Cash Used in Operating Activities.....</b>	<b><u>(468,151)</u></b>
<b>Cash Flows From Noncapital Financing Activities</b>	
State grants received.....	1,331
Federal grants received.....	91,738
Advances from other funds.....	1,135,491
Repayment of advances from other funds.....	(790,720)
Transfers in.....	<u>22,816</u>
<b>Net Cash Provided by Noncapital Financing Activities.....</b>	<b><u>460,656</u></b>
<b>Net Decrease in Cash.....</b>	<b>(7,495)</b>
Cash at Beginning of Year.....	<u>9,487</u>
<b>Cash at End of Year.....</b>	<b><u>\$ 1,992</u></b>
<b>Reconciliation of Loss From Operations to Net Cash Used in Operating Activities</b>	
Loss from operations.....	\$ (84,816)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Changes in Assets and Liabilities	
Increase in accounts receivable.....	(186,724)
Increase in inventory.....	(183,559)
Decrease in accounts payable.....	(4,299)
Decrease in accrued salaries and benefits.....	<u>(8,753)</u>
<b>Net Cash Used in Operating Activities.....</b>	<b><u>\$ (468,151)</u></b>

See accompanying notes to the financial statements.

# Statement of Fiduciary Net Assets - Fiduciary Funds - Agency

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At June 30, 2007

## Assets

Cash and pooled investments .....	\$ 927,395
Accounts receivable .....	<u>2,497</u>

<b>Total Assets</b> .....	<b><u>\$ 929,892</u></b>
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## Liabilities

Accounts payable .....	\$ 262,208
Deposits held in custody for others .....	<u>667,684</u>

<b>Total Liabilities</b> .....	<b><u>\$ 929,892</u></b>
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# Notes to the Financial Statements

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## **(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.

These financial statements present Area Education Agency 267 and its component unit. The component unit discussed below is included in the Agency's reporting entity because of the significance of its operational or financial relationship with the Agency.

### **Discretely Presented Component Unit**

The AEA6 Foundation (Foundation) is a legally separate entity, organized as a charitable organization under Chapter 501(c)(3) of the Internal Revenue Code. The Foundation's primary purpose is to collect funds and provide financial support for a swimming pool operated by Area Education Agency 267. The Foundation is governed by a seven-member Board of Directors. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The financial information presented is as of and for its year end of December 31, 2006.

During the Agency's fiscal year ended June 30, 2007, the Foundation provided the Agency approximately \$60,000 for costs associated with the swimming pool.

### **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.

## Notes to the Financial Statements

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### (1) Summary of Significant Accounting Policies and Other Matters

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.

#### ***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.

Proprietary funds are used to record services for which the Agency charges the districts and other departments a fee. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The Agency did not report any major proprietary funds.

# Notes to the Financial Statements

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## **(1) Summary of Significant Accounting Policies and Other Matters**

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 and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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.

# Notes to the Financial Statements

## (1) Summary of Significant Accounting Policies and Other Matters

### Assets, Liabilities and Fund Equity

#### **Cash, Certificates of Deposit and Pooled Investments**

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

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

<b>Asset Class</b>	<b>Estimated Useful Lives</b>
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.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies and Other Matters

### ***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, 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.

## **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, 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 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, 2007 consist of the following:

Type	Fair Value
Governmental Securities Mutual Fund.....	<u>\$ 184,000</u>

## Notes to the Financial Statements

### (2) Cash, Certificates of Deposit and Pooled Investments

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust which are valued at amortized cost of \$10,185 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.

Cash and investments of the component unit are stated at fair value and are summarized as follows at December 31, 2006:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash .....	\$ 4,604	\$ 4,604	\$ —
Money market funds .....	39,160	39,160	—
Certificates of deposit .....	20,000	19,955	(45)
Corporate bonds .....	140,994	134,201	(6,793)
U.S. Treasury securities .....	615,553	587,940	(27,613)
	<u>\$ 820,311</u>	<u>\$ 785,860</u>	<u>\$ (34,451)</u>

Earnings on the investments are made up of interest and the change in unrealized gains or loss for the year as follows:

Interest income (net of expense) .....	\$ 41,480
Net realized and unrealized gains .....	(7,342)
	<u>\$ 34,138</u>

