

**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, 2008**

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Officials

Name	Title	Term Expires
Prior to September 30, 2007		
Board of Directors		
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
After September 30, 2007		
Board of Directors		
Charlotte Upah	President	September 30, 2008
Darrel Lind	Vice President	September 30, 2008
Betty Westmeyer	Member	September 30, 2009
Susan Grimes	Member	September 30, 2008
Charles Vaughn	Member	September 30, 2009
Roberta Kraft Abrahamson	Member	September 30, 2009
Dr. George North	Member	September 30, 2010
Ella Mae Gogel	Member	September 30, 2010
Bernice Richard	Member	September 30, 2010
Agency		
Dr. Dean Meier	Chief Administrator	
Dennis Scudder	Finance Director and Treasurer	
Diana Bergeson	Board Secretary	

Independent Auditor's Report

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Area Education Agency 267 as of and for the year ended June 30, 2008 and the discretely presented component unit at December 31, 2007, 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, 2008 and the discretely presented component unit at December 31, 2007, 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 19, 2009 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 three years ended June 30, 2007 (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 19, 2009

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, 2008. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

General Fund revenue and other sources increased from \$43,436,266 in fiscal year 2007 to \$44,946,246 in fiscal year 2008. General fund expenditures and other financing uses increased from \$43,485,549 in fiscal year 2007 to \$44,684,585 in fiscal year 2008. 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 climbed to \$5,217,455. The fund balance consists of a reserved fund balance of \$131,864 and an unreserved balance of \$5,085,591. The unreserved fund balance at the end of the year 2008 represents approximately 12% of the 2008 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 2008 totaled approximately \$13.8 million. This compared to approximately \$13.9 million at the end of fiscal 2007. The analysis that follows provides a summary of the Agency's net assets at June 30, 2008 for the governmental and business-type activities:

	Condensed Statement of Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2008	2007	2008	2007	2008	2007
Current and other assets.....	\$ 19,407,467	\$ 18,049,833	\$ 147,729	\$ 127,455	\$ 19,555,196	\$ 18,177,288
Capital assets.....	10,366,449	10,825,807	—	—	10,366,449	10,825,807
Total Assets	29,773,916	28,875,640	147,729	127,455	29,921,645	29,003,095
Long-term obligations.....	1,110,794	1,461,325	—	—	1,110,794	1,461,325
Other liabilities.....	14,892,949	13,545,310	143,412	96,386	15,036,361	13,641,696
Total Liabilities	16,003,743	15,006,635	143,412	96,386	16,147,155	15,103,021
Net Assets						
Invested in capital assets, net of related debt.....	8,919,964	9,056,777	—	—	8,919,964	9,056,777
Restricted.....	178,087	193,224	—	—	178,087	193,224
Unrestricted.....	4,672,122	4,619,004	4,317	31,069	4,676,439	4,650,073
Total Net Assets	\$ 13,770,173	\$ 13,869,005	\$ 4,317	\$ 31,069	\$ 13,774,490	\$ 13,900,074

The Agency's combined net assets decreased by approximately \$126,000 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, 2008.

	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2008	2007	2008	2007	2008	2007
Revenue						
Program Revenue						
Charges for service	\$ 23,235,645	\$ 22,580,839	\$ 1,648,523	\$ 1,918,300	\$ 24,884,168	\$ 24,499,139
Operating grants and contributions	22,498,691	21,729,479	102,499	93,069	22,601,190	21,822,548
General Revenue						
Property taxes, levied	10,432,510	10,100,779	—	—	10,432,510	10,100,779
State foundation aid	12,093,249	11,234,527	—	—	12,093,249	11,234,527
Unrestricted investment earnings	440,422	656,891	—	—	440,422	656,891
Miscellaneous	81,983	23,968	—	—	81,983	23,968
Total Revenue	<u>68,782,500</u>	<u>66,326,483</u>	<u>1,751,022</u>	<u>2,011,369</u>	<u>70,533,522</u>	<u>68,337,852</u>
Program Expenses						
Instruction	23,665,569	23,214,807	—	—	23,665,569	23,214,807
Student support services	16,935,391	15,272,605	—	—	16,935,391	15,272,605
Instructional staff support services	10,798,617	11,980,382	—	—	10,798,617	11,980,382
General administration	6,621,715	5,566,792	—	—	6,621,715	5,566,792
Business administration	3,304,762	2,928,463	—	—	3,304,762	2,928,463
Plant operations and maintenance	2,301,025	2,085,722	—	—	2,301,025	2,085,722
Central and other support services	1,623,530	1,758,509	—	—	1,623,530	1,758,509
Debt service	69,793	76,446	—	—	69,793	76,446
Noninstructional programs	—	—	1,755,845	2,003,116	1,755,845	2,003,116
Total Expenses	<u>65,320,402</u>	<u>62,883,726</u>	<u>1,755,845</u>	<u>2,003,116</u>	<u>67,076,247</u>	<u>64,886,842</u>
Change in Net Assets Before Other						
Financing Sources (Uses)	3,462,098	3,442,757	(4,823)	8,253	3,457,275	3,451,010
Other Financing Sources (Uses)	<u>(3,560,930)</u>	<u>(3,548,186)</u>	<u>30,365</u>	<u>22,816</u>	<u>(3,530,565)</u>	<u>(3,525,370)</u>
Increase (Decrease) in Net Assets	<u>(98,832)</u>	<u>(105,429)</u>	<u>25,542</u>	<u>31,069</u>	<u>(73,290)</u>	<u>(74,360)</u>
Net Assets - Beginning of Year,						
as previously reported	13,869,005	13,974,434	31,069	—	13,900,074	13,974,434
Prior period adjustment (Note 11)	—	—	(52,294)	—	(52,294)	—
Net Assets - Beginning of Year,						
as Restated	13,869,005	13,974,434	(21,225)	—	13,847,780	13,974,434
Net Assets - End of Year	<u>\$ 13,770,173</u>	<u>\$ 13,869,005</u>	<u>\$ 4,317</u>	<u>\$ 31,069</u>	<u>\$ 13,774,490</u>	<u>\$ 13,900,074</u>

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for approximately 66% 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 approximately 79% of the total expenses.

