

**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, 2011**

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Officials

Name	Title	Term Expires
Board of Directors		
Charlotte Upah	President	September 30, 2011
Roberta Kraft-Abrahamson	Vice President	September 30, 2013
Darrel Lind	Member	September 30, 2011
David Giese	Member	September 30, 2011
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
Agency		
Roark Horn	Chief Administrator	
Dennis Scudder	Finance Director and Treasurer	
Kerri Wilson	Board Secretary	

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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, 2011 and the discretely presented component units at December 31, 2010 and June 30, 2011, 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, 2011 and the discretely presented component units at December 31, 2010 and June 30, 2011, 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 2, 2011 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 or 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 five years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information on Pages 35 through 44, 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 2, 2011

**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, 2011. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

General Fund revenue decreased from \$58,555,430 in fiscal year 2010 to \$49,416,385 in fiscal year 2011. General Fund expenditures and other financing uses decreased from \$57,933,073 in fiscal year 2010 to \$48,146,845 in fiscal year 2011. The decrease in both revenue and expenditures was due to a decrease in federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA). The General Fund balance climbed to \$7,548,589. The fund balance consists of a nonspendable fund balance of \$350,738, a restricted fund balance of \$1,215,056, a committed fund balance of \$150,000 and an unassigned balance of \$5,832,795. The unassigned fund balance at the end of the year 2011 represents approximately 12.1% of the 2011 fiscal year expenditures and other financing 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) the 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 Agency Funds.

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 include 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 2011 totaled approximately \$16.5 million. This compared to approximately \$15.6 million at the end of fiscal year 2010. The analysis that follows provides a summary of the Agency's net assets at June 30, 2011 for the governmental and business-type activities:

	Condensed Statement of Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
Current and other assets.....	\$ 16,738,175	\$ 15,464,311	\$ 81,001	\$ 130,104	\$ 16,819,176	\$ 15,594,415
Capital assets.....	10,242,919	10,602,678	—	—	10,242,919	10,602,678
Total Assets	26,981,094	26,066,989	81,001	130,104	27,062,095	26,197,093
Long-term obligations.....	996,300	830,300	—	—	996,300	830,300
Other liabilities.....	9,583,219	9,660,980	6,432	122,106	9,589,651	9,783,086
Total Liabilities	10,579,519	10,491,280	6,432	122,106	10,585,951	10,613,386
Net Assets						
Invested in capital assets, net of related debt.....	9,877,919	9,878,610	—	—	9,877,919	9,878,610
Restricted.....	1,215,056	1,564,724	—	—	1,215,056	1,564,724
Unrestricted.....	5,308,600	4,132,375	74,569	7,998	5,383,169	4,140,373
Total Net Assets	\$ 16,401,575	\$ 15,575,709	\$ 74,569	\$ 7,998	\$ 16,476,144	\$ 15,583,707

The Agency's combined net assets increased by approximately \$892,000 from the beginning of the year. The increase occurred primarily in the governmental funds as a result of a decrease in instruction and student support services expenditures.

The following analysis shows the changes in net assets for the year ended June 30, 2011.