### (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, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A.....	6-30-07	6-30-08	<u>\$ 4,992,100</u>	<u>\$ 46,492</u>	<u>\$ 5,000,000</u>	<u>\$ 38,329</u>

## Notes to the Financial Statements

### (3) Iowa School Cash Anticipation Program (ISCAP)

The Agency pledges its state foundation aid payments and general fund receipts as security for warrants issued. Repayments must be made when general fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, the Agency must repay the outstanding withdrawal from its general fund receipts. In addition, the Agency must make minimum warrant repayments on the 25<sup>th</sup> 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, 2007 is as follows:

Series	Balance - Beginning of Year	Advances Received	Advances Repaid	Balance - End of Year
2006-07A.....	<u>\$ —</u>	<u>\$ 5,500,000</u>	<u>\$ 5,500,000</u>	<u>\$ —</u>

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A.....	4.5%	5.676%

### (4) Capital Assets

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

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land.....	\$ 809,308	\$ —	\$ —	\$ 809,308
Assets not placed in service.....	<u>—</u>	<u>208,998</u>	<u>—</u>	<u>208,998</u>
Total Capital Assets Not Being Depreciated.....	<u>809,308</u>	<u>208,998</u>	<u>—</u>	<u>1,018,306</u>
Capital Assets Being Depreciated				
Buildings and improvements.....	10,911,658	—	—	10,911,658
Furniture and equipment.....	4,874,528	178,677	72,485	4,980,720
Library books and films.....	<u>5,736,047</u>	<u>659,610</u>	<u>304,275</u>	<u>6,091,382</u>
Total Capital Assets Being Depreciated.....	<u>21,522,233</u>	<u>838,287</u>	<u>376,760</u>	<u>21,983,760</u>
Less Accumulated Depreciation For				
Buildings and improvements.....	3,125,409	310,569	—	3,435,978
Furniture and equipment.....	3,952,196	267,155	69,280	4,150,071
Library books and films.....	<u>4,180,424</u>	<u>714,061</u>	<u>304,275</u>	<u>4,590,210</u>
Total Accumulated Depreciation	<u>11,258,029</u>	<u>1,291,785</u>	<u>373,555</u>	<u>12,176,259</u>
Net Total Capital Assets Being Depreciated.....	<u>10,264,204</u>	<u>(453,498)</u>	<u>3,205</u>	<u>9,807,501</u>
<b>Net Governmental Activities Capital Assets.....</b>	<b><u>\$ 11,073,512</u></b>	<b><u>\$ (244,500)</u></b>	<b><u>\$ 3,205</u></b>	<b><u>\$ 10,825,807</u></b>

## Notes to the Financial Statements

### (4) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities	
Instruction.....	\$ 320,380
Student support services.....	5,565
Instructional staff support services.....	742,068
General administration.....	72,316
Business administration.....	29,350
Plant operations and maintenance.....	31,553
Central support.....	90,553
<b>Total Governmental Activities Depreciation Expense .....</b>	<b><u>\$ 1,291,785</u></b>

### (5) Long-Term Liabilities

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

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year
Certificates of participation .....	\$ 1,000,000	\$ —	\$ 190,000	\$ 810,000
Capital lease.....	900,000	—	100,000	800,000
Asset purchase agreement.....	—	208,998	49,968	159,030
Compensated absences.....	309,420	279,458	309,420	279,458
Early retirement benefits.....	82,019	—	30,529	51,490
	<b><u>\$ 2,291,439</u></b>	<b><u>\$ 488,456</u></b>	<b><u>\$ 679,917</u></b>	<b><u>\$ 2,099,978</u></b>

#### 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
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
<b>Total .....</b>	<b><u>\$ 810,000</u></b>	<b><u>\$ 90,315</u></b>	<b><u>\$ 900,315</u></b>

#### 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.

## Notes to the Financial Statements

### (5) Long-Term Liabilities

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

Year Ending June 30,	Principal	Interest	Total
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.....	120,000	14,242	134,242
2013-2014 .....	245,000	14,534	259,534
<b>Total .....</b>	<b><u>\$ 800,000</u></b>	<b><u>\$ 123,170</u></b>	<b><u>\$ 923,170</u></b>

### Asset Purchase Agreement

On May 1, 2007, the Agency entered into an agreement to purchase computer equipment. The agreement is for a period of five years at an interest rate of 5.58% and is secured by the equipment.