Governmental Activities

Revenue for governmental activities was \$68,782,500 and expenses and other financial uses were \$68,881,332. In a difficult budget year, the Agency was able to use some of the carry over balances to pay for the services provided to local school districts.

Business-Type Activities

Revenue for the Agency's Business-Type Activities totaled \$1,751,022 and expenses were \$1,755,845 for the fiscal year. A transfer of \$30,365 was made to the Nutrition Fund from the Special Education Instructional Fund to defer costs in the Nutrition Fund.

Expenses totaled \$1,124,796, \$169,403 and \$461,646 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 \$5,175,416, which is an increase from the beginning of the year fund balances of \$5,149,018. The primary reason for the increase in the combined fund balance is additional revenue received from the state.

Governmental Fund Highlights

The General Fund balance increased mainly due to additional revenue received from the state.

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 2007-08 is represented by the re-estimated 2007-08 column of the original 2008-09 budget submitted February 1, 2008 totaling \$69,502,897. 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, 2008, the Agency had invested \$10,366,449, 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 \$459,358 from the beginning of the year.

Area Education Agency 267 reported depreciation expense of \$1,376,913 in 2008 and total accumulated depreciation of \$13,044,114 at June 30, 2008. 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.

	Balance - June 30	
	2008	2007
Certificate of participation.....	\$ 615,000	\$ 810,000
Capital lease.....	695,000	800,000
Asset purchase agreement	<u>136,485</u>	<u>159,030</u>
	<u>\$ 1,446,485</u>	<u>\$ 1,769,030</u>

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 37% of the general funds, are very questionable in the near future. In 2007-2008 Part B, which represents our largest grant, decreased by approximately 4.5% and no increase is projected for fiscal year 2009. A continued trend of small increases in federal funding will have a dramatic impact on the Agency.

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

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Statement of Net Assets

At June 30, 2008

	Governmental Activities	Business- Type Activities	Total	Component Unit AEA6 Foundation
Assets				
Cash, certificates of deposit and pooled investments	\$ 2,594,148	\$ 20,320	\$ 2,614,468	\$ 786,756
Receivables				
Accounts	22,204	402,067	424,271	—
Due from other governments	10,593,937	—	10,593,937	—
Due from other funds	781,900	(781,900)	—	—
Inventories	66,514	507,242	573,756	—
Prepaid expenses.....	77,538	—	77,538	—
Restricted cash and pooled investments	184,308	—	184,308	—
Restricted ISCAP Assets				
Investments.....	5,040,750	—	5,040,750	—
Accrued interest receivable.....	46,168	—	46,168	—
Capital assets, net of accumulated depreciation	10,366,449	—	10,366,449	—
Total Assets	\$ 29,773,916	\$ 147,729	\$ 29,921,645	\$ 786,756
Liabilities				
Accounts payable	\$ 2,116,071	\$ 143,262	\$ 2,259,333	\$ —
Salaries and benefits payable	6,489,757	150	6,489,907	—
Accrued interest.....	6,221	—	6,221	—
ISCAP warrants payable	5,000,000	—	5,000,000	—
ISCAP accrued interest payable.....	87,053	—	87,053	—
Deferred revenue.....	539,170	—	539,170	—
Long-Term Liabilities				
Portion Due or Payable Within One Year				
Certificates of participation.....	205,000	—	205,000	—
Capital lease	105,000	—	105,000	—
Asset purchase agreement	40,872	—	40,872	—
Compensated absences	287,860	—	287,860	—
Early retirement benefits	15,945	—	15,945	—
Portion Due or Payable After One Year				
Certificates of participation.....	410,000	—	410,000	—
Capital lease	590,000	—	590,000	—
Asset purchase agreement	95,613	—	95,613	—
Early retirement benefits	15,181	—	15,181	—
Total Liabilities	16,003,743	143,412	16,147,155	—
Net Assets				
Invested in capital assets, net of related debt	8,919,964	—	8,919,964	—
Restricted For				
Debt Service	178,087	—	178,087	—
Unrestricted	4,672,122	4,317	4,676,439	786,756
Total Net Assets	13,770,173	4,317	13,774,490	786,756
Total Liabilities and Net Assets	\$ 29,773,916	\$ 147,729	\$ 29,921,645	\$ 786,756

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2008

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	
Governmental Activities							
Instruction	\$ 23,665,569	\$ 21,968,303	\$ 1,878,776	\$ 181,510	\$ —	\$ 181,510	\$ —
Student support services	16,935,391	14,883	17,644,928	724,420	—	724,420	—
Instructional staff support services	10,798,617	1,031,353	2,974,987	(6,792,277)	—	(6,792,277)	—
General administration	6,621,715	—	—	(6,621,715)	—	(6,621,715)	—
Business administration.....	3,304,762	—	—	(3,304,762)	—	(3,304,762)	—
Plant operations and maintenance	2,301,025	—	—	(2,301,025)	—	(2,301,025)	—
Central and other support services.....	1,623,530	221,106	—	(1,402,424)	—	(1,402,424)	—
Debt service.....	69,793	—	—	(69,793)	—	(69,793)	—
Total Governmental Activities	65,320,402	23,235,645	22,498,691	(19,586,066)	—	(19,586,066)	—
Business-Type Activities							
Noninstructional Programs							
Nutrition services.....	169,403	36,539	102,499	—	(30,365)	(30,365)	—
Technology and repair services	461,646	479,409	—	—	17,763	17,763	—
Co-op purchasing.....	1,124,796	1,132,575	—	—	7,779	7,779	—
Total Business-Type Activities	1,755,845	1,648,523	102,499	—	(4,823)	(4,823)	—
Total	\$ 67,076,247	\$ 24,884,168	\$ 22,601,190	(19,586,066)	(4,823)	(19,590,889)	—
Component Unit							
AEA6 Foundation	\$ 65,175	\$ —	\$ —	—	—	—	(65,175)
General Revenue							
Property tax levied for general purposes.....				10,432,510	—	10,432,510	—
State foundation aid.....				12,093,249	—	12,093,249	—
Unrestricted investment earnings				440,422	—	440,422	66,071
Miscellaneous.....				81,983	—	81,983	—
Total General Revenue				23,048,164	—	23,048,164	66,071
Change in Net Assets Before Other Financing Sources (Uses)				3,462,098	(4,823)	3,457,275	896
Other Financing Sources (Uses)							
LEA flow through				(3,517,777)	—	(3,517,777)	—
Loss from disposal of assets				(12,788)	—	(12,788)	—
Transfers				(30,365)	30,365	—	—
Total Other Financing Sources (Uses).....				(3,560,930)	30,365	(3,530,565)	—
Change in Net Assets.....				(98,832)	25,542	(73,290)	896
Net Assets - Beginning of Year, as previously reported				13,869,005	31,069	13,900,074	785,860
Prior period adjustment				—	(52,294)	(52,294)	—
Net Assets - Beginning of Year, as restated (Note 11).....				13,869,005	(21,225)	13,847,780	785,860
Net Assets - End of Year.....				\$ 13,770,173	\$ 4,317	\$ 13,774,490	\$ 786,756