	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
Revenue						
Program Revenue						
Charges for service	\$ 24,885,016	\$ 26,101,561	\$ 1,342,792	\$ 1,591,789	\$ 26,227,808	\$ 27,693,350
Operating grants and contributions	22,069,603	25,881,356	95,613	113,179	22,165,216	25,994,535
General Revenue						
Property taxes, levied	11,220,799	11,012,100	—	—	11,220,799	11,012,100
State foundation aid	13,492,720	11,651,040	—	—	13,492,720	11,651,040
Federal flow through	3,458,235	11,063,000	—	—	3,458,235	11,063,000
Unrestricted investment earnings	23,924	56,036	—	—	23,924	56,036
Miscellaneous	—	199,826	—	—	—	199,826
Total Revenue	<u>75,150,297</u>	<u>85,964,919</u>	<u>1,438,405</u>	<u>1,704,968</u>	<u>76,588,702</u>	<u>87,669,887</u>
Program Expenses						
Instruction	26,720,442	27,517,140	—	—	26,720,442	27,517,140
Student support services	18,001,221	19,345,055	—	—	18,001,221	19,345,055
Instructional staff support services	12,621,714	12,724,204	—	—	12,621,714	12,724,204
General administration	6,404,174	6,684,762	—	—	6,404,174	6,684,762
Business administration	2,980,025	3,136,986	—	—	2,980,025	3,136,986
Plant operations and maintenance	2,380,604	2,306,740	—	—	2,380,604	2,306,740
Central and other support services	1,558,283	1,764,781	—	—	1,558,283	1,764,781
Long-term debt interest	28,642	44,608	—	—	28,642	44,608
Noninstructional programs	138,675	—	1,386,074	1,749,830	1,524,749	1,749,830
Total Expenses	<u>70,833,780</u>	<u>73,524,276</u>	<u>1,386,074</u>	<u>1,749,830</u>	<u>72,219,854</u>	<u>75,274,106</u>
Change in Net Assets Before Other Financing Sources (Uses)	<u>4,316,517</u>	<u>12,440,643</u>	<u>52,331</u>	<u>(44,862)</u>	<u>4,368,848</u>	<u>12,395,781</u>
Other Financing Sources (Uses)	<u>(3,490,651)</u>	<u>(11,086,303)</u>	<u>14,240</u>	<u>23,862</u>	<u>(3,476,411)</u>	<u>(11,062,441)</u>
Increase (Decrease) in Net Assets	<u>825,866</u>	<u>1,354,340</u>	<u>66,571</u>	<u>(21,000)</u>	<u>892,437</u>	<u>1,333,340</u>
Net Assets - Beginning of Year	<u>15,575,709</u>	<u>14,221,369</u>	<u>7,998</u>	<u>28,998</u>	<u>15,583,707</u>	<u>14,250,367</u>
Net Assets - End of Year	<u>\$ 16,401,575</u>	<u>\$ 15,575,709</u>	<u>\$ 74,569</u>	<u>\$ 7,998</u>	<u>\$ 16,476,144</u>	<u>\$ 15,583,707</u>

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for approximately 62.3% 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 81% of the total expenses.

Governmental Activities

Revenue for governmental activities was \$75,150,297 and expenses and other financing uses were \$74,324,431.

Business-Type Activities

Revenue for the Agency's Business-Type Activities totaled \$1,438,405, a 15.6% decrease from the prior year and expenses were \$1,386,074, a 20.8% decrease from the prior year. A transfer of \$14,240 was made to the Nutrition Fund from the Special Education Instructional Fund to defer costs in the Nutrition Fund.

Expenses totaled \$866,641, \$142,682 and \$376,751 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 \$7,548,589, which is an increase from the beginning of the year fund balances of \$6,463,074. The primary reason for the increase in the combined fund balance is decreased spending in all functional areas.

Governmental Fund Highlights

The General Fund balance increased mainly due to decreased spending in all functional areas.

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 2010-11 is represented by the re-estimated 2010-11 column of the original 2011-12 budget submitted in February, 2011 totaling \$74,386,570. 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, 2011, the Agency had invested \$10,242,919, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net decrease of \$359,759 from the beginning of the year.

Area Education Agency 267 reported depreciation expense of \$1,472,650 in fiscal year 2011 and total accumulated depreciation of \$14,363,045 at June 30, 2011. 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.

	<u>Balance - June 30,</u>	
	<u>2011</u>	<u>2010</u>
Certificate of participation.....	\$ —	\$ 195,000
Capital lease.....	365,000	480,000
Asset purchase agreement	—	49,068
	<u>\$ 365,000</u>	<u>\$ 724,068</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency continues to be impacted by the difficult economic environment in the State of Iowa as well as the economic situation of the nation. The 2010-11 fiscal year showed a reduction of more than \$9 million dollars in General Fund revenue from the previous year. The reduction was due to a decrease of over \$11 million in ARRA funds of which \$7.5 million was flow through to local school districts. The Agency had prepared for this anticipated reduction by reducing expenditures in the 2009-10 fiscal year to provide for a positive adjustment to ending net asset balances coupled with further cuts in fiscal year 2010-11 expenditures. Those cuts included reduction in all functional areas. Reductions in staff salaries and benefits were accomplished primarily as a result of attrition. The Agency remained in a strong financial position at the end of the 2010-11 fiscal year with a ratio of General Fund unassigned fund balance to expenditures of over 12%.