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

Year Ending June 30,	Principal	Interest	Total
2008.....	\$ 38,831	\$ 7,625	\$ 46,456
2009.....	39,577	6,879	46,456
2010.....	41,842	4,614	46,456
2011.....	38,780	2,214	40,994
<b>Total .....</b>	<b><u>\$ 159,030</u></b>	<b><u>\$ 21,332</u></b>	<b><u>\$ 180,362</u></b>

Total interest expenditures for the certificates of participation, capital lease and asset purchase agreement were \$76,535 for the year ended June 30, 2007.

### 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, 2007 totaled \$30,529.

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:

2008.....	\$ 20,364
2009.....	15,945
2010.....	8,040
2011.....	4,510
2012.....	2,631
	<b><u>\$ 51,490</u></b>

## Notes to the Financial Statements

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### (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<b>Transfer to</b>	<b>Transfer From</b>	<b>Amount</b>
General	Special Revenue Juvenile Home	\$ 16,150
Debt Service	General	406,554
Proprietary - Nutrition	Special Revenue - Special Education Instruction	<u>22,816</u>
<b>Total</b>		<b><u>\$ 445,520</u></b>

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

### (7) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2007 is as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General	Special Revenue - Special Education Instruction	\$ 208,274
	Debt Service	1,895
	Proprietary	
	Cooperative Purchasing	987,695
	Technology and Repair Services	<u>147,796</u>
<b>Total General Fund</b>		<b><u>\$ 1,345,660</u></b>

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. 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.

## Notes to the Financial Statements

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### (8) Operating 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, 2007.

Year Ending June 30,	
2008.....	\$ 123,825
2009.....	104,718
2010.....	76,368
2011.....	<u>34,226</u>
<b>Total.....</b>	<b><u>\$ 339,137</u></b>

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 \$498,759.

### (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 2007, 2006 and 2005. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the year ended June 30, 2007, 2006 and 2005 were \$2,302,040, \$2,232,364 and \$2,079,963, 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.

**Required Supplementary Information**

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

Year Ended June 30, 2007

	Actual		Total	Budget Amount		Final to Actual
	Governmental Fund Types	Proprietary Fund Type		Original	Final	
<b>Revenue</b>						
Local sources.....	\$ 34,467,848	\$ 1,918,300	\$ 36,386,148	\$ 35,790,336	\$ 33,942,030	\$ 2,444,118
State sources.....	13,862,015	1,331	13,863,346	14,658,435	13,697,683	165,663
Federal sources.....	<u>17,996,620</u>	<u>91,738</u>	<u>18,088,358</u>	<u>18,354,800</u>	<u>18,600,497</u>	<u>(512,139)</u>
<b>Total Revenue.....</b>	<b><u>66,326,483</u></b>	<b><u>2,011,369</u></b>	<b><u>68,337,852</u></b>	<b><u>68,803,571</u></b>	<b><u>66,240,210</u></b>	<b><u>2,097,642</u></b>
<b>Expenditures</b>						
Instruction.....	22,924,955	—	22,924,955	22,566,550	23,832,680	907,725
Student support services.....	15,267,040	—	15,267,040	15,862,400	15,533,125	266,085
Instructional staff support services.....	11,965,394	—	11,965,394	12,199,350	12,268,934	303,540
General administration.....	5,718,006	—	5,718,006	5,669,378	5,390,786	(327,220)
Business administration.....	2,996,568	—	2,996,568	4,109,200	4,117,000	1,120,432
Plant operations and maintenance.....	2,062,109	—	2,062,109	2,127,221	2,356,893	294,784
Central and other support services.....	1,689,199	—	1,689,199	2,004,000	2,063,275	374,076
Facilities acquisition and construction.....	—	—	—	4,754	—	—
Noninstructional programs.....	—	2,003,116	2,003,116	150,000	324,771	(1,678,345)
Debt service.....	<u>416,512</u>	<u>—</u>	<u>416,512</u>	<u>364,762</u>	<u>367,012</u>	<u>(49,500)</u>
<b>Total Expenditures.....</b>	<b><u>63,039,783</u></b>	<b><u>2,003,116</u></b>	<b><u>65,042,899</u></b>	<b><u>65,057,615</u></b>	<b><u>66,254,476</u></b>	<b><u>1,211,577</u></b>
<b>Revenue Over (Under) Expenditures.....</b>	<b>3,286,700</b>	<b>8,253</b>	<b>3,294,953</b>	<b>3,745,956</b>	<b>(14,266)</b>	<b>3,309,219</b>
<b>Other Financing Sources (Uses).....</b>	<b><u>(3,335,983)</u></b>	<b><u>22,816</u></b>	<b><u>(3,313,167)</u></b>	<b><u>(4,526,234)</u></b>	<b><u>(4,311,914)</u></b>	<b><u>998,747</u></b>
<b>Revenue and Other Financing Sources Under Expenditures and Other Financing Uses</b>	<b>(49,283)</b>	<b>31,069</b>	<b>(18,214)</b>	<b>(780,278)</b>	<b>(4,326,180)</b>	<b>4,307,966</b>
Balance - Beginning of Year ...	<u>5,198,301</u>	<u>—</u>	<u>5,198,301</u>	<u>5,421,625</u>	<u>5,198,300</u>	<u>1</u>
<b>Balance - End of Year.....</b>	<b><u>\$ 5,149,018</u></b>	<b><u>\$ 31,069</u></b>	<b><u>\$ 5,180,087</u></b>	<b><u>\$ 4,641,347</u></b>	<b><u>\$ 872,120</u></b>	<b><u>\$ 4,307,967</u></b>