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2008

	General	<u>Special Revenue</u> Special Education Instruction	Nonmajor Governmental Funds	Total
Assets				
Cash, certificates of deposit and pooled investments	\$ 2,399,328	\$ 1,400	\$ 193,420	\$ 2,594,148
Receivables				
Accounts	22,204	—	—	22,204
Due from other governments	5,948,863	4,645,074	—	10,593,937
Due from other funds	1,963,981	—	—	1,963,981
Inventories	66,514	—	—	66,514
Prepaid expenses.....	65,350	9,982	2,206	77,538
Restricted cash and pooled investments.....	—	—	184,308	184,308
Restricted ISCAP Assets				
Investments.....	5,040,750	—	—	5,040,750
Accrued interest receivable.....	46,168	—	—	46,168
Total Assets	<u>\$ 15,553,158</u>	<u>\$ 4,656,456</u>	<u>\$ 379,934</u>	<u>\$ 20,589,548</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,125,441	\$ 946,798	\$ 43,832	\$ 2,116,071
Salaries and benefits payable	3,873,159	2,527,577	89,021	6,489,757
ISCAP warrants payable	5,000,000	—	—	5,000,000
ISCAP accrued interest payable...	87,053	—	—	87,053
Due to other funds	—	1,182,081	—	1,182,081
Deferred revenue.....	250,050	226,347	62,773	539,170
Total Liabilities	<u>10,335,703</u>	<u>4,882,803</u>	<u>195,626</u>	<u>15,414,132</u>
Fund Balances				
Reserved For				
Inventories	66,514	—	—	66,514
Prepaid expenditures	65,350	9,889	—	75,239
Unreserved				
Designated for				
Media resources.....	471,706	—	—	471,706
Special purposes.....	394,945	—	—	394,945
Undesignated Reported in				
General Fund	4,218,940	—	—	4,218,940
Special Education	—	(236,236)	—	(236,236)
Debt Service Fund	—	—	184,308	184,308
Total Fund Balances	<u>5,217,455</u>	<u>(226,347)</u>	<u>184,308</u>	<u>5,175,416</u>
Total Liabilities and Fund Balances	<u>\$ 15,553,158</u>	<u>\$ 4,656,456</u>	<u>\$ 379,934</u>	<u>\$ 20,589,548</u>

See accompanying notes to the financial statements.

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

At June 30, 2008

Total Fund Balances for Governmental Funds (Page 12)..... **\$ 5,175,416**

***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. 10,366,449

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.....	\$ 6,221	
Certificates of participation.....	615,000	
Lease purchase.....	695,000	
Asset purchase agreement.....	136,485	
Compensated absences	287,860	
Early retirement benefits	<u>31,126</u>	<u>(1,771,692)</u>

Net Assets of Governmental Activities (Page 10) **\$ 13,770,173**

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

Year Ended June 30, 2008

	General	<u>Special Revenue</u> Special Education Instruction	Nonmajor Governmental Funds	Total
Revenue				
Local sources	\$ 13,303,618	\$ 22,010,576	\$ 6,317	\$ 35,320,511
State sources.....	14,846,483	644,306	1,099,970	16,590,759
Federal sources.....	<u>16,772,078</u>	<u>99,152</u>	<u>—</u>	<u>16,871,230</u>
Total Revenue.....	<u>44,922,179</u>	<u>22,754,034</u>	<u>1,106,287</u>	<u>68,782,500</u>
Expenditures				
Current				
Instruction	3,697,253	19,014,033	959,730	23,671,016
Student support services	16,412,353	216,672	—	16,629,025
Instructional staff support services	11,405,575	33,376	—	11,438,951
General administration.....	4,477,900	1,173,164	107,889	5,758,953
Business administration	3,165,664	291,458	—	3,457,122
Plant operations and maintenance.....	1,319,209	923,238	32,351	2,274,798
Central and other support services	288,061	1,298,075	—	1,586,136
Debt service.....	<u>—</u>	<u>—</u>	<u>416,026</u>	<u>416,026</u>
Total Expenditures.....	<u>40,766,015</u>	<u>22,950,016</u>	<u>1,515,996</u>	<u>65,232,027</u>
Revenue Over (Under) Expenditures	<u>4,156,164</u>	<u>(195,982)</u>	<u>(409,709)</u>	<u>3,550,473</u>
Other Financing Sources (Uses)				
LEA flow through	(3,517,777)	—	—	(3,517,777)
Proceeds from asset purchase agreement.....	24,067	—	—	24,067
Transfers, net	<u>(400,793)</u>	<u>(30,365)</u>	<u>400,793</u>	<u>(30,365)</u>
Total Other Financing Sources (Uses)	<u>(3,894,503)</u>	<u>(30,365)</u>	<u>400,793</u>	<u>(3,524,075)</u>
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	261,661	(226,347)	(8,916)	26,398
Fund Balances - Beginning of Year	<u>4,955,794</u>	<u>—</u>	<u>193,224</u>	<u>5,149,018</u>
Fund Balances - End of Year.....	<u>\$ 5,217,455</u>	<u>\$ (226,347)</u>	<u>\$ 184,308</u>	<u>\$ 5,175,416</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2008

Change in Fund Balances - Total Governmental Funds (Page 14) \$ 26,398

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.....	\$ 930,343	
Depreciation expense	(1,376,913)	
Net book value of disposed assets	(12,788)	(459,358)

