

**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, 2010**

# Table of Contents

---

<b>Officials</b> .....	1
<b>Independent Auditor's Report</b> .....	2-3
<b>Management's Discussion and Analysis (MD&amp;A)</b> .....	4-9
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Assets .....	10
Statement of Activities .....	11
Governmental Fund Financial Statements	
Balance Sheet.....	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets...	13
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds .....	14
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities .....	15
Proprietary Fund Financial Statements	
Statement of Net Assets .....	16
Statement of Revenue, Expenses and Changes in Net Assets.....	17
Statement of Cash Flows.....	18
Fiduciary Fund Statement	
Statement of Fiduciary Net Assets.....	19
Notes to the Financial Statements.....	20-32
<b>Required Supplementary Information</b>	
Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund .....	33
Schedule of Funding Progress for the Retiree Health Plan.....	34
<b>Other Supplementary Information</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet .....	35
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances .....	36
Nonmajor Proprietary Funds	
Combining Schedule of Net Assets .....	37
Combining Schedule of Revenue, Expenses and Changes in Net Assets .....	38
Combining Schedule of Cash Flows .....	39
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Funds .....	40
Schedule of Revenue by Source and Expenditures by Function - All Governmental Fund Types (Modified Accrual Basis) .....	41
Schedule of Expenditures of Federal Awards .....	42-43
<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters</b> .....	44-45
<b>Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance</b> .....	46-47
<b>Schedule of Findings and Questioned Costs</b> .....	48-49

# Officials

---

Name	Title	Term Expires
Prior to September 30, 2009		
<b>Board of Directors</b>		
Charlotte Upah	President	September 30, 2011
Darrel Lind	Vice President	September 30, 2011
Susan Grimes	Member	September 30, 2011
Roberta Kraft-Abrahamson	Member	September 30, 2009
Dr. George North	Member	September 30, 2011
Bernice Richard	Member	September 30, 2011
Richard Vande Kieft	Member	September 30, 2009
Charles Vaughn	Member	September 30, 2009
Betty Westmeyer	Member	September 30, 2009
After September 30, 2009		
<b>Board of Directors</b>		
Charlotte Upah	President	September 30, 2011
Roberta Kraft-Abrahamson	Vice President	September 30, 2013
Darrel Lind	Member	September 30, 2011
Susan Grimes	Member	Resigned April, 2010
Dr. George North	Member	September 30, 2011
Bernice Richard	Member	September 30, 2011
Richard Vande Kieft	Member	September 30, 2013
Charles Vaughn	Member	September 30, 2013
Debra Rich	Member	September 30, 2013
<b>Agency</b>		
Dr. Dean Meier	Chief Administrator (Resigned June 30, 2010)	
Roark Horn	Chief Administrator (Effective July 1, 2010)	
Dennis Scudder	Finance Director and Treasurer	
Kerri Wilson	Board Secretary	

---

# HOGAN • HANSEN

*A Professional Corporation*

Certified Public Accountants and Consultants

## 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, 2010 and the discretely presented component units at December 31, 2009 and June 30, 2010, 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, 2010 and the discretely presented component units at December 31, 2009 and June 30, 2010, 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 December 15, 2010 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, budgetary comparison information and schedule of funding progress for the retiree health plan on Pages 4 through 9 and Pages 33 and 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Area Education Agency 267's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information on Pages 35 through 43, 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  
December 15, 2010

## **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, 2010. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

General Fund revenue and other sources increased from \$48,839,821 in fiscal year 2009 to \$58,555,430 in fiscal year 2010. General Fund expenditures and other financing uses increased from \$48,400,584 in fiscal year 2009 to \$57,933,073 in fiscal year 2010. The increase in both revenue and expenditures was due to an increase in federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA). The General Fund balance climbed to \$6,279,049. The fund balance consists of a reserved fund balance of \$333,766 and an unreserved balance of \$5,945,283. The unreserved fund balance at the end of the year 2010 represents approximately 10.3% of the 2010 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, as well as presenting the schedule of funding progress for the retiree health plan.
- 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. 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 2010 totaled approximately \$15.6 million. This compared to approximately \$14.3 million at the end of fiscal year 2009. The analysis that follows provides a summary of the Agency's net assets at June 30, 2010 for the governmental and business-type activities:

	Condensed Statement of Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2010	2009	2010	2009	2010	2009
Current and other assets.....	\$ 15,464,311	\$ 21,427,786	\$ 130,104	\$ 182,891	\$ 15,594,415	\$ 21,610,677
Capital assets.....	<u>10,602,678</u>	<u>10,070,783</u>	<u>—</u>	<u>—</u>	<u>10,602,678</u>	<u>10,070,783</u>
<b>Total Assets</b> .....	<b><u>26,066,989</u></b>	<b><u>31,498,569</u></b>	<b><u>130,104</u></b>	<b><u>182,891</u></b>	<b><u>26,197,093</u></b>	<b><u>31,681,460</u></b>
Long-term obligations.....	830,300	992,837	—	—	830,300	992,837
Other liabilities.....	<u>9,660,980</u>	<u>16,284,363</u>	<u>122,106</u>	<u>153,893</u>	<u>9,783,086</u>	<u>16,438,256</u>
<b>Total Liabilities</b> .....	<b><u>10,491,280</u></b>	<b><u>17,277,200</u></b>	<b><u>122,106</u></b>	<b><u>153,893</u></b>	<b><u>10,613,386</u></b>	<b><u>17,431,093</u></b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt.....	9,878,610	8,975,170	—	—	9,878,610	8,975,170
Restricted.....	1,564,724	184,002	—	—	1,564,724	184,002
Unrestricted.....	<u>4,132,375</u>	<u>5,062,197</u>	<u>7,998</u>	<u>28,998</u>	<u>4,140,373</u>	<u>5,091,195</u>
<b>Total Net Assets</b> .....	<b><u>\$ 15,575,709</u></b>	<b><u>\$ 14,221,369</u></b>	<b><u>\$ 7,998</u></b>	<b><u>\$ 28,998</u></b>	<b><u>\$ 15,583,707</u></b>	<b><u>\$ 14,250,367</u></b>

The Agency's combined net assets increased by approximately \$1,333,000 from the beginning of the year. The increase occurred in the governmental funds as a result of an increase in federal funding.

The following analysis shows the changes in net assets for the year ended June 30, 2010.

	<b>Changes in Net Assets</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenue</b>						
Program Revenue						
Charges for service .....	\$ 26,101,561	\$ 25,576,771	\$ 1,591,789	\$ 1,724,159	\$ 27,693,350	\$ 27,300,930
Operating grants and contributions .....	25,881,356	20,857,807	113,179	110,748	25,994,535	20,968,555
General Revenue						
Property taxes, levied .....	11,012,100	10,756,722	—	—	11,012,100	10,756,722
State foundation aid .....	11,651,040	12,704,547	—	—	11,651,040	12,704,547
Federal flow through .....	11,063,000	5,399,377	—	—	11,063,000	5,399,377
Unrestricted investment earnings	56,036	224,709	—	—	56,036	224,709
Miscellaneous .....	199,826	116,855	—	—	199,826	116,855
<b>Total Revenue .....</b>	<b><u>85,964,919</u></b>	<b><u>75,636,788</u></b>	<b><u>1,704,968</u></b>	<b><u>1,834,907</u></b>	<b><u>87,669,887</u></b>	<b><u>77,471,695</u></b>
<b>Program Expenses</b>						
Instruction .....	27,517,140	26,232,945	—	—	27,517,140	26,232,945
Student support services .....	19,345,055	18,341,612	—	—	19,345,055	18,341,612
Instructional staff support services	12,724,204	12,084,469	—	—	12,724,204	12,084,469
General administration .....	6,684,762	6,099,245	—	—	6,684,762	6,099,245
Business administration .....	3,136,986	2,956,227	—	—	3,136,986	2,956,227
Plant operations and maintenance	2,306,740	2,206,340	—	—	2,306,740	2,206,340
Central and other support services	1,764,781	1,767,654	—	—	1,764,781	1,767,654
Debt service .....	44,608	61,080	—	—	44,608	61,080
Noninstructional programs .....	—	—	1,749,830	1,840,103	1,749,830	1,840,103
<b>Total Expenses .....</b>	<b><u>73,524,276</u></b>	<b><u>69,749,572</u></b>	<b><u>1,749,830</u></b>	<b><u>1,840,103</u></b>	<b><u>75,274,106</u></b>	<b><u>71,589,675</u></b>
<b>Change in Net Assets Before Other</b>						
<b>Financing Sources (Uses) .....</b>	<b>12,440,643</b>	<b>5,887,216</b>	<b>(44,862)</b>	<b>(5,196)</b>	<b>12,395,781</b>	<b>5,882,020</b>
<b>Other Financing Sources (Uses)</b>	<b><u>(11,086,303)</u></b>	<b><u>(5,436,020)</u></b>	<b><u>23,862</u></b>	<b><u>29,877</u></b>	<b><u>(11,062,441)</u></b>	<b><u>(5,406,143)</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b>1,354,340</b>	<b>451,196</b>	<b>(21,000)</b>	<b>24,681</b>	<b>1,333,340</b>	<b>475,877</b>
Net Assets - Beginning of Year ....	<u>14,221,369</u>	<u>13,770,173</u>	<u>28,998</u>	<u>4,317</u>	<u>14,250,367</u>	<u>13,774,490</u>
<b>Net Assets - End of Year .....</b>	<b><u>\$ 15,575,709</u></b>	<b><u>\$ 14,221,369</u></b>	<b><u>\$ 7,998</u></b>	<b><u>\$ 28,998</u></b>	<b><u>\$ 15,583,707</u></b>	<b><u>\$ 14,250,367</u></b>