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, the legal level of control is at the total expenditure/expense level, not at the functional level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

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.

**Other Supplementary Information**

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# Combining Balance Sheet - Nonmajor Governmental Funds ---

At June 30, 2007

	<u>Special Revenue</u> Juvenile Home	Capital Projects	Debt Service	Total
<b>Assets</b>				
Cash, certificates of deposit and pooled investments .....	\$ 139,372	\$ 8,007	\$ —	\$ 147,379
Restricted cash and pooled investments	<u>—</u>	<u>—</u>	<u>187,112</u>	<u>187,112</u>
<b>Total Assets .....</b>	<b><u>\$ 139,372</u></b>	<b><u>\$ 8,007</u></b>	<b><u>\$ 187,112</u></b>	<b><u>\$ 334,491</u></b>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable .....	\$ 8,311	\$ —	\$ —	\$ 8,311
Salaries and benefits payable .....	108,745	—	—	108,745
Due to other funds .....	—	—	1,895	1,895
Deferred revenue .....	<u>22,316</u>	<u>—</u>	<u>—</u>	<u>22,316</u>
<b>Total Liabilities .....</b>	<b><u>139,372</u></b>	<b><u>—</u></b>	<b><u>1,895</u></b>	<b><u>141,267</u></b>
 <b>Fund Balances</b>				
Unreserved, undesignated .....	<u>—</u>	<u>8,007</u>	<u>185,217</u>	<u>193,224</u>
<b>Total Liabilities and Fund Balance .....</b>	<b><u>\$ 139,372</u></b>	<b><u>\$ 8,007</u></b>	<b><u>\$ 187,112</u></b>	<b><u>\$ 334,491</u></b>

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

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Year Ended June 30, 2007

	<u>Special Revenue</u>			
	Juvenile Home	Capital Projects	Debt Service	Total
<b>Revenue</b>				
Local sources .....	\$ —	\$ —	\$ 9,958	\$ 9,958
State sources.....	1,078,696	—	—	1,078,696
<b>Total Revenue .....</b>	<b><u>1,078,696</u></b>	<b><u>—</u></b>	<b><u>9,958</u></b>	<b><u>1,088,654</u></b>
<b>Expenditures</b>				
Instruction .....	947,419	—	—	947,419
Instructional staff support services .....	2,664	—	—	2,664
General administration .....	80,120	—	—	80,120
Plant operations and maintenance .....	32,343	—	—	32,343
Debt service.....	—	—	416,512	416,512
<b>Total Expenditures.....</b>	<b><u>1,062,546</u></b>	<b><u>—</u></b>	<b><u>416,512</u></b>	<b><u>1,479,058</u></b>
<b>Revenue Over (Under) Expenditures</b>	<b>16,150</b>	<b>—</b>	<b>(406,554)</b>	<b>(390,404)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers, net .....	(16,150)	—	406,554	390,404
<b>Revenue and Other Financing Sources Under Expenditures.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Fund Balances - Beginning of year .....	—	8,007	185,217	193,224
<b>Fund Balances - End of Year.....</b>	<b><u>\$ —</u></b>	<b><u>\$ 8,007</u></b>	<b><u>\$ 185,217</u></b>	<b><u>\$ 193,224</u></b>