Asset purchase agreement proceeds are revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets.....		(24,067)
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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.....		346,612
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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.		(379)
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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.....		11,962
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Change in Net Assets of Governmental Activities (Page 11) \$ (98,832)

Statement of Net Assets - Proprietary Funds

At June 30, 2008

	Nonmajor Proprietary Funds
Assets	
Cash	\$ 20,320
Accounts receivable	402,067
Inventory	<u>507,242</u>
Total Assets	<u>\$ 929,629</u>
Liabilities	
Accounts payable	\$ 143,262
Salaries and benefits payable	150
Due to other funds	<u>781,900</u>
Total Liabilities	<u>925,312</u>
Net Assets - Unrestricted	<u>4,317</u>
Total Liabilities and Net Assets	<u>\$ 929,629</u>

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

Year Ended June 30, 2008

	Nonmajor Proprietary Funds
Operating Revenue	
Charges for services.....	<u>\$ 1,648,523</u>
Operating Expenses	
Noninstructional Programs	
Business Administration	
Salaries	59,475
Benefits	16,903
Purchased services.....	33,738
Materials and supplies	<u>1,014,680</u>
Total Business Administration.....	<u>1,124,796</u>
Central and Other Support Services	
Salaries	258,526
Benefits	102,592
Purchased services.....	11,732
Materials and supplies	255,222
Capital outlay	<u>2,977</u>
Total Central and Other Support Services	<u>631,049</u>
Total Operating Expenses	<u>1,755,845</u>
Loss From Operations	<u>(107,322)</u>
Nonoperating Revenue	
State sources.....	1,561
Federal sources.....	<u>100,938</u>
Total Nonoperating Revenue	<u>102,499</u>
Change in Net Assets Before Transfers	(4,823)
Transfers in.....	<u>30,365</u>
Change in Net Assets	<u>25,542</u>
Net Assets - Beginning of Year, as previously reported.....	31,069
Prior period adjustment (Note 11)	<u>(52,294)</u>
Net Assets - Beginning of Year, as restated.....	<u>(21,225)</u>
Net Assets - End of Year	<u>\$ 4,317</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

At June 30, 2008

	Nonmajor Proprietary Funds
Cash Flows From Operating Activities	
Cash received from customers.....	\$ 1,845,484
Cash paid to employees for services.....	(441,377)
Cash paid to suppliers for goods and services.....	<u>(1,165,052)</u>
Net Cash Provided by Operating Activities	<u>239,055</u>
Cash Flows From Noncapital Financing Activities	
State grants received.....	1,561
Federal grants received.....	100,938
Advances from other funds.....	781,900
Repayment of advances from other funds.....	(1,135,491)
Transfers in.....	<u>30,365</u>
Net Cash Used in Noncapital Financing Activities	<u>(220,727)</u>
Net Increase in Cash	18,328
Cash at Beginning of Year.....	<u>1,992</u>
Cash at End of Year.....	<u>\$ 20,320</u>
Reconciliation of Loss From Operations to Net Cash Provided by Operating Activities	
Loss from operations	\$ (107,322)
Adjustments to Reconcile Loss From Operations to Net Cash Provided by Operating Activities	
Changes in Assets and Liabilities	
Decrease in accounts receivable	196,961
Decrease in inventory.....	154,684
Decrease in accounts payable	(1,387)
Decrease in accrued salaries and benefits	<u>(3,881)</u>
Net Cash Provided by Operating Activities	<u>\$ 239,055</u>

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

At June 30, 2008

Assets

Cash and pooled investments \$ 929,461

Liabilities

Accounts payable \$ 292,094

Deposits held in custody for others 637,367

Total Liabilities \$ 929,461

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Organization and Function

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

Reporting Entity

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

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, 2007.

During the Agency's fiscal year ended June 30, 2008, the Foundation provided the Agency approximately \$64,000 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

(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

(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:

Asset Class	Estimated Useful Lives
Buildings.....	50 Years
Improvements other than buildings	20 - 30 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

(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, 2008. 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, 2008 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, 2008 consist of the following:

Type	Fair Value
Governmental Securities Mutual Fund	<u>\$ 184,308</u>

Notes to the Financial Statements

(2) Cash, Certificates of Deposit and Pooled Investments

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

Cash and investments of the component unit are stated at fair value and are summarized as follows at December 31, 2007:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash	\$ 420	\$ 420	\$ —
Money market funds	39,930	39,930	—
Corporate bonds	149,888	145,000	(4,888)
U.S. Treasury securities	<u>605,463</u>	<u>601,406</u>	<u>(4,057)</u>
	<u>\$ 795,701</u>	<u>\$ 786,756</u>	<u>\$ (8,945)</u>

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

Interest income (net of expense)	\$ 41,760
Net realized and unrealized gains	25,414
Net realized losses	<u>(1,103)</u>
	<u>\$ 66,071</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, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2008-09A	6-30-08	6-30-09	<u>\$ 5,040,750</u>	<u>\$ 46,168</u>	<u>\$ 5,000,000</u>	<u>\$ 87,053</u>

Notes to the Financial Statements

(3) Iowa School Cash Anticipation Program (ISCAP)

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

ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

Series	Balance - Beginning of Year	Advances Received	Advances Repaid	Balance - End of Year
2007-08A.....	<u>\$ —</u>	<u>\$ 1,700,000</u>	<u>\$ 1,700,000</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%	5.448%
2008-09A.....	3.5%	3.469

(4) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 809,308	\$ —	\$ —	\$ 809,308
Assets not placed in service.....	<u>208,998</u>	<u>24,067</u>	<u>233,065</u>	<u>—</u>
Total Capital Assets Not Being Depreciated.....	<u>1,018,306</u>	<u>24,067</u>	<u>233,065</u>	<u>809,308</u>
Capital Assets Being Depreciated				
Buildings and improvements.....	10,911,658	—	—	10,911,658
Furniture and equipment.....	4,980,720	560,263	141,646	5,399,337
Library books and films.....	<u>6,091,382</u>	<u>579,078</u>	<u>380,200</u>	<u>6,290,260</u>
Total Capital Assets Being Depreciated.....	<u>21,983,760</u>	<u>1,139,341</u>	<u>521,846</u>	<u>22,601,255</u>
Less Accumulated Depreciation For				
Buildings and improvements.....	3,435,978	310,569	—	3,746,547
Furniture and equipment.....	4,150,071	236,469	128,858	4,257,682
Library books and films.....	<u>4,590,210</u>	<u>829,875</u>	<u>380,200</u>	<u>5,039,885</u>
Total Accumulated Depreciation	<u>12,176,259</u>	<u>1,376,913</u>	<u>509,058</u>	<u>13,044,114</u>
Net Total Capital Assets Being Depreciated.....	<u>9,807,501</u>	<u>(237,572)</u>	<u>12,788</u>	<u>9,557,141</u>
Net Governmental Activities Capital Assets.....	<u>\$ 10,825,807</u>	<u>\$ (213,505)</u>	<u>\$ 245,853</u>	<u>\$ 10,366,449</u>