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for approximately 55.5% 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 79.2% of the total expenses.

### Governmental Activities

Revenue and other financing sources for governmental activities were \$85,965,478 and expenses and other financing uses were \$84,611,138.

## **Business-Type Activities**

Revenue for the Agency's Business-Type Activities totaled \$1,704,968 and expenses were \$1,749,830 for the fiscal year. A transfer of \$23,862 was made to the Nutrition Fund from the Special Education Instructional Fund to defer costs in the Nutrition Fund.

Expenses totaled \$1,142,244, \$174,178 and \$433,408 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 \$6,463,074, which is an increase from the beginning of the year fund balances of \$5,840,694. The primary reason for the increase in the combined fund balance is additional revenue received from state and federal sources.

## **Governmental Fund Highlights**

The General Fund balance increased mainly due to additional revenue received from state and federal sources.

## **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 2009-10 is represented by the re-estimated 2009-10 column of the original 2010-11 budget submitted February 1, 2010 totaling \$77,890,441. 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 33.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2010, the Agency had invested \$10,602,678, net of accumulated depreciation, in a broad range of capital assets, including land, construction in progress, buildings, computers and audio-visual equipment. This is a net increase of \$531,895 from the beginning of the year.

Area Education Agency 267 reported depreciation expense of \$1,140,232 in fiscal year 2010 and total accumulated depreciation of \$14,269,549 at June 30, 2010. More detailed information about capital assets is available in Note 4 to the financial statements.

## Debt

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

	<b>Balance - June 30,</b>	
	<b>2010</b>	<b>2009</b>
Certificate of participation.....	\$ 195,000	\$ 410,000
Capital lease.....	480,000	590,000
Asset purchase agreement .....	<u>49,068</u>	<u>95,613</u>
	<b><u>\$ 724,068</u></b>	<b><u>\$ 1,095,613</u></b>

More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

AEA 267 has been drastically impacted by the economic environment of the State of Iowa as well as the economic situation of the nation. During the fiscal 2009-10 year, a 10% across-the-board reduction was ordered by the governor of Iowa. AEA 267's share of this reduction was \$1,531,920. For AEAs, this reduction reduced their spending authority levels as well as cash levels. The revenue increase for 2009-10 prior to the 10% across-the-board cut was minimal from all sources: local, state and federal with the exception of funds received from the American Recovery and Reinvestment Act (ARRA). The Agency received and expended \$5,357,281 from ARRA and an additional \$7,592,235 was received on behalf of AEA 267 schools. This funding "flowed through" AEA 267. Due to the influx of federal ARRA and the reduction of the State revenue, over 51% of AEA 267's operating revenue was from federal sources compared to 39.5% for the previous year. The ARRA funding allowed AEA 267 to maintain levels of service that would have diminished with State cuts.

During the 2010-11 fiscal year, AEA 267 will have some growth in controlled funding. Federal funding for most programs remained constant. However, 2010-11 will be the last year AEA 267 will have ARRA dollars available. This funding was approximately \$1.6 million for the 2010-11 fiscal year.

2011-12 will be a difficult year for AEA 267. There will likely be no allowable growth and federal revenue will not increase, and perhaps even be reduced. ARRA funds will not be available in 2011-12. Unless there are significant funding changes, AEA 267 will be working with significantly less revenue for 2011-12 in the operating fund than was available in 2010-11.

The difficult economic times have not come as a surprise and the Agency has planned and made adjustments to provide the best services possible under the conditions. AEA 267 has maintained a fund balance of around 10% of annual disbursements to buffer dramatic changes in revenue such as the 10% across-the-board cut. 2011-12 will be a very challenging year with less funding available than currently available based on the economic realities at the state and federal level.

## 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, 2010

	Governmental Activities	Business- Type Activities	Total	Component Units	
				AEA6 Foundation	AEA267 Foundation
<b>Assets</b>					
Cash, certificates of deposit and pooled investments .....	\$ 5,167,668	\$ 4,300	\$ 5,171,968	\$ 735,700	\$ 11,730
Receivables					
Accounts .....	216,874	290,602	507,476	—	—
Due from other governments .....	8,907,830	—	8,907,830	—	—
Due from other funds .....	640,041	(640,041)	—	—	—
Inventories.....	80,699	475,243	555,942	—	—
Prepaid expenses .....	267,174	—	267,174	—	—
Restricted cash and pooled investments.....	184,025	—	184,025	—	—
Capital assets, net of accumulated depreciation .....	<u>10,602,678</u>	<u>—</u>	<u>10,602,678</u>	<u>—</u>	<u>—</u>
<b>Total Assets.....</b>	<b><u>\$ 26,066,989</u></b>	<b><u>\$ 130,104</u></b>	<b><u>\$ 26,197,093</u></b>	<b><u>\$ 735,700</u></b>	<b><u>\$ 11,730</u></b>
<b>Liabilities</b>					
Accounts payable.....	\$ 1,262,211	\$ 119,602	\$ 1,381,813	\$ —	\$ —
Accrued interest .....	2,424	—	2,424	—	—
Due to other governments .....	—	—	—	—	11,725
Salaries and benefits payable.....	7,454,496	2,504	7,457,000	—	—
Deferred revenue .....	284,530	—	284,530	—	—
Long-Term Liabilities					
Portion Due or Payable Within One Year					
Certificates of participation ....	195,000	—	195,000	—	—
Capital lease.....	115,000	—	115,000	—	—
Asset purchase agreement ...	49,068	—	49,068	—	—
Compensated absences .....	298,251	—	298,251	—	—
Portion Due or Payable After One Year					
Capital lease.....	365,000	—	365,000	—	—
Net OPEB liability .....	<u>465,300</u>	<u>—</u>	<u>465,300</u>	<u>—</u>	<u>—</u>
<b>Total Liabilities.....</b>	<b><u>10,491,280</u></b>	<b><u>122,106</u></b>	<b><u>10,613,386</u></b>	<b><u>—</u></b>	<b><u>11,725</u></b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt.....	9,878,610	—	9,878,610	—	—
Restricted For					
Special Education .....	1,049,357	—	1,049,357	—	—
Debt Service .....	181,601	—	181,601	—	—
Other .....	333,766	—	333,766	—	—
Unrestricted.....	<u>4,132,375</u>	<u>7,998</u>	<u>4,140,373</u>	<u>735,700</u>	<u>5</u>
<b>Total Net Assets.....</b>	<b><u>15,575,709</u></b>	<b><u>7,998</u></b>	<b><u>15,583,707</u></b>	<b><u>735,700</u></b>	<b><u>5</u></b>
<b>Total Liabilities and Net Assets...</b>	<b><u>\$ 26,066,989</u></b>	<b><u>\$ 130,104</u></b>	<b><u>\$ 26,197,093</u></b>	<b><u>\$ 735,700</u></b>	<b><u>\$ 11,730</u></b>

See accompanying notes to the financial statements.