The 2011-12 fiscal year holds dramatic challenges for the Agency. The 2011 State legislature decreased funding to AEAs by \$17.5 million. For the Agency, that reduction results in a \$1.4 million decrease in State funding for the 2011-12 fiscal year. This decrease, coupled with the loss of ARRA dollars, no increases in other Federal revenue and a small allowable growth of 1.7%, the Agency expects to have approximately \$4 million less in revenue for the 2011-12 fiscal year. Cuts in expenditures, including staff reduction through attrition, will partially offset the loss of revenue, but there will be an estimated reduction of \$2 million in the General Fund unassigned fund balance. That would reduce the ratio of General Fund unassigned fund balance to expenditures to approximately 8% which the Agency feels is still a good solvency position.

Future planning for the 2012-13 fiscal year continues. The State legislature has said fiscal year 2011-12 cuts would be for one year only and AEAs would recover \$17.5 million in funding for fiscal year 2012-13. If that happens, the Agency would recover over \$1.4 million in funding, greatly improving the declining position of fiscal year 2011-12. However, it is unlikely Federal revenue, which is a major part of the Agency's funding, will increase in the future and may very likely decline. That coupled with the likelihood of low allowable State growth and declining enrollment will require the Agency to continue planning for a difficult economic environment in the future.

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, 2011

	Governmental Activities	Business- Type Activities	Total	Component Units	
				AEA6 Foundation	AEA267 Foundation
Assets					
Cash and pooled investments.....	\$ 7,436,112	\$ 2,830	\$ 7,438,942	\$ 731,337	\$ 49,248
Receivables					
Accounts	716,022	61,060	777,082	—	—
Due from other governments	8,194,449	—	8,194,449	—	—
Due from other funds	35,238	(35,238)	—	—	—
Accrued interest	3	—	3	—	—
Inventories.....	76,593	52,349	128,942	—	—
Prepaid expenses	279,758	—	279,758	—	—
Capital assets, net of accumulated depreciation	10,242,919	—	10,242,919	—	—
Total Assets.....	<u>\$ 26,981,094</u>	<u>\$ 81,001</u>	<u>\$ 27,062,095</u>	<u>\$ 731,337</u>	<u>\$ 49,248</u>
Liabilities					
Accounts payable.....	\$ 1,201,201	\$ 6,432	\$ 1,207,633	\$ —	\$ —
Accrued interest	1,132	—	1,132	—	—
Salaries and benefits payable.....	7,809,386	—	7,809,386	—	—
Deferred revenue	178,999	—	178,999	—	—
Long-Term Liabilities					
Portion Due or Payable Within					
One Year					
Capital lease.....	120,000	—	120,000	—	—
Compensated absences	272,501	—	272,501	—	—
Portion Due or Payable After					
One Year					
Capital lease.....	245,000	—	245,000	—	—
Net OPEB liability	751,300	—	751,300	—	—
Total Liabilities.....	<u>10,579,519</u>	<u>6,432</u>	<u>10,585,951</u>	<u>—</u>	<u>—</u>
Net Assets					
Invested in capital assets, net of related debt.....	9,877,919	—	9,877,919	—	—
Restricted for					
Categorical funding.....	724,941	—	724,941	—	—
Media materials.....	490,115	—	490,115	—	—
Unrestricted.....	5,308,600	74,569	5,383,169	731,337	49,248
Total Net Assets.....	<u>16,401,575</u>	<u>74,569</u>	<u>16,476,144</u>	<u>731,337</u>	<u>49,248</u>
Total Liabilities and Net Assets...	<u>\$ 26,981,094</u>	<u>\$ 81,001</u>	<u>\$ 27,062,095</u>	<u>\$ 731,337</u>	<u>\$ 49,248</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue		Net (Expenses), Revenue and Changes in Net Assets			Component Units	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	AEA6 Foundation	AEA267 Foundation
Governmental Activities								
Instruction.....	\$ 26,720,442	\$ 23,556,748	\$ 2,177,146	\$ (986,548)	\$ —	\$ (986,548)	\$ —	\$ —
Student support services.....	18,001,221	171,971	17,618,013	(211,237)	—	(211,237)	—	—
Instructional staff support services.....	12,621,714	1,052,466	2,274,444	(9,294,804)	—	(9,294,804)	—	—
General administration.....	6,404,174	—	—	(6,404,174)	—	(6,404,174)	—	—
Business administration.....	2,980,025	—	—	(2,980,025)	—	(2,980,025)	—	—
Plant operations and maintenance.....	2,380,604	—	—	(2,380,604)	—	(2,380,604)	—	—
Central and other support services.....	1,558,283	103,831	—	(1,454,452)	—	(1,454,452)	—	—
Noninstructional programs.....	138,675	—	—	(138,675)	—	(138,675)	—	—
Interest on long-term debt.....	28,642	—	—	(28,642)	—	(28,642)	—	—
Total Governmental Activities.....	70,833,780	24,885,016	22,069,603	(23,879,161)	—	(23,879,161)	—	—
Business-Type Activities								
Noninstructional Programs								
Nutrition services.....	142,682	32,829	95,613	—	(14,240)	(14,240)	—	—
Co-op purchasing.....	866,641	905,605	—	—	38,964	38,964	—	—
Technology and repair services.....	376,751	404,358	—	—	27,607	27,607	—	—
Total Business-Type Activities.....	1,386,074	1,342,792	95,613	—	52,331	52,331	—	—
Total.....	\$ 72,219,854	\$ 26,227,808	\$ 22,165,216	(23,879,161)	52,331	(23,826,830)	—	—
Component Units								
AEA6 Foundation.....	\$ 57,135	\$ —	\$ —	—	—	—	(57,135)	—
AEA267 Foundation.....	\$ 29,412	\$ —	\$ 78,639	—	—	—	—	49,227
General Revenue								
Property tax levied for general purposes.....				11,220,799	—	11,220,799	—	—
State foundation aid.....				13,492,720	—	13,492,720	—	—
Federal flow through.....				3,458,235	—	3,458,235	—	—
Unrestricted investment earnings.....				23,924	—	23,924	52,772	16
Total General Revenue.....				28,195,678	—	28,195,678	52,772	16
Change in Net Assets Before Other Financing Sources (Uses)								
Sources (Uses).....				4,316,517	52,331	4,368,848	(4,363)	49,243
Other Financing Sources (Uses)								
LEA flow through.....				(3,458,235)	—	(3,458,235)	—	—
Gain from disposal of assets.....				(18,176)	—	(18,176)	—	—
Transfers.....				(14,240)	14,240	—	—	—
Total Other Financing Sources (Uses).....				(3,490,651)	14,240	(3,476,411)	—	—
Change in Net Assets.....				825,866	66,571	892,437	(4,363)	49,243
Net Assets - Beginning of Year.....				15,575,709	7,998	15,583,707	735,700	5
Net Assets - End of Year.....				\$ 16,401,575	\$ 74,569	\$ 16,476,144	\$ 731,337	\$ 49,248