Notes to the Financial Statements

(4) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities	
Instruction.....	\$ 17,422
Student support services.....	306,366
Instructional staff support services.....	23,658
General administration.....	882,754
Business administration.....	29,350
Plant operations and maintenance.....	24,000
Central support.....	93,363
Total Governmental Activities Depreciation Expense	<u>\$ 1,376,913</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Certificates of participation	\$ 810,000	\$ —	\$ 195,000	\$ 615,000	\$ 205,000
Capital lease.....	800,000	—	105,000	695,000	105,000
Asset purchase agreement....	159,030	24,067	46,612	136,485	40,872
Compensated absences.....	279,458	287,860	279,458	287,860	287,860
Early retirement benefits.....	51,490	—	20,364	31,126	15,945
	<u>\$ 2,099,978</u>	<u>\$ 311,927</u>	<u>\$ 646,434</u>	<u>\$ 1,765,471</u>	<u>\$ 654,677</u>

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
2009.....	\$ 205,000	\$ 27,357	\$ 232,357
2010.....	215,000	18,440	233,440
2011.....	195,000	8,872	203,872
Total	<u>\$ 615,000</u>	<u>\$ 54,669</u>	<u>\$ 669,669</u>

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
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.....	120,000	9,742	129,742
2014.....	125,000	5,062	130,062
Total.....	<u>\$ 695,000</u>	<u>\$ 94,864</u>	<u>\$ 789,864</u>

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
2009.....	\$ 40,872	\$ 10,934	\$ 51,806
2010.....	46,521	5,285	51,806
2011.....	<u>49,092</u>	<u>2,713</u>	<u>51,805</u>
Total.....	<u>\$ 136,485</u>	<u>\$ 18,932</u>	<u>\$ 155,417</u>

Total interest expenditures for the certificates of participation, capital lease and asset purchase agreement were \$69,414 for the year ended June 30, 2008.

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 nine employees in the current year. Actual expenditures for the year ended June 30, 2008 totaled \$20,364.

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:

2009.....	\$ 15,945
2010.....	8,040
2011.....	4,510
2012.....	<u>2,631</u>
	<u>\$ 31,126</u>

Notes to the Financial Statements

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	\$ 8,007
	General	<u>400,793</u>
		408,800
Proprietary - Nutrition	Special Revenue - Special Education Instruction	<u>30,365</u>
Total		<u>\$ 439,165</u>

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, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue - Special Education Instruction	\$ 1,182,081
	Proprietary	
	Cooperative Purchasing	653,126
	Technology and Repair Services	<u>128,774</u>
Total General Fund		<u>\$ 1,963,981</u>

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

(8) Operating Leases

The Agency leases several copiers, with terms ranging from three to five years, under operating leases. The Agency has also leased various facilities within the area to house its different divisions under annual leases. These leases have been classified as operating leases and, accordingly, all rents are recorded as expenditures when incurred. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by years of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008.

Year Ending June 30,	
2009.....	\$ 99,398
2010.....	77,018
2011.....	<u>39,010</u>
Total.....	<u>\$ 215,426</u>

Total rental expenditures for the year ended June 30, 2008 for all operating leases, except those with terms of a month or less that were not renewed, was \$427,978.

Notes to the Financial Statements

(9) Pension and Retirement Benefits

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

Plan members are required to contribute 3.90% of their annual covered salary and the Agency is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$2,530,629, \$2,302,040 and \$2,232,364, respectively, which was equal to the required contribution for the years.

(10) Risk Management

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

(11) Prior Period Adjustment

Previous audited financial statements did not include all appropriate accounts payable for the cooperative purchasing fund. The effect of this condition was to understate accounts payable and overstate fund balance (net assets) by \$52,294. The original and restated amounts are shown below.

Business-Type Activities, Page 11

Net assets at June 30, 2007, as previously reported	\$ 31,069
Prior period adjustment	<u>(52,294)</u>
Net Assets at June 30, 2007, as Restated	<u>\$ (21,225)</u>

Nonmajor Proprietary Funds, Page 17

Fund balance at June 30, 2007, as previously reported.....	\$ 31,069
Prior year accounts payable.....	<u>(52,294)</u>
Fund Balance at June 30, 2007, as Restated	<u>\$ (21,225)</u>

Cooperative Purchasing Fund, Page 35

Fund balance at June 30, 2007, as previously reported.....	\$ 48,832
Prior year accounts payable.....	<u>(52,294)</u>
Fund Balance at June 30, 2007, as Restated	<u>\$ (3,462)</u>