# Statement of Activities

Year Ended June 30, 2010

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses), Revenue and Changes in Net Assets			Component Units	
				Governmental Activities	Business- Type Activities	Total	AEA6 Foundation	AEA267 Foundation
<b>Governmental Activities</b>								
Instruction.....	\$ 27,517,140	\$ 24,930,285	\$ 2,390,317	\$ (196,538)	\$ —	\$ (196,538)	\$ —	\$ —
Student support services.....	19,345,055	9,424	20,540,709	1,205,078	—	1,205,078	—	—
Instructional staff support services.....	12,724,204	1,030,030	2,765,862	(8,928,312)	—	(8,928,312)	—	—
General administration.....	6,684,762	—	—	(6,684,762)	—	(6,684,762)	—	—
Business administration.....	3,136,986	—	—	(3,136,986)	—	(3,136,986)	—	—
Plant operations and maintenance.....	2,306,740	—	184,468	(2,122,272)	—	(2,122,272)	—	—
Central and other support services.....	1,764,781	131,822	—	(1,632,959)	—	(1,632,959)	—	—
Interest on long-term debt.....	44,608	—	—	(44,608)	—	(44,608)	—	—
<b>Total Governmental Activities.....</b>	<b>73,524,276</b>	<b>26,101,561</b>	<b>25,881,356</b>	<b>(21,541,359)</b>	<b>—</b>	<b>(21,541,359)</b>	<b>—</b>	<b>—</b>
<b>Business-Type Activities</b>								
Noninstructional Programs								
Nutrition services.....	174,178	37,137	113,179	—	(23,862)	(23,862)	—	—
Technology and repair services.....	433,408	407,770	—	—	(25,638)	(25,638)	—	—
Co-op purchasing.....	1,142,244	1,146,882	—	—	4,638	4,638	—	—
<b>Total Business-Type Activities.....</b>	<b>1,749,830</b>	<b>1,591,789</b>	<b>113,179</b>	<b>—</b>	<b>(44,862)</b>	<b>(44,862)</b>	<b>—</b>	<b>—</b>
<b>Total.....</b>	<b>\$ 75,274,106</b>	<b>\$ 27,693,350</b>	<b>\$ 25,994,535</b>	<b>(21,541,359)</b>	<b>(44,862)</b>	<b>(21,586,221)</b>	<b>—</b>	<b>—</b>
<b>Component Units</b>								
<b>AEA6 Foundation.....</b>	<b>\$ 36,171</b>	<b>\$ —</b>	<b>\$ —</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(36,171)</b>	<b>—</b>
<b>AEA267 Foundation.....</b>	<b>\$ 183,378</b>	<b>\$ —</b>	<b>\$ 50,135</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(133,243)</b>
<b>General Revenue</b>								
Property tax levied for general purposes.....				11,012,100	—	11,012,100	—	—
State foundation aid.....				11,651,040	—	11,651,040	—	—
Federal flow through.....				11,063,000	—	11,063,000	—	—
Unrestricted investment earnings.....				56,036	—	56,036	25,267	22
Miscellaneous.....				199,826	—	199,826	—	—
<b>Total General Revenue.....</b>				<b>33,982,002</b>	<b>—</b>	<b>33,982,002</b>	<b>25,267</b>	<b>22</b>
<b>Change in Net Assets Before Other Financing Sources (Uses)</b>								
<b>Sources (Uses).....</b>				<b>12,440,643</b>	<b>(44,862)</b>	<b>12,395,781</b>	<b>(10,904)</b>	<b>(133,221)</b>
<b>Other Financing Sources (Uses)</b>								
LEA flow through.....				(11,063,000)	—	(11,063,000)	—	—
Gain from disposal of assets.....				559	—	559	—	—
Transfers.....				(23,862)	23,862	—	—	—
<b>Total Other Financing Sources (Uses).....</b>				<b>(11,086,303)</b>	<b>23,862</b>	<b>(11,062,441)</b>	<b>—</b>	<b>—</b>
<b>Change in Net Assets.....</b>				<b>1,354,340</b>	<b>(21,000)</b>	<b>1,333,340</b>	<b>(10,904)</b>	<b>(133,221)</b>
Net Assets - Beginning of Year.....				14,221,369	28,998	14,250,367	746,604	133,226
<b>Net Assets - End of Year.....</b>				<b>\$ 15,575,709</b>	<b>\$ 7,998</b>	<b>\$ 15,583,707</b>	<b>\$ 735,700</b>	<b>\$ 5</b>

See accompanying notes to the financial statements.

## Balance Sheet - Governmental Funds

At June 30, 2010

	General	<u>Special Revenue</u> Special Education Instruction	Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash, certificates of deposit and pooled investments .....	\$ 4,843,922	\$ 700	\$ 323,046	\$ 5,167,668
Receivables				
Accounts .....	216,874	—	—	216,874
Due from other governments ....	4,668,629	4,239,201	—	8,907,830
Due from other funds .....	1,396,746	—	—	1,396,746
Inventories .....	80,699	—	—	80,699
Prepaid expenses.....	253,067	14,107	—	267,174
Restricted cash and pooled investments.....	—	—	184,025	184,025
<b>Total Assets .....</b>	<b><u>\$ 11,459,937</u></b>	<b><u>\$ 4,254,008</u></b>	<b><u>\$ 507,071</u></b>	<b><u>\$ 16,221,016</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable .....	\$ 683,820	\$ 551,081	\$ 27,310	\$ 1,262,211
Salaries and benefits payable .....	4,415,171	2,946,222	93,103	7,454,496
Due to other funds .....	—	756,705	—	756,705
Deferred revenue.....	81,897	—	202,633	284,530
<b>Total Liabilities .....</b>	<b><u>5,180,888</u></b>	<b><u>4,254,008</u></b>	<b><u>323,046</u></b>	<b><u>9,757,942</u></b>
<b>Fund Balances</b>				
Reserved For				
Inventories .....	80,699	—	—	80,699
Prepaid expenditures .....	253,067	—	—	253,067
Debt service .....	—	—	184,025	184,025
Unreserved				
Designated for subsequent year's expenditures .....	1,049,357	—	—	1,049,357
Undesignated Reported in General Fund .....	4,895,926	—	—	4,895,926
<b>Total Fund Balances .....</b>	<b><u>6,279,049</u></b>	<b><u>—</u></b>	<b><u>184,025</u></b>	<b><u>6,463,074</u></b>
<b>Total Liabilities and Fund Balances .....</b>	<b><u>\$ 11,459,937</u></b>	<b><u>\$ 4,254,008</u></b>	<b><u>\$ 507,071</u></b>	<b><u>\$ 16,221,016</u></b>

See accompanying notes to the financial statements.

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

---

At June 30, 2010

<b>Total Fund Balances for Governmental Funds (Page 12).....</b>		<b>\$ 6,463,074</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. ....		10,602,678
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.....	\$ (2,424)	
Certificates of participation.....	(195,000)	
Lease purchase.....	(480,000)	
Asset purchase agreement .....	(49,068)	
Compensated absences .....	(298,251)	
Net OPEB liabilities .....	<u>(465,300)</u>	<u>(1,490,043)</u>
 <b>Net Assets of Governmental Activities (Page 10) .....</b>		 <b><u>\$ 15,575,709</u></b>