# Combining Statement of Net Assets - Nonmajor Proprietary Funds

At June 30, 2007

	Cooperative Purchasing	Nutrition	Technology and Repair Services	Total
<b>Assets</b>				
Cash .....	\$ —	\$ 1,992	\$ —	\$ 1,992
Accounts receivable .....	523,417	—	75,611	599,028
Inventory .....	<u>603,437</u>	<u>427</u>	<u>58,062</u>	<u>661,926</u>
<b>Total Assets .....</b>	<b><u>\$ 1,126,854</u></b>	<b><u>\$ 2,419</u></b>	<b><u>\$ 133,673</u></b>	<b><u>\$ 1,262,946</u></b>
<b>Liabilities</b>				
Accounts payable .....	\$ 86,805	\$ 1,910	\$ 3,640	\$ 92,355
Salaries and benefits payable .....	3,522	509	—	4,031
Due to other funds .....	<u>987,695</u>	<u>—</u>	<u>147,796</u>	<u>1,135,491</u>
<b>Total Liabilities .....</b>	<b><u>1,078,022</u></b>	<b><u>2,419</u></b>	<b><u>151,436</u></b>	<b><u>1,231,877</u></b>
<b>Net Assets - Unrestricted.....</b>	<b><u>48,832</u></b>	<b><u>—</u></b>	<b><u>(17,763)</u></b>	<b><u>31,069</u></b>
<b>Total Liabilities and Net Assets ....</b>	<b><u>\$ 1,126,854</u></b>	<b><u>\$ 2,419</u></b>	<b><u>\$ 133,673</u></b>	<b><u>\$ 1,262,946</u></b>

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

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Year Ended June 30, 2007

	Cooperative Purchasing	Nutrition	Technology and Repair Services	Total
<b>Operating Revenue</b>				
Charges for services.....	<u>\$ 1,395,435</u>	<u>\$ 29,401</u>	<u>\$ 493,464</u>	<u>\$ 1,918,300</u>
<b>Operating Expenses</b>				
Noninstructional Programs				
Business Administration				
Salaries .....	59,680	—	—	59,680
Benefits .....	17,194	—	—	17,194
Purchased services .....	33,201	—	—	33,201
Materials and supplies.....	<u>1,236,528</u>	<u>—</u>	<u>—</u>	<u>1,236,528</u>
Total Business Administration	<u>1,346,603</u>	<u>—</u>	<u>—</u>	<u>1,346,603</u>
Central and Other Support Services				
Salaries .....	—	42,612	212,375	254,987
Benefits .....	—	16,749	71,524	88,273
Purchased services .....	—	142	12,602	12,744
Materials and supplies.....	<u>—</u>	<u>85,783</u>	<u>214,726</u>	<u>300,509</u>
Total Central and Other Support Services.....	<u>—</u>	<u>145,286</u>	<u>511,227</u>	<u>656,513</u>
<b>Total Operating Expenses ...</b>	<u><b>1,346,603</b></u>	<u><b>145,286</b></u>	<u><b>511,227</b></u>	<u><b>2,003,116</b></u>
<b>Loss From Operations .....</b>	<u><b>48,832</b></u>	<u><b>(115,885)</b></u>	<u><b>(17,763)</b></u>	<u><b>(84,816)</b></u>
<b>Nonoperating Revenue</b>				
State sources.....	—	1,331	—	1,331
Federal sources.....	<u>—</u>	<u>91,738</u>	<u>—</u>	<u>91,738</u>
<b>Total Nonoperating Revenue</b>	<u><b>—</b></u>	<u><b>93,069</b></u>	<u><b>—</b></u>	<u><b>93,069</b></u>
<b>Change in Net Assets Before</b>				
<b>Transfers.....</b>	<b>48,832</b>	<b>(22,816)</b>	<b>(17,763)</b>	<b>8,253</b>
Transfers in.....	<u>—</u>	<u>22,816</u>	<u>—</u>	<u>22,816</u>
<b>Change in Net Assets.....</b>	<b>48,832</b>	<b>—</b>	<b>(17,763)</b>	<b>31,069</b>
Net Assets - Beginning of Year .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Net Assets - End of Year .....</b>	<u><b>\$ 48,832</b></u>	<u><b>\$ —</b></u>	<u><b>\$ (17,763)</b></u>	<u><b>\$ 31,069</b></u>