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2011

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 6,416,625	\$ 871,401	\$ 148,086	\$ 7,436,112
Receivables				
Accounts	716,022	—	—	716,022
Due from other governments	5,246,891	2,947,558	—	8,194,449
Due from other funds	35,241	—	—	35,241
Accrued interest	—	—	3	3
Inventories	76,593	—	—	76,593
Prepaid expenses	274,145	5,613	—	279,758
Total Assets	<u>\$ 12,765,517</u>	<u>\$ 3,824,572</u>	<u>\$ 148,089</u>	<u>\$ 16,738,178</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 381,369	\$ 817,671	\$ 2,161	\$ 1,201,201
Salaries and benefits payable	4,701,602	3,006,901	100,883	7,809,386
Due to other funds	—	—	3	3
Deferred revenue	133,957	—	45,042	178,999
Total Liabilities	<u>5,216,928</u>	<u>3,824,572</u>	<u>148,089</u>	<u>9,189,589</u>
Fund Balances				
Nonspendable				
Inventories	76,593	—	—	76,593
Prepaid expenditures	274,145	—	—	274,145
Restricted for				
Categorical funding	724,941	—	—	724,941
Media materials	490,115	—	—	490,115
Committed for retro worker's compensation program	150,000	—	—	150,000
Unassigned	5,832,795	—	—	5,832,795
Total Fund Balances	<u>7,548,589</u>	<u>—</u>	<u>—</u>	<u>7,548,589</u>
Total Liabilities and Fund Balances	<u>\$ 12,765,517</u>	<u>\$ 3,824,572</u>	<u>\$ 148,089</u>	<u>\$ 16,738,178</u>

See accompanying notes to the financial statements.

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

At June 30, 2011

Total Fund Balances for Governmental Funds (Page 12)..... **\$ 7,548,589**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of assets is \$24,605,964 and the accumulated depreciation is \$14,363,045.