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

Year Ended June 30, 2010

	General	<u>Special Revenue</u> Special Education Instruction	Nonmajor Governmental Funds	Total
<b>Revenue</b>				
Local sources .....	\$ 14,097,702	\$ 25,157,864	\$ 23	\$ 39,255,589
State sources.....	14,924,185	903,556	959,419	16,787,160
Federal sources.....	<u>29,533,543</u>	<u>396,798</u>	<u>—</u>	<u>29,930,341</u>
<b>Total Revenue.....</b>	<b><u>58,555,430</u></b>	<b><u>26,458,218</u></b>	<b><u>959,442</u></b>	<b><u>85,973,090</u></b>
<b>Expenditures</b>				
Current				
Instruction .....	4,481,242	21,808,570	841,871	27,131,683
Student support services .....	18,702,336	8,382	—	18,710,718
Instructional staff support services .....	13,354,066	160,575	80	13,514,721
General administration.....	5,181,569	1,294,470	90,028	6,566,067
Business administration .....	2,657,149	498,667	—	3,155,816
Plant operations and maintenance.....	1,476,109	1,187,202	27,440	2,690,751
Central and other support services .....	222,834	1,476,490	—	1,699,324
Facilities acquisition and construction.....	—	—	377,454	377,454
Debt service.....	—	—	417,314	417,314
<b>Total Expenditures.....</b>	<b><u>46,075,305</u></b>	<b><u>26,434,356</u></b>	<b><u>1,754,187</u></b>	<b><u>74,263,848</u></b>
<b>Revenue Over (Under) Expenditures .....</b>	<b><u>12,480,125</u></b>	<b><u>23,862</u></b>	<b><u>(794,745)</u></b>	<b><u>11,709,242</u></b>
<b>Other Financing Sources (Uses)</b>				
LEA flow through .....	(11,063,000)	—	—	(11,063,000)
Transfers, net .....	<u>(794,768)</u>	<u>(23,862)</u>	<u>794,768</u>	<u>(23,862)</u>
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>(11,857,768)</u></b>	<b><u>(23,862)</u></b>	<b><u>794,768</u></b>	<b><u>(11,086,862)</u></b>
<b>Revenue and Other Financing Sources Over Expenditures and Other Financing Sources (Uses).....</b>	<b>622,357</b>	<b>—</b>	<b>23</b>	<b>622,380</b>
Fund Balances - Beginning of Year .....	<u>5,656,692</u>	<u>—</u>	<u>184,002</u>	<u>5,840,694</u>
<b>Fund Balances - End of Year.....</b>	<b><u>\$ 6,279,049</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 184,025</u></b>	<b><u>\$ 6,463,074</u></b>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2010

**Change in Fund Balances - Total Governmental Funds (Page 14) \$ 622,380**

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays, depreciation expense and loss on disposal for the year are as follows:

Capital outlays.....	\$ 1,679,739	
Depreciation expense .....	(1,140,232)	
Net book value of disposed assets .....	(7,612)	531,895

Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets.....		371,545
---	--	---------

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.....		1,161
--	--	-------

Salaries and benefits in the statement of activities differ from the amount reported in the governmental funds because vacation pay, early retirement benefits and other postemployment benefits are recorded as an expenditure in the funds when paid. In the statement of activities, the expense is recognized as the pay accrues, regardless of when it is paid.....		(172,641)
--	--	-----------

**Change in Net Assets of Governmental Activities (Page 11) \$ 1,354,340**

# Statement of Net Assets - Proprietary Funds

At June 30, 2010

	Cooperative Purchasing	Nonmajor Proprietary Funds	Total
<b>Assets</b>			
Cash .....	\$ —	\$ 4,300	\$ 4,300
Accounts receivable .....	240,086	50,516	290,602
Due from other funds.....	—	25,638	25,638
Inventory .....	<u>431,700</u>	<u>43,543</u>	<u>475,243</u>
<b>Total Assets</b> .....	<b><u>\$ 671,786</u></b>	<b><u>\$ 123,997</u></b>	<b><u>\$ 795,783</u></b>
<b>Liabilities</b>			
Accounts payable .....	\$ 105,795	\$ 13,807	\$ 119,602
Salaries and benefits payable .....	2,036	468	2,504
Due to other funds.....	<u>555,957</u>	<u>109,722</u>	<u>665,679</u>
<b>Total Liabilities</b> .....	<b><u>663,788</u></b>	<b><u>123,997</u></b>	<b><u>787,785</u></b>
<b>Net Assets - Unrestricted</b> .....	<b><u>7,998</u></b>	<b><u>—</u></b>	<b><u>7,998</u></b>
<b>Total Liabilities and Net Assets</b> .....	<b><u>\$ 671,786</u></b>	<b><u>\$ 123,997</u></b>	<b><u>\$ 795,783</u></b>

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

Year Ended June 30, 2010

	Cooperative Purchasing	Nonmajor Proprietary Funds	Total
<b>Operating Revenue</b>			
Charges for services.....	<u>\$ 1,146,882</u>	<u>\$ 444,907</u>	<u>\$ 1,591,789</u>
<b>Operating Expenses</b>			
Noninstructional Programs			
Business Administration			
Salaries .....	61,007	—	61,007
Benefits .....	18,269	—	18,269
Purchased services.....	4,513	—	4,513
Materials and supplies .....	<u>1,013,938</u>	<u>—</u>	<u>1,013,938</u>
Total Business Administration.....	<u>1,097,727</u>	<u>—</u>	<u>1,097,727</u>
Central and Other Support Services			
Salaries .....	—	253,219	253,219
Benefits .....	—	99,948	99,948
Purchased services.....	34,503	15,536	50,039
Materials and supplies .....	<u>10,014</u>	<u>238,883</u>	<u>248,897</u>
Total Central and Other Support Services	<u>44,517</u>	<u>607,586</u>	<u>652,103</u>
<b>Total Operating Expenses.....</b>	<b><u>1,142,244</u></b>	<b><u>607,586</u></b>	<b><u>1,749,830</u></b>
<b>Income (Loss) From Operations .....</b>	<b><u>4,638</u></b>	<b><u>(162,679)</u></b>	<b><u>(158,041)</u></b>
<b>Nonoperating Revenue</b>			
State sources.....	—	1,530	1,530
Federal sources.....	<u>—</u>	<u>111,649</u>	<u>111,649</u>
<b>Total Nonoperating Revenue .....</b>	<b><u>—</u></b>	<b><u>113,179</u></b>	<b><u>113,179</u></b>
<b>Change in Net Assets Before Transfers.....</b>	<b>4,638</b>	<b>(49,500)</b>	<b>(44,862)</b>
Transfers in (out) .....	<u>(25,638)</u>	<u>49,500</u>	<u>23,862</u>
<b>Change in Net Assets.....</b>	<b>(21,000)</b>	<b>—</b>	<b>(21,000)</b>
Net Assets - Beginning of Year .....	<u>28,998</u>	<u>—</u>	<u>28,998</u>
<b>Net Assets - End of Year.....</b>	<b><u>\$ 7,998</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 7,998</u></b>

See accompanying notes to the financial statements.

## Statement of Cash Flows - Proprietary Funds

At June 30, 2010

	Cooperative Purchasing	Nonmajor Proprietary Funds	Total
<b>Cash Flows From Operating Activities</b>			
Cash received from customers.....	\$ 1,192,696	\$ 469,190	\$ 1,661,886
Cash paid to employees for services.....	(79,509)	(352,931)	(432,440)
Cash paid to suppliers for goods and services...	<u>(1,081,681)</u>	<u>(236,267)</u>	<u>(1,317,948)</u>
<b>Net Cash Provided by (Used in) Operating Activities .....</b>	<b><u>31,506</u></b>	<b><u>(120,008)</u></b>	<b><u>(88,502)</u></b>
<b>Cash Flows From Noncapital Financing Activities</b>			
State grants received.....	—	1,530	1,530
Federal grants received.....	—	111,649	111,649
Advances to other funds.....	—	(25,638)	(25,638)
Repayment of advances from other funds.....	(5,868)	(15,883)	(21,751)
Transfers in (out) .....	<u>(25,638)</u>	<u>49,500</u>	<u>23,862</u>
<b>Net Cash Provided by (Used in) Noncapital Financing Activities ...</b>	<b><u>(31,506)</u></b>	<b><u>121,158</u></b>	<b><u>89,652</u></b>
<b>Net Increase in Cash .....</b>	<b>—</b>	<b>1,150</b>	<b>1,150</b>
Cash at Beginning of Year.....	<u>—</u>	<u>3,150</u>	<u>3,150</u>
<b>Cash at End of Year.....</b>	<b><u>\$ —</u></b>	<b><u>\$ 4,300</u></b>	<b><u>\$ 4,300</u></b>
<b>Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities</b>			
Income (loss) from operations .....	\$ 4,638	\$ (162,679)	\$ (158,041)
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 .....	45,814	24,283	70,097
Decrease in inventory.....	21,000	10,230	31,230
Increase (decrease) in accounts payable.....	(39,713)	7,922	(31,791)
Increase (decrease) in accrued salaries and benefits .....	<u>(233)</u>	<u>236</u>	<u>3</u>
<b>Net Cash Provided by (Used in) Operating Activities .....</b>	<b><u>\$ 31,506</u></b>	<b><u>\$ (120,008)</u></b>	<b><u>\$ (88,502)</u></b>

See accompanying notes to the financial statements.