Required Supplementary Information

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

Year Ended June 30, 2008

	Actual		Total	Budget Amount		Over (Under) Budget
	Governmental Fund Types	Proprietary Fund Type		Original	Final	
Revenue						
Local sources	\$ 35,320,511	\$ 1,648,523	\$ 36,969,034	\$ 38,646,589	\$ 38,559,636	\$ (1,590,602)
State sources	16,590,759	1,561	16,592,320	15,405,934	16,395,545	196,775
Federal sources	16,871,230	100,938	16,972,168	18,100,300	18,063,493	(1,091,325)
Total Revenue	68,782,500	1,751,022	70,533,522	72,152,823	73,018,674	(2,485,152)
Expenditures						
Instruction	23,671,016	—	23,671,016	24,961,175	24,982,288	(1,311,272)
Student support services	16,629,025	—	16,629,025	15,997,600	16,715,581	(86,556)
Instructional staff support services	11,438,951	—	11,438,951	12,756,805	12,323,634	(884,683)
General administration	5,758,953	—	5,758,953	5,537,600	5,609,563	149,390
Business administration	3,457,122	—	3,457,122	4,200,800	4,675,044	(1,217,922)
Plant operations and maintenance	2,274,798	—	2,274,798	2,443,443	2,298,102	(23,304)
Central and other support services	1,586,136	—	1,586,136	2,138,000	2,148,874	(562,738)
Facilities acquisition and construction	—	—	—	8,007	—	—
Noninstructional programs	—	1,755,845	1,755,845	330,000	335,105	1,420,740
Debt service	416,026	—	416,026	369,000	414,706	1,320
Total Expenditures	65,232,027	1,755,845	66,987,872	68,742,430	69,502,897	(2,515,025)
Revenue Over (Under) Expenditures	3,550,473	(4,823)	3,545,650	3,410,393	3,515,777	29,873
Other Financing Sources (Uses)	(3,524,075)	30,365	(3,493,710)	(3,518,400)	(3,515,777)	22,067
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	26,398	25,542	51,940	(108,007)	—	51,940
Balance - Beginning of Year, as restated (Note 11)	5,149,018	(21,225)	5,127,793	4,907,831	5,180,083	(52,290)
Balance - End of Year	\$ 5,175,416	\$ 4,317	\$ 5,179,733	\$ 4,799,824	\$ 5,180,083	\$ (350)

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

Combining Balance Sheet - Nonmajor Governmental Funds ---

At June 30, 2008

	<u>Special Revenue</u> Juvenile Home	Capital Projects	Debt Service	Total
Assets				
Cash, certificates of deposit and pooled investments	\$ 193,420	\$ —	\$ —	\$ 193,420
Prepaid expenses	2,206	—	—	2,206
Restricted cash and pooled investments	<u>—</u>	<u>—</u>	<u>184,308</u>	<u>184,308</u>
Total Assets	<u>\$ 195,626</u>	<u>\$ —</u>	<u>\$ 184,308</u>	<u>\$ 379,934</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 43,832	\$ —	\$ —	\$ 43,832
Salaries and benefits payable	89,021	—	—	89,021
Deferred revenue	<u>62,773</u>	<u>—</u>	<u>—</u>	<u>62,773</u>
Total Liabilities	<u>195,626</u>	<u>—</u>	<u>—</u>	<u>195,626</u>
 Fund Balances				
Unreserved, undesignated	<u>—</u>	<u>—</u>	<u>184,308</u>	<u>184,308</u>
Total Liabilities and Fund Balances	<u>\$ 195,626</u>	<u>\$ —</u>	<u>\$ 184,308</u>	<u>\$ 379,934</u>

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

Year Ended June 30, 2008

	Special Revenue		Capital Projects		Debt Service		Total
	Juvenile Home						
Revenue							
Local sources	\$ —		\$ —		\$ 6,317		\$ 6,317
State sources.....	1,099,970		—		—		1,099,970
Total Revenue	1,099,970		—		6,317		1,106,287
Expenditures							
Instruction	959,730		—		—		959,730
General administration	107,889		—		—		107,889
Plant operations and maintenance	32,351		—		—		32,351
Debt service.....	—		—		416,026		416,026
Total Expenditures.....	1,099,970		—		416,026		1,515,996
Revenue Under Expenditures	—		—		(409,709)		(409,709)
Other Financing Sources (Uses)							
Transfers, net	—		(8,007)		408,800		400,793
Revenue and Other Financing Sources Under Expenditures.....	—		(8,007)		(909)		(8,916)
Fund Balances - Beginning of year	—		8,007		185,217		193,224
Fund Balances - End of Year	\$ —		\$ —		\$ 184,308		\$ 184,308

Combining Statement of Net Assets - Nonmajor Proprietary Funds

At June 30, 2008

	Cooperative Purchasing	Nutrition	Technology and Repair Services	Total
Assets				
Cash	\$ —	\$ 2,556	\$ 17,764	\$ 20,320
Accounts receivable	348,517	—	53,550	402,067
Inventory	<u>444,038</u>	<u>414</u>	<u>62,790</u>	<u>507,242</u>
Total Assets	<u>\$ 792,555</u>	<u>\$ 2,970</u>	<u>\$ 134,104</u>	<u>\$ 929,629</u>
Liabilities				
Accounts payable	\$ 135,112	\$ 2,820	\$ 5,330	\$ 143,262
Salaries and benefits payable	—	150	—	150
Due to other funds	<u>653,126</u>	<u>—</u>	<u>128,774</u>	<u>781,900</u>
Total Liabilities	<u>788,238</u>	<u>2,970</u>	<u>134,104</u>	<u>925,312</u>
Net Assets - Unrestricted.....	<u>4,317</u>	<u>—</u>	<u>—</u>	<u>4,317</u>
Total Liabilities and Net Assets	<u>\$ 792,555</u>	<u>\$ 2,970</u>	<u>\$ 134,104</u>	<u>\$ 929,629</u>