10,242,919

Long-term liabilities, including capital lease payable, accrued interest, compensated absences and other post-employment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Capital lease	\$ (365,000)	
Accrued interest payable.....	(1,132)	
Compensated absences	(272,501)	
Net OPEB liabilities	<u>(751,300)</u>	<u>(1,389,933)</u>

Net Assets of Governmental Activities (Page 10) **\$ 16,401,575**

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

Year Ended June 30, 2011

	General	<u>Special Revenue</u> Special Education Instruction	Nonmajor Governmental Funds	Total
Revenue				
Local sources	\$ 13,918,317	\$ 23,556,748	\$ 18	\$ 37,475,083
State sources.....	16,864,205	889,161	976,612	18,729,978
Federal sources.....	<u>18,633,863</u>	<u>311,373</u>	<u>—</u>	<u>18,945,236</u>
Total Revenue.....	<u>49,416,385</u>	<u>24,757,282</u>	<u>976,630</u>	<u>75,150,297</u>
Expenditures				
Current				
Instruction	4,576,007	20,850,064	889,500	26,315,571
Student support services	17,944,382	—	—	17,944,382
Instructional staff support services	12,463,911	151,938	70	12,615,919
General administration.....	5,105,527	1,117,576	75,106	6,298,209
Business administration	2,541,959	426,000	—	2,967,959
Plant operations and maintenance.....	1,452,644	644,945	11,936	2,109,525
Central and other support services	71,270	1,471,780	—	1,543,050
Noninstructional programs	138,675	—	—	138,675
Facilities acquisition and construction.....	—	—	270,015	270,015
Debt service.....	—	—	389,002	389,002
Total Expenditures.....	<u>44,294,375</u>	<u>24,662,303</u>	<u>1,635,629</u>	<u>70,592,307</u>
Revenue Over (Under) Expenditures	<u>5,122,010</u>	<u>94,979</u>	<u>(658,999)</u>	<u>4,557,990</u>
Other Financing Sources (Uses)				
LEA flow through	(3,458,235)	—	—	(3,458,235)
Transfers, net	<u>(394,235)</u>	<u>(94,979)</u>	<u>474,974</u>	<u>(14,240)</u>
Total Other Financing Sources (Uses)	<u>(3,852,470)</u>	<u>(94,979)</u>	<u>474,974</u>	<u>(3,472,475)</u>
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	1,269,540	—	(184,025)	1,085,515
Fund Balances - Beginning of Year	<u>6,279,049</u>	<u>—</u>	<u>184,025</u>	<u>6,463,074</u>
Fund Balances - End of Year.....	<u>\$ 7,548,589</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,548,589</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2011

Change in Fund Balances - Total Governmental Funds (Page 14) \$ 1,085,515

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.....	\$ 1,131,067	
Depreciation expense	(1,472,650)	
Net book value of disposed assets	(18,176)	(359,759)

Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets.....		359,068
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.....		1,292
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Salaries and benefits in the statement of activities differ from the amount reported in the governmental funds because vacation pay and other post-employment 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.....		(260,250)
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Change in Net Assets of Governmental Activities (Page 11) \$ 825,866

Statement of Net Assets - Proprietary Funds

At June 30, 2011

	Nonmajor Proprietary Funds
Assets	
Cash and pooled investments	\$ 2,830
Accounts receivable	61,060
Inventories	<u>52,349</u>
Total Assets	<u>\$ 116,239</u>
Liabilities	
Accounts payable	\$ 6,432
Due to other funds	<u>35,238</u>
Total Liabilities	41,670
Net Assets - Unrestricted	<u>74,569</u>
Total Liabilities and Net Assets	<u>\$ 116,239</u>