# Statement of Fiduciary Net Assets - Fiduciary Funds - Agency

---

At June 30, 2010

## Assets

Cash and pooled investments .....	\$ 653,181
Accounts receivable .....	<u>110</u>

<b>Total Assets</b> .....	<b><u>\$ 653,291</u></b>
---------------------------	--------------------------

## Liabilities

Accounts payable .....	\$ 69,876
Due to other governments .....	79,316
Deferred revenue.....	189,596
Deposits held in custody for others .....	<u>314,503</u>

<b>Total Liabilities</b> .....	<b><u>\$ 653,291</u></b>
--------------------------------	--------------------------

# 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 60 school districts and 25 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 units. The component units discussed below are included in the Agency's reporting entity because of the significance of the operational or financial relationship with the Agency.

### **Discretely Presented Component Units**

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, 2009.

During the Agency's fiscal year ended June 30, 2010, the Foundation provided the Agency approximately \$37,300 for costs associated with the swimming pool.

The AEA267 Foundation (267 Foundation) is a legally separate entity, organized as a charitable organization under Chapter 501(c)(3) of the Internal Revenue Code. The 267 Foundation's primary purpose is to collect funds and provide financial support for the Agency. The 267 Foundation is governed by a seven-member Board of Directors. In accordance with criteria set forth by the Governmental Accounting Standards Board, the 267 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 June 30, 2010.

During the Agency's fiscal year ended June 30, 2010, the 267 Foundation donated to the Agency approximately \$183,000 of playground equipment.

# Notes to the Financial Statements

---

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

### Basis of Presentation

#### ***Government-Wide Financial Statements***

The statement of net assets and the statement of activities report information on all activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

#### ***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.

# Notes to the Financial Statements

---

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

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 had the following major proprietary fund:

The Agency's proprietary fund is the Cooperative Purchasing Fund. This fund is used to account for the cooperative purchasing activities for local school districts and activities performed as a service to these districts.

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.

Under the terms of the grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenue.

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.

# Notes to the Financial Statements

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Agency's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### Assets, Liabilities and Fund Equity

#### **Cash, 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, construction in progress and intangibles, 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
Intangibles.....	200,000
Furniture and equipment.....	2,000
Library books and films .....	No threshold

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

<b>Asset Class</b>	<b>Estimated Useful Lives</b>
Buildings.....	50 Years
Improvements other than buildings .....	20 - 30 Years
Intangibles.....	2 - 10 Years
Technological equipment .....	5 Years
Furnishings.....	7 - 20 Years
Other equipment .....	10 - 15 Years
Vehicles.....	8 Years
Library books and films .....	5 Years

# Notes to the Financial Statements

---

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

### ***Salaries and Benefits Payable***

Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

### ***Deferred Revenue***

Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

### ***Compensated Absences***

Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund noncurrent compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2010. 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.

## **Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted.

## Notes to the Financial Statements

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

The Agency's deposits in banks at June 30, 2010 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, 2010 consist of the following:

Type	Fair Value
<b>Governmental Securities Money Market Fund</b> .....	<b><u>\$ 184,025</u></b>

#### 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 units are stated at fair value and are summarized as follows at December 31, 2009:

#### AEA6 Foundation:

	Cost	Fair Value	Unrealized Depreciation
Money market funds .....	\$ 24,826	\$ 24,826	\$ —
Corporate bonds .....	169,390	159,403	(9,987)
U.S. Treasury securities .....	478,437	454,907	(23,530)
Unit trusts .....	99,223	96,564	(2,659)
	<b><u>\$ 771,876</u></b>	<b><u>\$ 735,700</u></b>	<b><u>\$ (36,176)</u></b>

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

Interest income (net of expense) .....	\$ 37,151
Realized gains .....	2,129
Net unrealized losses .....	(14,013)
	<b><u>\$ 25,267</u></b>

## Notes to the Financial Statements

### (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. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. Bankers Trust Company, N.A. is the trustee of the program.

The Agency pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. 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. The interest rate on the Series 2009-10A warrants was 2.5%. A summary of the Agency's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Balance - Beginning of Year	Advances Received	Advances Repaid	Balance - End of Year
2009-10A .....	<u>\$ —</u>	<u>\$ 7,500,000</u>	<u>\$ 7,500,000</u>	<u>\$ —</u>

During the year ended June 30, 2010, the Agency paid \$45,137 of interest on the ISCAP warrants.

### (4) Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Governmental Activities</b>				
<b>Capital Assets Not Being Depreciated</b>				
Land .....	\$ 809,308	\$ —	\$ —	\$ 809,308
Construction in progress .....	<u>—</u>	<u>377,183</u>	<u>—</u>	<u>377,183</u>
Total Capital Assets, Not Being Depreciated.....	<u>809,308</u>	<u>377,183</u>	<u>—</u>	<u>1,186,491</u>
<b>Capital Assets Being Depreciated</b>				
Buildings and improvements .....	10,911,658	—	—	10,911,658
Furniture and equipment .....	5,660,894	536,510	84,451	6,112,953
Library books and films .....	<u>6,537,722</u>	<u>766,046</u>	<u>642,643</u>	<u>6,661,125</u>
Total Capital Assets Being Depreciated.....	<u>23,110,274</u>	<u>1,302,556</u>	<u>727,094</u>	<u>23,685,736</u>
<b>Less Accumulated Depreciation For</b>				
Buildings and improvements .....	4,057,116	310,568	—	4,367,684
Furniture and equipment .....	4,486,197	303,746	76,839	4,713,104
Library books and films .....	<u>5,305,486</u>	<u>525,918</u>	<u>642,643</u>	<u>5,188,761</u>
Total Accumulated Depreciation	<u>13,848,799</u>	<u>1,140,232</u>	<u>719,482</u>	<u>14,269,549</u>
Net Total Capital Assets Being Depreciated.....	<u>9,261,475</u>	<u>162,324</u>	<u>7,612</u>	<u>9,416,187</u>
<b>Net Governmental Activities</b>				
<b>Capital Assets</b> .....	<u>\$ 10,070,783</u>	<u>\$ 539,507</u>	<u>\$ 7,612</u>	<u>\$ 10,602,678</u>

## Notes to the Financial Statements

### (4) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities	
Instruction.....	\$ 327,590
Student support services.....	580,379
General administration.....	100,597
Business administration.....	27,300
Plant operations and maintenance.....	20,417
Central and other support services.....	83,949
<b>Total Governmental Activities Depreciation Expense.....</b>	<b><u>\$ 1,140,232</u></b>

### (5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Certificates of participation ....	\$ 410,000	\$ —	\$ 215,000	\$ 195,000	\$ 195,000
Capital lease.....	590,000	—	110,000	480,000	115,000
Asset purchase agreement....	95,613	—	46,545	49,068	49,068
Compensated absences.....	315,077	298,251	315,077	298,251	298,251
Early retirement benefits.....	13,833	—	13,833	—	—
Net OPEB liability.....	<u>262,000</u>	<u>203,300</u>	<u>—</u>	<u>465,300</u>	<u>—</u>
	<b><u>\$ 1,686,523</u></b>	<b><u>\$ 501,551</u></b>	<b><u>\$ 700,455</u></b>	<b><u>\$ 1,487,619</u></b>	<b><u>\$ 657,319</u></b>

#### Certificates of Participation

On May 1, 2001, the Agency sold certificates of participation totaling \$1,840,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of ten years with interest rates ranging from 3.5% to 4.55%. The following is a schedule by year of the future minimum payments required:

Year Ending June 30,	Principal	Interest	Total
2011.....	<b><u>\$ 195,000</u></b>	<b><u>\$ 8,873</u></b>	<b><u>\$ 203,873</u></b>

#### Capital Lease

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

## Notes to the Financial Statements

### (5) Long-Term Liabilities

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

Year Ending June 30,	Principal	Interest	Total
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
<b>Total</b> .....	<b><u>\$ 480,000</u></b>	<b><u>\$ 47,372</u></b>	<b><u>\$ 527,372</u></b>

### Asset Purchase Agreement

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

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

Year Ending June 30,	Principal	Interest	Total
2011.....	<b><u>\$ 49,068</u></b>	<b><u>\$ 2,713</u></b>	<b><u>\$ 51,781</u></b>

Total interest expenditures for the certificates of participation, capital lease and asset purchase agreement were \$44,608 for the year ended June 30, 2010.