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

Year Ended June 30, 2008

	Cooperative Purchasing	Nutrition	Technology and Repair Services	Total
Operating Revenue				
Charges for services.....	<u>\$ 1,132,575</u>	<u>\$ 36,539</u>	<u>\$ 479,409</u>	<u>\$ 1,648,523</u>
Operating Expenses				
Noninstructional Programs				
Business Administration				
Salaries	59,475	—	—	59,475
Benefits	16,903	—	—	16,903
Purchased services	33,738	—	—	33,738
Materials and supplies.....	<u>1,014,680</u>	<u>—</u>	<u>—</u>	<u>1,014,680</u>
Total Business Administration	<u>1,124,796</u>	<u>—</u>	<u>—</u>	<u>1,124,796</u>
Central and Other Support Services				
Salaries	—	42,284	216,242	258,526
Benefits	—	26,631	75,961	102,592
Purchased services	—	225	11,507	11,732
Materials and supplies.....	—	97,286	157,936	255,222
Capital outlay.....	<u>—</u>	<u>2,977</u>	<u>—</u>	<u>2,977</u>
Total Central and Other Support Services.....	<u>—</u>	<u>169,403</u>	<u>461,646</u>	<u>631,049</u>
Total Operating Expenses ...	<u>1,124,796</u>	<u>169,403</u>	<u>461,646</u>	<u>1,755,845</u>
Income (Loss) From Operations ...	<u>7,779</u>	<u>(132,864)</u>	<u>17,763</u>	<u>(107,322)</u>
Nonoperating Revenue				
State sources.....	—	1,561	—	1,561
Federal sources.....	<u>—</u>	<u>100,938</u>	<u>—</u>	<u>100,938</u>
Total Nonoperating Revenue	<u>—</u>	<u>102,499</u>	<u>—</u>	<u>102,499</u>
Change in Net Assets Before				
Transfers.....	<u>7,779</u>	<u>(30,365)</u>	<u>17,763</u>	<u>(4,823)</u>
Transfers in.....	<u>—</u>	<u>30,365</u>	<u>—</u>	<u>30,365</u>
Change in Net Assets.....	<u>7,779</u>	<u>—</u>	<u>17,763</u>	<u>25,542</u>
Net Assets - Beginning of Year, as previously reported.....	48,832	—	(17,763)	31,069
Prior period adjustment (Note 11)	<u>(52,294)</u>	<u>—</u>	<u>—</u>	<u>(52,294)</u>
Net Assets - Beginning of Year, as restated	<u>(3,462)</u>	<u>—</u>	<u>(17,763)</u>	<u>(21,225)</u>
Net Assets - End of Year	<u>\$ 4,317</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,317</u>

Combining Statement of Cash Flows - Nonmajor Proprietary Funds

At June 30, 2008

	Cooperative Purchasing	Nutrition	Technology and Repair Services	Total
Cash Flows From Operating Activities				
Cash received from customers.....	\$ 1,307,475	\$ 36,539	\$ 501,470	\$ 1,845,484
Cash paid to employees for services	(79,900)	(69,274)	(292,203)	(441,377)
Cash paid to suppliers for goods and services.....	<u>(893,006)</u>	<u>(99,565)</u>	<u>(172,481)</u>	<u>(1,165,052)</u>
Net Cash Provided by (Used in) Operating Activities.....	<u>334,569</u>	<u>(132,300)</u>	<u>36,786</u>	<u>239,055</u>
Cash Flows From Noncapital Financing Activities				
State grants received.....	—	1,561	—	1,561
Federal grants received.....	—	100,938	—	100,938
Advances from other funds.....	653,126	—	128,774	781,900
Repayment of advances from other funds.....	(987,695)	—	(147,796)	(1,135,491)
Transfers in.....	<u>—</u>	<u>30,365</u>	<u>—</u>	<u>30,365</u>
Net Cash Provided by (Used in) Noncapital Financing Activities.....	<u>(334,569)</u>	<u>132,864</u>	<u>(19,022)</u>	<u>(220,727)</u>
Net Increase in Cash.....	—	564	17,764	18,328
Cash at Beginning of Year.....	<u>—</u>	<u>1,992</u>	<u>—</u>	<u>1,992</u>
Cash at End of Year.....	<u>\$ —</u>	<u>\$ 2,556</u>	<u>\$ 17,764</u>	<u>\$ 20,320</u>
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities				
Income (loss) from operations.....	\$ 7,779	\$ (132,864)	\$ 17,763	\$ (107,322)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities				
Changes in Assets and Liabilities				
Decrease in accounts receivable	174,900	—	22,061	196,961
(Increase) decrease in inventory	159,399	13	(4,728)	154,684
Increase (decrease) in accounts payable.....	(3,987)	910	1,690	(1,387)
Decrease in accrued salaries and benefits.....	<u>(3,522)</u>	<u>(359)</u>	<u>—</u>	<u>(3,881)</u>
Net Cash Provided by (Used in) Operating Activities.....	<u>\$ 334,569</u>	<u>\$ (132,300)</u>	<u>\$ 36,786</u>	<u>\$ 239,055</u>

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

Year Ended June 30, 2008

	Balance 7-1-07	Additions	Deductions	Balance 6-30-08
Assets				
Cash and pooled investments	\$ 927,395	\$ 2,060,591	\$ 2,058,525	\$ 929,461
Accounts receivable	<u>2,497</u>	<u>—</u>	<u>2,497</u>	<u>—</u>
Total Assets	<u>\$ 929,892</u>	<u>\$ 2,060,591</u>	<u>\$ 2,061,022</u>	<u>\$ 929,461</u>
 Liabilities				
Accounts payable	\$ 262,208	\$ 292,094	\$ 262,208	\$ 292,094
Deposits held in custody of others.....	<u>667,684</u>	<u>1,768,497</u>	<u>1,798,814</u>	<u>637,367</u>
Total Liabilities	<u>\$ 929,892</u>	<u>\$ 2,060,591</u>	<u>\$ 2,061,022</u>	<u>\$ 929,461</u>