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

Year Ended June 30, 2011

	Nonmajor Proprietary Funds
Operating Revenue	
Charges for services.....	<u>\$ 1,342,792</u>
Operating Expenses	
Noninstructional Programs	
General Administration	
Purchased services.....	<u>1,346</u>
Business Administration	
Salaries	32,668
Benefits	8,265
Purchased services.....	1,462
Materials and supplies	<u>815,822</u>
Total Business Administration.....	<u>858,217</u>
Plant Operations and Maintenance	
Purchased services.....	6,636
Materials and supplies	<u>7,282</u>
Total Plant Operations and Maintenance.....	<u>13,918</u>
Central and Other Support Services	
Salaries	170,198
Benefits	67,720
Purchased services.....	14,651
Materials and supplies	<u>117,342</u>
Total Central and Other Support Services	<u>369,911</u>
Food Service Operations	
Salaries	43,179
Benefits	22,036
Purchased services.....	62
Materials and supplies	<u>77,405</u>
Total Food Service Operations	<u>142,682</u>
Total Operating Expenses	<u>1,386,074</u>
Loss From Operations	<u>(43,282)</u>
Nonoperating Revenue	
State sources.....	1,193
Federal sources.....	<u>94,420</u>
Total Nonoperating Revenue	<u>95,613</u>
Change in Net Assets Before Transfers	52,331
Transfers in.....	<u>14,240</u>
Change in Net Assets	66,571
Net Assets - Beginning of Year	<u>7,998</u>
Net Assets - End of Year	<u>\$ 74,569</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

At June 30, 2011

	Nonmajor Proprietary Funds
Cash Flows From Operating Activities	
Cash received from customers	\$ 1,572,334
Cash paid to employees for services	(346,570)
Cash paid to suppliers for goods and services	(727,661)
Net Cash Provided by Operating Activities	<u>498,103</u>
Cash Flows From Noncapital Financing Activities	
State grants received	1,193
Federal grants received	89,797
Repayment received on advances to other funds	25,638
Repayment of advances from other funds	(630,441)
Transfers in	14,240
Net Cash Used in Noncapital Financing Activities	<u>(499,573)</u>
Net Decrease in Cash	(1,470)
Cash at Beginning of Year	<u>4,300</u>
Cash at End of Year	<u>\$ 2,830</u>
Reconciliation of Loss From Operations to Net Cash Provided by Operating Activities	
Loss from operations	\$ (43,282)
Adjustments to Reconcile Loss From Operations to Net Cash Provided by Operating Activities	
Commodities used	4,623
Decrease in accounts receivable	229,542
Decrease in inventories	422,894
Decrease in accounts payable	(113,170)
Decrease in salaries and benefits payable	<u>(2,504)</u>
Net Cash Provided by Operating Activities	<u>\$ 498,103</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2011, the Agency received \$4,623 of federal commodities.

Statement of Fiduciary Net Assets - Fiduciary Funds - Agency

At June 30, 2011

Assets

Cash and pooled investments	\$ 451,469
Accounts receivable	<u>54,103</u>

Total Assets	<u>\$ 505,572</u>
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Liabilities

Accounts payable	\$ 268,453
Deposits held in custody for others	<u>237,119</u>

Total Liabilities	<u>\$ 505,572</u>
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(1) Summary of Significant Accounting Policies and Other Matters

Organization and Function

Area Education Agency 267 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 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.

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

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, 2010.

During the Agency's fiscal year ended June 30, 2011, the Foundation provided the Agency approximately \$48,155 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, 2011.

During the Agency's fiscal year ended June 30, 2011, the 267 Foundation donated to the Agency approximately \$22,000 of playground and fitness 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 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 did not report any major proprietary funds:

The Agency also reports fiduciary funds which focus on net assets. 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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balances and then from less-restrictive classifications - committed, assigned and then unassigned fund balances.

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 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:

Asset Class	Estimated Useful Lives
Buildings.....	50 Years
Improvements other than buildings	20 - 30 Years
Intangibles.....	2 - 10 Years
Technological equipment	5 - 10 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, 2011. 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, fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Directors through resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same action it employed to commit these amounts.

Unassigned - All amounts not included in other spendable classifications.

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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2011, expenditures did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2011 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 held no investments at June 30, 2011.

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, 2010:

AEA6 Foundation:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Money market funds	\$ 20,742	\$ 20,742	\$ —
Corporate bonds	126,653	125,432	(1,221)
U.S. Treasury securities	232,842	234,269	1,427
Unit trusts	372,705	350,894	(21,811)
	<u>\$ 752,942</u>	<u>\$ 731,337</u>	<u>\$ (21,605)</u>

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)	\$ 38,201
Realized gains	3,331
Net unrealized gain	11,240
	<u>\$ 52,772</u>

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 2010-11A warrants was 1.2% plus the one-month LIBOR rate adjusted daily. A summary of the Agency's ISCAP activity for the year ended June 30, 2011 is as follows:

Series	Balance - Beginning of Year	Advances Received	Advances Repaid	Balance - End of Year
2010-11A.....	<u>\$ —</u>	<u>\$ 6,500,000</u>	<u>\$ 6,500,000</u>	<u>\$ —</u>