### 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 three employees in the current year. Actual expenditures for the year ended June 30, 2010 totaled \$6,088.

The expenditures are recognized on a pay-as-you-go basis, with net assets reserved for future benefit payments with amounts included in Note 10.

### (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer From	Amount
Capital Projects	General	\$ 377,454
Debt Service	General	417,314
Proprietary		
Nutrition	Special Revenue - Special Education Instruction	23,862
Technology and Repair Services	Proprietary - Cooperative Purchasing	25,638
<b>Total</b>		<b><u>\$ 844,268</u></b>

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

## Notes to the Financial Statements

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

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue - Special Education Instruction	\$ 756,705
	Proprietary	
	Cooperative Purchasing	530,319
	Technology and Repair Services	<u>109,722</u>
<b>Total General Fund</b>		<b><u>\$ 1,396,746</u></b>
Proprietary	Proprietary	
Technology and Repair Services	Cooperative Purchasing	<b><u>\$ 25,638</u></b>

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

### (8) Operating Leases

The Agency leases several copiers, with remaining terms ranging from one 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, 2010.

Year Ending June 30,	
2011.....	\$ 250,026
2012.....	92,582
2013.....	92,582
2014.....	92,582
2015.....	<u>77,151</u>
<b>Total.....</b>	<b><u>\$ 604,923</u></b>

Total rental expenditures for the year ended June 30, 2010 for all operating leases, except those with terms of a month or less that were not renewed, was \$522,499.

### **(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 4.3% of their annual covered salary and the Agency is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$3,117,396, \$2,830,463 and \$2,530,629, respectively, which was equal to the required contribution for the years.

### **(10) Other Postemployment Benefits (OPEB)**

#### **Plan Description**

The Agency operates a single-employer retiree benefit plan which provides medical/prescription drug, dental and life insurance benefits for retirees and their spouses. There are 1,119 active and 73 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through one of three fully insured plans with Wellmark. The dental plan is a fully insured plan with Delta Dental of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability. There is no subsidy or OPEB liability associated with the dental benefit.

Life insurance is provided at a rate of three times the employee's annual salary rounded to the nearest \$10,000.

#### **Funding Policy**

The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

#### **Annual OPEB Cost and Net OPEB Obligation**

The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

## Notes to the Financial Statements

### (10) Other Postemployment Benefits (OPEB)

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution.....	\$ 514,000
Interest on net OPEB obligation .....	11,800
Adjustment to annual required contribution .....	<u>10,500</u>
Annual OPEB Cost .....	536,300
Contributions made .....	<u>(333,000)</u>
Increase in Net OPEB Obligation.....	203,300
Net OPEB Obligation - Beginning of Year .....	<u>262,000</u>
Net OPEB Obligation - End of Year.....	<u><b>\$ 465,300</b></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the Agency contributed \$333,000 to the medical plan.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 536,300	62.1%	\$465,300

### Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date for the period of July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$4.685 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.685 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$47.3 million and the ratio of the UAAL to the covered payroll was 9.9%. As of June 30, 2010, there were no trust fund assets.

### Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### **(10) Other Postemployment Benefits (OPEB)**

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4.5% discount rate based on the Agency funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2008 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2008.

Projected claim costs of the medical plan are \$676 per month for retirees age 60. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense over 30 years.

### **(11) 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.

### **(12) Subsequent Events**

The Agency closed the Cooperative Purchasing proprietary activity effective October 30, 2010.

**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, 2010

	<u>Actual</u>		Total	<u>Budget Amount</u>		Over (Under) Budget
	Governmental Fund Types	Proprietary Fund Type		Original	Final	
<b>Revenue</b>						
Local sources .....	\$ 39,255,589	\$ 1,591,789	\$ 40,847,378	\$ 41,183,695	\$ 41,637,943	\$ (790,565)
State sources .....	16,787,160	1,530	16,788,690	19,297,096	16,999,440	(210,750)
Federal sources .....	29,930,341	111,649	30,041,990	17,710,000	26,075,951	3,966,039
<b>Total Revenue.....</b>	<b><u>85,973,090</u></b>	<b><u>1,704,968</u></b>	<b><u>87,678,058</u></b>	<b><u>78,190,791</u></b>	<b><u>84,713,334</u></b>	<b><u>2,964,724</u></b>
<b>Expenditures</b>						
Instruction.....	27,131,683	—	27,131,683	26,878,400	27,292,000	(160,317)
Student support services .....	18,710,718	—	18,710,718	17,865,000	18,786,000	(75,282)
Instructional staff support services .....	13,514,721	—	13,514,721	13,788,000	15,121,000	(1,606,279)
General administration.....	6,566,067	—	6,566,067	6,137,000	6,580,000	(13,933)
Business administration .....	3,155,816	—	3,155,816	4,817,000	4,461,998	(1,306,182)
Plant operations and maintenance.....	2,690,751	—	2,690,751	2,474,443	2,450,443	240,308
Central and other support services .....	1,699,324	—	1,699,324	2,103,000	2,269,000	(569,676)
Facilities acquisition and construction.....	377,454	—	377,454	—	200,000	177,454
Noninstructional programs .....	—	1,749,830	1,749,830	325,000	315,000	1,434,830
Debt service .....	417,314	—	417,314	415,000	415,000	2,314
<b>Total Expenditures.....</b>	<b><u>74,263,848</u></b>	<b><u>1,749,830</u></b>	<b><u>76,013,678</u></b>	<b><u>74,802,843</u></b>	<b><u>77,890,441</u></b>	<b><u>(1,876,763)</u></b>
<b>Revenue Over (Under) Expenditures .....</b>	<b>11,709,242</b>	<b>(44,862)</b>	<b>11,664,380</b>	<b>3,387,948</b>	<b>6,822,893</b>	<b>4,841,487</b>
<b>Other Financing Sources (Uses) .....</b>	<b><u>(11,086,862)</u></b>	<b><u>23,862</u></b>	<b><u>(11,063,000)</u></b>	<b><u>(3,539,000)</u></b>	<b><u>(6,653,891)</u></b>	<b><u>(4,409,109)</u></b>
<b>Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....</b>	<b>622,380</b>	<b>(21,000)</b>	<b>601,380</b>	<b>(151,052)</b>	<b>169,002</b>	<b>432,378</b>
Balance - Beginning of Year ...	5,840,694	28,998	5,869,692	5,010,040	5,869,692	—
<b>Balance - End of Year .....</b>	<b><u>\$ 6,463,074</u></b>	<b><u>\$ 7,998</u></b>	<b><u>\$ 6,471,072</u></b>	<b><u>\$ 4,858,988</u></b>	<b><u>\$ 6,038,694</u></b>	<b><u>\$ 432,378</u></b>

This budgetary comparison is presented as required supplementary information in accordance with *Governmental Accounting Standards Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

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

The Agency is required by law to budget at the total expenditure level. The Agency prepares its budget by major functions. While actual expenditures for certain functions above exceeded the budget, the Agency's total expenditures did not exceed the total approved budget.

## Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30, 2010

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 4,685,000	\$ 4,685,000	0.0%	\$ 40,000,000	11.7%
2010	7-1-08	—	4,685,000	4,685,000	0.0%	47,300,000	9.9

See Note 10 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

**Other Supplementary Information**

---

# Combining Balance Sheet - Nonmajor Governmental Funds ---

At June 30, 2010

	<u>Special Revenue</u> Juvenile Home	Capital Projects	Debt Service	Total
<b>Assets</b>				
Cash, certificates of deposit and pooled investments .....	\$ 321,045	\$ 2,001	\$ —	\$ 323,046
Restricted cash and pooled investments .....	<u>—</u>	<u>—</u>	<u>184,025</u>	<u>184,025</u>
<b>Total Assets .....</b>	<b><u>\$ 321,045</u></b>	<b><u>\$ 2,001</u></b>	<b><u>\$ 184,025</u></b>	<b><u>\$ 507,071</u></b>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable .....	\$ 25,309	\$ 2,001	\$ —	\$ 27,310
Salaries and benefits payable .....	93,103	—	—	93,103
Deferred revenue .....	<u>202,633</u>	<u>—</u>	<u>—</u>	<u>202,633</u>
<b>Total Liabilities .....</b>	<b><u>321,045</u></b>	<b><u>2,001</u></b>	<b><u>—</u></b>	<b><u>323,046</u></b>
 <b>Fund Balances</b>				
Reserved for debt service .....	<u>—</u>	<u>—</u>	<u>184,025</u>	<u>184,025</u>
<b>Total Liabilities and Fund Balances .....</b>	<b><u>\$ 321,045</u></b>	<b><u>\$ 2,001</u></b>	<b><u>\$ 184,025</u></b>	<b><u>\$ 507,071</u></b>