## Combining Statement of Cash Flows - Nonmajor Proprietary Funds

At June 30, 2007

	Cooperative Purchasing	Nutrition	Technology and Repair Services	Total
<b>Cash Flows From Operating Activities</b>				
Cash received from customers.....	\$ 1,204,353	\$ 29,401	\$ 497,822	\$ 1,731,576
Cash paid to employees for services	(78,201)	(66,787)	(283,899)	(428,887)
Cash paid to suppliers for goods and services.....	<u>(1,465,809)</u>	<u>(85,994)</u>	<u>(219,037)</u>	<u>(1,770,840)</u>
<b>Net Cash Used in Operating Activities.....</b>	<b><u>(339,657)</u></b>	<b><u>(123,380)</u></b>	<b><u>(5,114)</u></b>	<b><u>(468,151)</u></b>
<b>Cash Flows From Noncapital Financing Activities</b>				
State grants received.....	—	1,331	—	1,331
Federal grants received.....	—	91,738	—	91,738
Advances from other funds.....	987,695	—	147,796	1,135,491
Repayment of advances from other funds.....	(648,038)	—	(142,682)	(790,720)
Transfers in.....	<u>—</u>	<u>22,816</u>	<u>—</u>	<u>22,816</u>
<b>Net Cash Provided by Non- capital Financing Activities .</b>	<b><u>339,657</u></b>	<b><u>115,885</u></b>	<b><u>5,114</u></b>	<b><u>460,656</u></b>
<b>Net Decrease in Cash.....</b>	<b>—</b>	<b>(7,495)</b>	<b>—</b>	<b>(7,495)</b>
Cash at Beginning of Year.....	<u>—</u>	<u>9,487</u>	<u>—</u>	<u>9,487</u>
<b>Cash at End of Year.....</b>	<b><u>\$ —</u></b>	<b><u>\$ 1,992</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 1,992</u></b>
<b>Reconciliation of Income (Loss) From Operations to Net Cash Used in Operating Activities</b>				
Income (loss) from operations .....	\$ 48,832	\$ (115,885)	\$ (17,763)	\$ (84,816)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Used in Operating Activities				
Changes in Assets and Liabilities				
(Increase) decrease in accounts receivable.....	(191,082)	—	4,358	(186,724)
(Increase) decrease in inventory	(200,658)	(11)	17,110	(183,559)
Increase (decrease) in accounts payable.....	4,578	(58)	(8,819)	(4,299)
Decrease in accrued salaries and benefits.....	<u>(1,327)</u>	<u>(7,426)</u>	<u>—</u>	<u>(8,753)</u>
<b>Net Cash Used in Operating Activities .....</b>	<b><u>\$ (339,657)</u></b>	<b><u>\$ (123,380)</u></b>	<b><u>\$ (5,114)</u></b>	<b><u>\$ (468,151)</u></b>

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

Year Ended June 30, 2007

	Balance 7-1-06	Additions	Deductions	Balance 6-30-07
<b>Assets</b>				
Cash and pooled investments .....	\$ 712,819	\$ 2,077,892	\$ 1,863,316	\$ 927,395
Accounts receivable .....	<u>—</u>	<u>2,497</u>	<u>—</u>	<u>2,497</u>
<b>Total Assets .....</b>	<b><u>\$ 712,819</u></b>	<b><u>\$ 2,080,389</u></b>	<b><u>\$ 1,863,316</u></b>	<b><u>\$ 929,892</u></b>
 <b>Liabilities</b>				
Accounts payable .....	\$ 164,950	\$ 262,208	\$ 164,950	\$ 262,208
Deposits held in custody of others.....	<u>547,869</u>	<u>1,818,181</u>	<u>1,698,366</u>	<u>667,684</u>
<b>Total Liabilities .....</b>	<b><u>\$ 712,819</u></b>	<b><u>\$ 2,080,389</u></b>	<b><u>\$ 1,863,316</u></b>	<b><u>\$ 929,892</u></b>