During the year ended June 30, 2011, the Agency paid \$16,293 of interest on the ISCAP warrants.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 809,308	\$ —	\$ —	\$ 809,308
Construction in progress	<u>377,183</u>	<u>—</u>	<u>377,183</u>	<u>—</u>
Total Capital Assets, Not Being Depreciated.....	<u>1,186,491</u>	<u>—</u>	<u>377,183</u>	<u>809,308</u>
Capital Assets Being Depreciated				
Buildings and improvements	10,911,658	377,183	—	11,288,841
Furniture and equipment.....	6,112,953	235,111	144,575	6,203,489
Library books and films	<u>6,661,125</u>	<u>895,956</u>	<u>1,252,755</u>	<u>6,304,326</u>
Total Capital Assets Being Depreciated.....	<u>23,685,736</u>	<u>1,508,250</u>	<u>1,397,330</u>	<u>23,796,656</u>
Less Accumulated Depreciation For				
Buildings and improvements	4,367,684	318,112	—	4,685,796
Furniture and equipment.....	4,713,104	306,940	126,399	4,893,645
Library books and films	<u>5,188,761</u>	<u>847,598</u>	<u>1,252,755</u>	<u>4,783,604</u>
Total Accumulated Depreciation	<u>14,269,549</u>	<u>1,472,650</u>	<u>1,379,154</u>	<u>14,363,045</u>
Net Total Capital Assets Being Depreciated.....	<u>9,416,187</u>	<u>35,600</u>	<u>18,176</u>	<u>9,433,611</u>
Net Governmental Activities Capital Assets.....	<u>\$ 10,602,678</u>	<u>\$ 35,600</u>	<u>\$ 395,359</u>	<u>\$ 10,242,919</u>

Notes to the Financial Statements

(4) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities	
Instruction.....	\$ 312,237
Student support services.....	6,019
Instructional staff support services.....	914,068
General administration.....	100,501
Business administration.....	29,185
Plant operations and maintenance.....	12,032
Central and other support services.....	98,608
Total Governmental Activities Depreciation Expense.....	<u>\$ 1,472,650</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Certificates of participation	\$ 195,000	\$ —	\$ 195,000	\$ —	\$ —
Capital lease.....	480,000	—	115,000	365,000	120,000
Asset purchase agreement....	49,068	—	49,068	—	—
Compensated absences.....	298,251	272,501	298,251	272,501	272,501
Net OPEB liability.....	465,300	286,000	—	751,300	—
	<u>\$ 1,487,619</u>	<u>\$ 558,501</u>	<u>\$ 657,319</u>	<u>\$ 1,388,801</u>	<u>\$ 392,501</u>

Certificates of Participation

On May 1, 2001, the Agency sold certificates of participation totaling \$1,840,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of ten years with interest rates ranging from 3.5% to 4.55%. The certificates of participation were paid in full during the year ended June 30, 2011.

Payments on the certificates of participation for the year ended June 30, 2011, including interest, totaled \$203,872.

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
2012.....	\$ 120,000	\$ 14,242	\$ 134,242
2013.....	120,000	9,742	129,742
2014.....	<u>125,000</u>	<u>5,062</u>	<u>130,062</u>
Total	<u>\$ 365,000</u>	<u>\$ 29,046</u>	<u>\$ 394,046</u>

Payments on the capital lease for the year ended June 30, 2011, including interest, totaled \$133,325.

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 asset purchase agreement was paid in full during the year ended June 30, 2011.

Payments on the asset purchase agreement for the year ended June 30, 2011, including interest, totaled \$51,805.

Total interest expenditures for the certificates of participation, capital lease and asset purchase agreement were \$29,934 for the year ended June 30, 2011.

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 one employee in the current year. Actual expenditures for the year ended June 30, 2011 totaled \$4,510.

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, 2011 is as follows:

Transfer to	Transfer From	Amount
Capital Projects	Special Revenue - Special Education Instruction	\$ 80,739
Capital Projects	General	189,276
Debt Service	General	204,959
Proprietary		
Nutrition	Special Revenue - Special Education Instruction	14,240
Technology and Repair Services	Proprietary - Cooperative Purchasing	<u>46,962</u>
Total		<u>\$ 536,176</u>

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, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
General	Debt Service	\$ 3
	Proprietary	
	Technology and Repair Services	<u>35,238</u>
Total General Fund		<u>\$ 35,241</u>

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

(8) Operating Leases

The Agency leases several copiers, with remaining terms ranging from one to four years, under operating leases. The Agency has also leased various facilities within the area to house its different divisions under leases with remaining terms ranging from one to two years. 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, 2011.