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

---

Year Ended June 30, 2010

	<u>Special Revenue</u> Juvenile Home	Capital Projects	Debt Service	Total
<b>Revenue</b>				
Local sources .....	\$ —	\$ —	\$ 23	\$ 23
State sources.....	959,419	—	—	959,419
<b>Total Revenue.....</b>	<b><u>959,419</u></b>	<b><u>—</u></b>	<b><u>23</u></b>	<b><u>959,442</u></b>
<b>Expenditures</b>				
Instruction .....	841,871	—	—	841,871
Instructional staff support services	80	—	—	80
General administration .....	90,028	—	—	90,028
Plant operations and maintenance	27,440	—	—	27,440
Facilities acquisition and construction.....	—	377,454	—	377,454
Debt service.....	—	—	417,314	417,314
<b>Total Expenditures.....</b>	<b><u>959,419</u></b>	<b><u>377,454</u></b>	<b><u>417,314</u></b>	<b><u>1,754,187</u></b>
<b>Revenue Under Expenditures ....</b>	<b>—</b>	<b>(377,454)</b>	<b>(417,291)</b>	<b>(794,745)</b>
<b>Other Financing Sources</b>				
Transfers in.....	—	377,454	417,314	794,768
<b>Revenue and Other Financing Sources Over Expenditures ....</b>	<b>—</b>	<b>—</b>	<b>23</b>	<b>23</b>
Fund Balances - Beginning of Year	—	—	184,002	184,002
<b>Fund Balances - End of Year .....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 184,025</u></b>	<b><u>\$ 184,025</u></b>

# Combining Schedule of Net Assets - Nonmajor Proprietary Funds

At June 30, 2010

	Nutrition	Technology and Repair Services	Total
<b>Assets</b>			
Cash .....	\$ 4,300	\$ —	\$ 4,300
Accounts receivable .....	64	50,452	50,516
Due from other funds.....	—	25,638	25,638
Inventory .....	<u>414</u>	<u>43,129</u>	<u>43,543</u>
<b>Total Assets</b> .....	<b><u>\$ 4,778</u></b>	<b><u>\$ 119,219</u></b>	<b><u>\$ 123,997</u></b>
<b>Liabilities</b>			
Accounts payable .....	\$ 4,310	\$ 9,497	\$ 13,807
Salaries and benefits payable .....	468	—	468
Due to other funds.....	<u>—</u>	<u>109,722</u>	<u>109,722</u>
<b>Total Liabilities</b> .....	<b><u>4,778</u></b>	<b><u>119,219</u></b>	<b><u>123,997</u></b>
<b>Net Assets - Unrestricted</b> .....	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total Liabilities and Net Assets</b> .....	<b><u>\$ 4,778</u></b>	<b><u>\$ 119,219</u></b>	<b><u>\$ 123,997</u></b>

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

---

Year Ended June 30, 2010

	Nutrition	Technology and Repair Services	Total
<b>Operating Revenue</b>			
Charges for services.....	<u>\$ 37,137</u>	<u>\$ 407,770</u>	<u>\$ 444,907</u>
<b>Operating Expenses</b>			
Central and Other Support Services			
Salaries .....	46,946	206,273	253,219
Benefits .....	23,789	76,159	99,948
Purchased services.....	362	15,174	15,536
Materials and supplies .....	<u>103,081</u>	<u>135,802</u>	<u>238,883</u>
<b>Total Operating Expenses</b> .....	<u><b>174,178</b></u>	<u><b>433,408</b></u>	<u><b>607,586</b></u>
<b>Loss From Operations</b> .....	<u><b>(137,041)</b></u>	<u><b>(25,638)</b></u>	<u><b>(162,679)</b></u>
<b>Nonoperating Revenue</b>			
State sources.....	1,530	—	1,530
Federal sources.....	<u>111,649</u>	—	<u>111,649</u>
<b>Total Nonoperating Revenue</b> .....	<u><b>113,179</b></u>	<u>—</u>	<u><b>113,179</b></u>
<b>Change in Net Assets Before Transfers</b> .....	<b>(23,862)</b>	<b>(25,638)</b>	<b>(49,500)</b>
Transfers in.....	<u>23,862</u>	<u>25,638</u>	<u>49,500</u>
<b>Change in Net Assets</b> .....	—	—	—
Net Assets - Beginning of Year .....	<u>—</u>	<u>—</u>	<u>—</u>
<b>Net Assets - End of Year</b> .....	<u><u><b>\$ —</b></u></u>	<u><u><b>\$ —</b></u></u>	<u><u><b>\$ —</b></u></u>

## Combining Schedule of Cash Flows - Nonmajor Proprietary Funds

At June 30, 2010

	Nutrition	Technology and Repair Services	Total
<b>Cash Flows From Operating Activities</b>			
Cash received from customers.....	\$ 37,073	\$ 432,117	\$ 469,190
Cash paid to employees for services.....	(70,499)	(282,432)	(352,931)
Cash paid to suppliers for goods and services...	<u>(102,304)</u>	<u>(133,963)</u>	<u>(236,267)</u>
<b>Net Cash Provided by (Used in) Operating Activities .....</b>	<b><u>(135,730)</u></b>	<b><u>15,722</u></b>	<b><u>(120,008)</u></b>
<b>Cash Flows From Noncapital Financing Activities</b>			
State grants received .....	1,530	—	1,530
Federal grants received .....	111,649	—	111,649
Advances to other funds .....	—	(25,638)	(25,638)
Repayment of advances from other funds .....	—	(15,883)	(15,883)
Transfers in .....	<u>23,862</u>	<u>25,638</u>	<u>49,500</u>
<b>Net Cash Provided by (Used in) Noncapital Financing Activities ..</b>	<b><u>137,041</u></b>	<b><u>(15,883)</u></b>	<b><u>121,158</u></b>
<b>Net Increase (Decrease) in Cash .....</b>	<b>1,311</b>	<b>(161)</b>	<b>1,150</b>
Cash at Beginning of Year.....	<u>2,989</u>	<u>161</u>	<u>3,150</u>
<b>Cash at End of Year .....</b>	<b><u>\$ 4,300</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 4,300</u></b>
<b>Reconciliation of Loss From Operations to Net Cash Provided by (Used in) Operating Activities</b>			
Loss from operations .....	\$ (137,041)	\$ (25,638)	\$ (162,679)
Adjustments to Reconcile Loss From Operations to Net Cash Provided by (Used in) Operating Activities			
Changes in Assets and Liabilities			
(Increase) decrease in accounts receivable .....	(64)	24,347	24,283
Decrease in inventory.....	—	10,230	10,230
Increase in accounts payable.....	1,139	6,783	7,922
Increase in accrued salaries and benefits.....	<u>236</u>	<u>—</u>	<u>236</u>
<b>Net Cash Provided by (Used in) Operating Activities .....</b>	<b><u>\$ (135,730)</u></b>	<b><u>\$ 15,722</u></b>	<b><u>\$ (120,008)</u></b>

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

Year Ended June 30, 2010

	Balance 7-1-09	Additions	Deductions	Balance 6-30-10
<b>Assets</b>				
Cash and pooled investments .....	\$ 754,365	\$ 1,650,950	\$ 1,752,134	\$ 653,181
Accounts receivable .....	<u>—</u>	<u>110</u>	<u>—</u>	<u>110</u>
<b>Total Assets .....</b>	<b><u>\$ 754,365</u></b>	<b><u>\$ 1,651,060</u></b>	<b><u>\$ 1,752,134</u></b>	<b><u>\$ 653,291</u></b>
 <b>Liabilities</b>				
Accounts payable .....	\$ 230,647	\$ 69,876	\$ 230,647	\$ 69,876
Due to other governments .....	—	79,316	—	79,316
Deferred revenue.....	—	189,596	—	189,596
Deposits held in custody of others.....	<u>523,718</u>	<u>1,312,272</u>	<u>1,521,487</u>	<u>314,503</u>
<b>Total Liabilities .....</b>	<b><u>\$ 754,365</u></b>	<b><u>\$ 1,651,060</u></b>	<b><u>\$ 1,752,134</u></b>	<b><u>\$ 653,291</u></b>