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

Year Ended June 30, 2008

	Years Ended June 30,			
	2008	2007	2006	2005
Revenue				
Local sources	\$ 35,320,511	\$ 34,467,848	\$ 33,309,117	\$ 31,453,896
State sources.....	16,590,759	13,862,015	12,706,309	12,020,599
Federal sources.....	<u>16,871,230</u>	<u>17,996,620</u>	<u>18,604,604</u>	<u>17,533,170</u>
Total Revenue	<u>\$ 68,782,500</u>	<u>\$ 66,326,483</u>	<u>\$ 64,620,030</u>	<u>\$ 61,007,665</u>
Expenditures				
Current				
Instruction	\$ 23,671,016	\$ 22,924,955	\$ 21,763,378	\$ 20,467,445
Student support services ...	16,629,025	15,267,040	15,447,597	17,889,315
Instructional staff support services.....	11,438,951	11,965,394	11,940,186	11,207,636
General administration.....	5,758,953	5,718,006	5,396,285	5,474,878
Business administration.....	3,457,122	2,996,568	2,813,973	2,873,359
Plant operations and maintenance.....	2,274,798	2,062,109	2,213,313	3,035,099
Central and other support services	1,586,136	1,689,199	1,642,549	104,132
Facilities acquisition and construction.....	—	—	1,584,465	1,286,662
Debt service.....	<u>416,026</u>	<u>416,502</u>	<u>364,510</u>	<u>2,007,784</u>
Total Expenditures	<u>\$ 65,232,027</u>	<u>\$ 63,039,773</u>	<u>\$ 63,166,256</u>	<u>\$ 64,346,310</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Agriculture - Indirect			
Pass-Through Iowa Department of Education			
School Breakfast Program	10.553	N/A	\$ 29,139
National School Lunch Program	10.555	N/A	<u>71,799</u>
Total U.S. Department of Agriculture			<u>100,938</u>
U.S. Department of Justice - Direct			
Developing, Testing and Demonstrating New Programs...	16.541	N/A	<u>1,500</u>
U.S. Department of Education - Indirect			
Pass-Through Center of Civic Education			
Civic Education - Cooperative Education Exchange Program			
Citizen and Constitution	84.304	58011A	18,467
Project Citizen	84.304	R929A03000	<u>12,932</u>
Total Pass-Through Center of Civic Education.....			<u>31,399</u>
Pass-Through School Administration of Iowa			
Parental Information and Resource Centers.....	84.310	N/A	<u>92,522</u>
Pass-Through Iowa Department of Education			
Special Education - Grants to States			
Preschool Handicapped Program	84.027*	030408	10,158,378
Preschool Handicapped Program - Flowthrough.....	84.027*	030408	3,517,777
DE Web Leland	84.027*	N/A	52,490
Enhancing the Parent Educator Connection	84.027*	37408	143,663
Diagnostic Evaluation Program	84.027*	2K71-08	6,134
IDM Part B Miscellaneous	84.027*	N/A	75,390
Para Ed Part B	84.027*	N/A	21,994
Eldora Part B Contract	84.027*	N/A	76,414
IPAT	84.027*	N/A	<u>12,501</u>
			<u>14,064,741</u>
Special Education Preschool Grants	84.173*	03619-08	<u>440,801</u>
Career and Technical Education - Basic Grants to States			
Perkins III	84.048**	N/A	528,541
Title II Correction Education	84.048**	N/A	<u>16,422</u>
			<u>544,963</u>
Special Education - Grants for Infants and Families			
With Disabilities	84.181	C03-08	<u>324,503</u>
Fund for Improvement of Education.....	84.215		<u>5,400</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Pass-Through Iowa Department of Education			
Education Technology State Grants	84.318	N/A	<u>\$ 564,258</u>
Special Education - State Program Improvement Grants for Children With Disabilities.....	84.323	SGP/IEP	<u>22,728</u>
Reading First State Grants	84.357	Various	<u>72,333</u>
English Language Acquisition Grants	84.365	N/A	<u>255,814</u>
Improving Teacher Quality State Grants.....	84.367	N/A	<u>10,000</u>
Total Pass-Through Iowa Department of Education			<u>16,305,541</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 Iowa Department of Public Health			
Safe and Drug-Free Schools and Communities - State Grants	84.186		<u>114,617</u>
Pass-Through Mason City Community School District			
Title I Grants to Local Education Agencies	84.010	N/A	<u>55,392</u>
Total U.S. Department of Education.....			<u>16,615,471</u>
U.S. Department of Health and Human Services - Direct			
Medical Assistance Program	93.778	N/A	<u>243,631</u>
U.S. Department of Health and Human Services - Indirect			
Pass-Through Marshall County			
Temporary Assistance for Needy Families	93.558	N/A	<u>8,505</u>
Total U.S. Department of Health and Human Services.....			<u>252,136</u>
Corporation for National and Community Service - Direct			
Learn and Serve America - School and Community Based Programs	94.004	N/A	<u>2,124</u>
Total Federal Financial Assistance.....			<u>\$ 16,972,169</u>

* Total Expenditures for CFDA Numbers 84.027 and 84.173 were \$14,505,542.

** Total Expenditures for CFDA Number 84.048 were \$560,963.

Schedule of Expenditures of Federal Awards ---

Year Ended June 30, 2008

(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 \$3,517,777 of federal awards to various school districts as part of the Preschool Handicapped Program.

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

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Area Education Agency 267 as of and for the year ended June 30, 2008, and the discretely presented component unit at December 31, 2007, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated January 19, 2009. 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, 2008 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 19, 2009

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

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

Compliance

We have audited the compliance of Area Education Agency 267, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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, 2008.

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 19, 2009

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

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

Significant deficiencies 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

Significant deficiencies 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
84.318

Name of Federal Program or Cluster

Special Education Cluster
Education Technology State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$509,165

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

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

CFDA Number 84.027: Special Education - Grants to States
CFDA Number 84.173: Special Education - Preschool Grants
Federal Award Year: 2008
U.S. Department of Education (Indirect Award)

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

Finding - The Agency is required to report the weighted enrollment to the Iowa Department of Education (Department) separately by each school district in the Agency. We tested all of the enrollment forms maintained in the Agency's files and compared them to the list submitted to the Department. Of the 60 school district enrollment forms that we tested, 17 had immaterial differences compared to the weighted enrollment submitted to the Department.

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

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

Auditor's Conclusion - Response accepted.

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

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

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

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

Auditor's Conclusion - Response accepted.

Significant Deficiencies

There were no significant deficiencies reported.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting

- 08-IV-CS-1 Official Depositories** - A resolution naming official depositories has been adopted by the Agency and was not exceeded during the year.
- 08-IV-CS-2 Budget** - Total disbursements during the year ended June 30, 2008 did not exceed the amount budgeted.
- 08-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.
- 08-IV-CS-4 Travel Expenses** - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 08-IV-CS-5 Business Transactions** - No business transactions between the Agency and Agency officials or employees were noted.
- 08-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.
- 08-IV-CS-7 Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.
- 08-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.
- 08-IV-CS-9 Certified Annual Report**

Finding - The Certified Annual Report (CAR) was filed with the Department of Education timely, but we noted a variance in the amounts reported as compared to the Agency's general ledger.

Auditor's Recommendation - The Certified Annual Report should be reconciled with accounting records, reviewed by a member of management and filed timely.

Agency's Response - The variance resulted from items that came to light after the Agency had closed its trial balance and as they were in the Special Education pool, it was not considered necessary to re-certify the Certified Annual Report. We will take these items into account before preparing the Certified Annual Report in the future.

Auditor's Conclusion - Response accepted.