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

Year Ended June 30, 2007

	<b>Years Ended June 30,</b>			
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Revenue</b>				
Local sources .....	\$ 34,467,848	\$ 33,309,117	\$ 31,453,896	\$ 28,896,038
State sources.....	13,862,015	12,706,309	12,020,599	12,563,121
Federal sources.....	<u>17,996,620</u>	<u>18,604,604</u>	<u>17,533,170</u>	<u>16,597,111</u>
<b>Total Revenue .....</b>	<b><u>\$ 66,326,483</u></b>	<b><u>\$ 64,620,030</u></b>	<b><u>\$ 61,007,665</u></b>	<b><u>\$ 58,056,270</u></b>
<b>Expenditures</b>				
<b>Current</b>				
Instruction .....	\$ 22,924,955	\$ 21,763,378	\$ 20,467,445	\$ 19,755,699
Student support services ...	15,267,040	15,447,597	17,889,315	16,782,631
Instructional staff support services.....	11,965,394	11,940,186	11,207,636	8,912,793
General administration.....	5,718,006	5,396,285	5,474,878	5,821,850
Business administration .....	2,996,568	2,813,973	2,873,359	1,684,665
Plant operations and maintenance.....	2,062,109	2,213,313	3,035,099	1,339,828
Central and other support services .....	1,689,199	1,642,549	104,132	3,406,867
Facilities acquisition and construction.....	—	1,584,465	1,286,662	653,771
Debt service.....	<u>416,502</u>	<u>364,510</u>	<u>2,007,784</u>	<u>523,519</u>
<b>Total Expenditures .....</b>	<b><u>\$ 63,039,773</u></b>	<b><u>\$ 63,166,256</u></b>	<b><u>\$ 64,346,310</u></b>	<b><u>\$ 58,881,623</u></b>

# Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. Department of Agriculture - Indirect</b>			
Pass-Through Iowa Department of Education			
Food Donation .....	10.550	N/A	\$ 6,890
National School Lunch Program .....	10.555	N/A	<u>84,848</u>
			<u><b>91,738</b></u>
<b>U.S. Department of Education - Direct</b>			
Fund for the Improvement of Education .....	84.215	N/A	<u>219,365</u>
<b>U.S. Department of Education - Indirect</b>			
Pass-Through Center of Civic Education			
Civic Education - Cooperative Education Exchange Program			
Citizen and Constitution .....	84.304	58011A	11,914
Project Citizen .....	84.304	R929A03000	<u>13,000</u>
Total Pass-Through Center of Civic Education.....			<u>24,914</u>
Pass-Through School Administration of Iowa			
Parental Assistance Centers.....	84.310	N/A	<u>173,196</u>
Pass-Through Iowa Department of Education			
Special Education - Grants to States			
Preschool Handicapped Program .....	84.027*	030407	10,530,791
Preschool Handicapped Program - Flowthrough.....	84.027*	030407	3,522,165
Supplemental Support Services .....	84.027*	030407	229,000
Every Child Reads.....	84.027*	N/A	5,980
DE Web Leland .....	84.027*	N/A	33,429
Enhancing the Parent Educator Connection .....	84.027*	37407	136,589
Diagnostic Evaluation Program .....	84.027*	2K71-07	2,221
Conflicts Training.....	84.027*	N/A	6,851
Part B .....	84.027*	N/A	169,557
Parent Ed Survey .....	84.027*	N/A	4,550
IPAT .....	84.027*	N/A	15,899
Indicator 13.....	84.027*	N/A	<u>12,164</u>
			<u>14,669,196</u>
Special Education Preschool Grants .....	84.173*	03619-07	<u>521,147</u>
Vocational Education - Basic Grants to States			
Perkins III .....	84.048**	N/A	570,707
Title II Correction Education .....	84.048**	N/A	<u>22,782</u>
			<u>593,489</u>
Special Education - Grants for Infants and Families			
With Disabilities .....	84.181	C03-07	<u>349,457</u>
State and Drug-Free Schools and Communities -			
State Grants .....	84.186		<u>112,417</u>

# Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Special Education - State Personnel Development .....	84.323	SGP/IEP	\$ 31,813
Reading First State Grants .....	84.357	Various	62,349
English Language Acquisition Grants .....	84.365	N/A	330,360
Improving Teacher Quality State Grants.....	84.367	N/A	17,304
Total Pass-Through Iowa Department of Education .....			<u>16,687,532</u>
Pass-Through Iowa Valley Community College Vocational Education - Basic Grants to States Perkins III .....	84.048**	N/A	<u>16,000</u>
Pass-Through Grant Wood AEA Education Technology State Grants .....	84.318	N/A	<u>405,970</u>
Pass-Through Mason City Community School District Title I Grants to Local Education Agencies .....	84.010	N/A	<u>111,763</u>
Total U.S. Department of Education - Indirect .....			<u>17,419,375</u>
<b>Total U.S. Department of Education.....</b>			<b><u>17,638,740</u></b>
<b>U.S. Department of Health and Human Services - Direct</b>			
Medical Assistance Program.....	93.778	N/A	<u>309,046</u>
<b>U.S. Department of Health and Human Services - Indirect</b>			
Pass-Through Marshall County Temporary Assistance for Needy Families .....	93.558	N/A	<u>45,334</u>
<b>Total U.S. Department of Health and Human Services.....</b>			<b><u>354,380</u></b>
<b>Corporation for National and Community Service - Direct</b>			
Learn and Serve America - School and Community Based Programs .....	94.004	N/A	<u>3,500</u>
<b>Total Federal Financial Assistance.....</b>			<b><u>\$ 18,088,358</u></b>

\* Total Expenditures for CFDA Numbers 84.027 and 84.173 were \$15,190,343.

\*\* Total Expenditures for CFDA Number 84.048 were \$609,489.

# Schedule of Expenditures of Federal Awards

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Year Ended June 30, 2007

## **(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 \$3,522,165 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**

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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, 2007, and the discretely presented component unit at December 31, 2006, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated January 9, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

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 Area Education Agency 267's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of Area Education Agency 267's financial statements that is more than inconsequential will not be prevented or detected by Area Education Agency 267's internal control.

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 Area Education Agency 267'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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Area Education Agency 267's operations for the year ended June 30, 2007 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.

Area Education Agency 267'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 Area Education Agency 267'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 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  
January 9, 2008

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

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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, 2007. 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, 2007.

### **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 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the Agency's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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  
January 9, 2008

# Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

## Part I: Summary of Auditor's Results:

### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified?  yes  no

Reportable condition identified not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

### Federal Awards

Internal control over major programs:

Material weakness identified?  yes  no

Reportable condition identified not considered to be material weaknesses?  yes  none reported

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

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

Identification of major programs:

#### **CFDA Numbers**

84.027 and 84.173  
84.048

#### **Name of Federal Program or Cluster**

Special Education Cluster  
Vocational Education - Basic Grants  
to States

Dollar threshold used to distinguish between Type A and Type B programs: \$542,650

Auditee qualified as low-risk auditee?  yes  no

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2007

## **Part II: Findings Related to the Financial Statements**

### **Instances of Noncompliance**

There were no reported instances of noncompliance.

### **Significant Deficiencies**

There were no significant deficiencies reported.

## **Part III: Findings and Questioned Costs for Federal Awards**

### **Instances of Noncompliance**

There were no reported instances of noncompliance.

### **Significant Deficiencies**

There were no significant deficiencies reported.

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

- 07-IV-CS-1 Official Depositories** - A resolution naming official depositories has been adopted by the Agency and was not exceeded during the year.
- 07-IV-CS-2 Budget** - Total disbursements during the year ended June 30, 2007 did not exceed the amount budgeted.
- 07-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.
- 07-IV-CS-4 Travel Expenses** - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 07-IV-CS-5 Business Transactions** - No business transactions between the Agency and Agency officials or employees were noted.
- 07-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.
- 07-IV-CS-7 Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.
- 07-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.
- 07-IV-CS-9 Certified Annual Report** - The Certified Annual Report was timely filed with the Iowa Department of Education.

## Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2007

**07-IV-CS-10 Loan Agreements** - The Agency entered into a loan agreement to purchase computer equipment. Chapter 279.48 of the Code of Iowa requires the Agency to publish a notice containing the dollar amount and purpose of the agreement in a newspaper of general circulation within the area education agency's service area at least ten days before the meeting when the loan agreement is to be approved. The Agency did not publish such a notice.

**Auditor's Recommendation** - Notices should be published before loan agreements are entered into.

**Agency's Response** - Future notices will be published timely before loan agreements entered into.

**Auditor's Conclusion** - Response accepted.