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

For the Last Six Years

	Years Ended June 30,					
	2010	2009	2008	2007	2006	2005
<b>Revenue</b>						
Local sources .....	\$ 39,255,589	\$ 37,963,299	\$ 35,320,511	\$ 34,467,848	\$ 33,309,117	\$ 31,453,896
State sources .....	16,787,160	18,421,837	16,590,759	13,862,015	12,706,309	12,020,599
Federal sources .....	<u>29,930,341</u>	<u>19,251,652</u>	<u>16,871,230</u>	<u>17,996,620</u>	<u>18,604,604</u>	<u>17,533,170</u>
<b>Total Revenue.....</b>	<b><u>\$ 85,973,090</u></b>	<b><u>\$ 75,636,788</u></b>	<b><u>\$ 68,782,500</u></b>	<b><u>\$ 66,326,483</u></b>	<b><u>\$ 64,620,030</u></b>	<b><u>\$ 61,007,665</u></b>
<b>Expenditures</b>						
Current						
Instruction.....	\$ 27,131,683	\$ 25,831,081	\$ 23,671,016	\$ 22,924,955	\$ 21,763,378	\$ 20,467,445
Student support services	18,710,718	17,601,257	16,629,025	15,267,040	15,447,597	17,889,315
Instructional staff						
support services .....	13,514,721	12,732,796	11,438,951	11,965,394	11,940,186	11,207,636
General administration ....	6,566,067	5,976,269	5,758,953	5,718,006	5,396,285	5,474,878
Business administration ..	3,155,816	2,991,439	3,457,122	2,996,568	2,813,973	2,873,359
Plant operations and						
maintenance .....	2,690,751	2,195,038	2,274,798	2,062,109	2,213,313	3,035,099
Central and other						
support services .....	1,699,324	1,799,788	1,586,136	1,689,199	1,642,549	104,132
Facilities acquisition and						
construction .....	377,454	—	—	—	1,584,465	1,286,662
Debt service .....	<u>417,314</u>	<u>414,588</u>	<u>416,026</u>	<u>416,502</u>	<u>364,510</u>	<u>2,007,784</u>
<b>Total Expenditures.....</b>	<b><u>\$ 74,263,848</u></b>	<b><u>\$ 69,542,256</u></b>	<b><u>\$ 65,232,027</u></b>	<b><u>\$ 63,039,773</u></b>	<b><u>\$ 63,166,256</u></b>	<b><u>\$ 64,346,310</u></b>

# Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. Department of Agriculture - Indirect</b>			
Pass-Through Iowa Department of Education			
National School Lunch Program .....	10.555	N/A	\$ 106,533
National School Lunch Program - Food Donation (noncash) .....	10.555		<u>5,117</u>
<b>Total U.S. Department of Agriculture .....</b>			<b><u>111,650</u></b>
<b>U.S. Department of Education - Indirect</b>			
Pass-Through Center of Civic Education			
Civic Education - We the People Cooperative Education Exchange Program			
Citizen and Constitution .....	84.304		13,500
Project Citizen .....	84.304		<u>20,250</u>
<b>Total Pass-Through Center of Civic Education ...</b>			<b><u>33,750</u></b>
Pass-Through Iowa Department of Education			
Special Education - Grants to States			
Preschool Handicapped Program .....	84.027*		10,885,010
Preschool Handicapped Program - Flow Through .....	84.027*		3,470,765
Enhancing the Parent Educator Connection .....	84.027*		143,511
SLP 92010 .....	84.027*	N/A	6,000
Eldora Part B Contract .....	84.027*	N/A	<u>73,868</u>
<b>Total Special Education - Grants to States</b>			<b><u>14,579,154</u></b>
ARRA - Special Education Grants to States,			
Recovery Act .....	84.391*		<u>12,389,101</u>
Career and Technical Education - Basic Grants to States	84.048**	N/A	<u>285,612</u>
Special Education - Preschool Grants .....	84.173*		<u>430,017</u>
ARRA - Special Education - Preschool Grants,			
Recovery Act .....	84.392*		<u>320,177</u>
Special Education - Grants for Infants and Families .....	84.181***		<u>332,031</u>
ARRA - Special Education - Grants for Infants and Families, Recovery Act.....			
.....	84.393***		<u>240,240</u>
Fund for the Improvement of Education.....	84.215		<u>7,874</u>
Education Technology State Grants .....	84.318	N/A	<u>236,373</u>
Special Education - State Personnel Development .....	84.323	SGP/IEP	<u>56,639</u>
English Language Acquisition Grants .....	84.365	N/A	<u>244,058</u>
Improving Teacher Quality State Grants.....	84.367	N/A	<u>6,708</u>
<b>Total Pass-Through Iowa Department of Education</b>			<b><u>29,127,984</u></b>

# Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Pass-Through Iowa Department of Public Health Safe and Drug-Free Schools and Communities - State Grants .....	84.186		<u>\$ 134,535</u>
Pass-Through Iowa Valley Community College Career and Technical Education - Basic Grants to States .....	84.048**	N/A	<u>16,000</u>
Pass-Through Mason City Community School District Title I Grants to Local Education Agencies .....	84.010	N/A	<u>89,664</u>
Pass-Through School Administration of Iowa Parental Information and Resource Centers.....	84.310	N/A	<u>53,144</u>
<b>Total U.S. Department of Education .....</b>			<b><u>29,455,077</u></b>
<b>U.S. Department of Health and Human Services - Direct</b> Medical Assistance Program .....	93.778	N/A	<b><u>471,983</u></b>
<b>Corporation for National and Community Service - Direct</b> Learn and Serve America - School and Community Based Programs .....	94.004	N/A	<b><u>3,280</u></b>
<b>Total Federal Financial Assistance.....</b>			<b><u>\$ 30,041,990</u></b>

\* Total Expenditures for CFDA Numbers 84.027, 84.173, 84.391 and 84.392 were \$27,718,449.

\*\* Total Expenditures for CFDA Number 84.048 were \$301,612.

\*\*\* Total Expenditures for CFDA Numbers 84.181 and 84.393 were \$572,271.

## (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 modified 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

## (2) Subrecipients

Area Education Agency 267 provided \$11,063,000 of federal awards to various school districts as part of the Preschool Handicapped Program.

---

# HOGAN • HANSEN

*A Professional Corporation*

Certified Public Accountants and Consultants

## **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, 2010, and the discretely presented component units at December 31, 2009 and June 30, 2010, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated December 15, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying scheduled of findings and questioned costs, we noted no deficiencies in internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weaknesses is a deficiency, or a combination of deficiencies, in internal control such that that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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*.

Comments involving statutory and other legal matters about Area Education Agency 267's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Area Education Agency 267. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Area Education Agency 267 and other parties to whom Area Education Agency 267 may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
December 15, 2010

---

# HOGAN • HANSEN

*A Professional Corporation*

Certified Public Accountants and Consultants

## **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, 2010. 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, 2010.

### **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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Area Education Agency 267's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiency in internal control over compliance.

A deficiency in the Agency's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than an material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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  
December 15, 2010

# Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

## 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, 84.173, 84.391 and 84.392

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

Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$901,260

Auditee qualified as low-risk auditee?

yes  no

# Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2010

## Part II: Findings Related to the Financial Statements

### **Instances of Noncompliance**

There were no reported instances of noncompliance.

### **Internal Control Deficiencies**

There were no internal control deficiencies reported.

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

### **Instances of Noncompliance**

There were no reported instances of noncompliance.

### **Internal Control Deficiencies**

There were no internal control deficiencies reported.

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

- 10-IV-CS-1 Certified Budget** - Expenditures during the year ended June 30, 2010 did not exceed the amount budgeted.
- 10-IV-CS-2 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.
- 10-IV-CS-3 Travel Expenses** - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 10-IV-CS-4 Business Transactions** - No business transactions between the Agency and Agency officials or employees were noted.
- 10-IV-CS-5 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.
- 10-IV-CS-6 Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.
- 10-IV-CS-7 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.
- 10-IV-CS-8 Certified Annual Report** - The Certified Annual Report was certified timely to the Iowa Department of Education.
- 10-IV-CS-9 Categorical Funding** - No instances were noted of categorical funding used to supplant rather than supplement other funds.