Year Ending June 30,	
2012.....	\$ 192,672
2013.....	134,017
2014.....	92,582
2015.....	<u>77,151</u>
Total.....	<u>\$ 496,422</u>

Total rental expenditures for the year ended June 30, 2011 for all operating leases, except those with terms of a month or less that were not renewed, was \$381,001.

(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.

Notes to the Financial Statements

(9) Pension and Retirement Benefits

Plan members are required to contribute 4.5% of their annual covered salary and the Agency is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$3,143,398, \$3,117,396 and \$2,830,463, respectively, which was equal to the required contribution for the years.

(10) Other Post-Employment 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 1,083 active and 79 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through one of four fully insured plans with Wellmark. The dental plan is a self-funded plan with Delta Dental of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate 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.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution.....	\$ 560,000
Interest on net OPEB obligation	21,000
Adjustment to annual required contribution	(18,000)
Annual OPEB Cost	563,000
Contributions made	(277,000)
Increase in Net OPEB Obligation.....	286,000
Net OPEB Obligation - Beginning of Year	465,300
Net OPEB Obligation - End of Year.....	<u>\$ 751,300</u>

Notes to the Financial Statements

(10) Other Post-Employment Benefits (OPEB)

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, 2011.

For the year ended June 30, 2011, the Agency contributed \$277,000 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, 2011 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 514,000	49.0%	\$ 262,000
June 30, 2010	536,300	62.1	465,300
June 30, 2011	563,000	49.2	751,300

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period of July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$4.986 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.986 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$39.5 million and the ratio of the UAAL to the covered payroll was 12.6%. As of June 30, 2011, 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, presents 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.

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, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4.5% discount rate based on the Agency's 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.

(10) Other Post-Employment Benefits (OPEB)

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, 2009 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are \$768 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 on an open basis 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

Management has evaluated subsequent events through December 2, 2011, the date which the financial statements were available to be issued.

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, 2011

	Actual		Total	Budget Amount		Over (Under) Budget
	Governmental Fund Types	Proprietary Fund Type		Original	Final	
Revenue						
Local sources	\$ 37,475,083	\$ 1,342,792	\$ 38,817,875	\$ 42,952,799	\$ 40,936,578	\$(2,118,703)
State sources	18,729,978	1,193	18,731,171	19,282,592	18,500,343	230,828
Federal sources	18,945,236	94,420	19,039,656	23,554,533	18,575,700	463,956
Total Revenue.....	<u>75,150,297</u>	<u>1,438,405</u>	<u>76,588,702</u>	<u>85,789,924</u>	<u>78,012,621</u>	<u>(1,423,919)</u>
Expenditures/Expenses						
Current						
Instruction.....	26,315,571	—	26,315,571	28,340,400	27,316,072	(1,000,501)
Student support services.....	17,944,382	—	17,944,382	19,240,000	17,604,000	340,382
Instructional staff support services	12,615,919	—	12,615,919	14,430,000	13,221,000	(605,081)
General administration	6,298,209	—	6,298,209	6,362,000	6,401,500	(103,291)
Business administration	2,967,959	—	2,967,959	4,523,000	4,105,998	(1,138,039)
Plant operations and maintenance	2,109,525	—	2,109,525	2,530,000	2,750,000	(640,475)
Central and other support services	1,543,050	—	1,543,050	2,314,000	2,258,000	(714,950)
Noninstructional programs	138,675	1,386,074	1,524,749	315,000	315,000	1,209,749
Facilities acquisition and construction.....	270,015	—	270,015	—	—	270,015
Debt service	389,002	—	389,002	415,000	415,000	(25,998)
Total Expenditures/ Expenses	<u>70,592,307</u>	<u>1,386,074</u>	<u>71,978,381</u>	<u>78,469,400</u>	<u>74,386,570</u>	<u>(2,408,189)</u>
Revenue Over Expenditures/ Expenses...	4,557,990	52,331	4,610,321	7,320,524	3,626,051	984,270
Other Financing Sources (Uses)	<u>(3,472,475)</u>	<u>14,240</u>	<u>(3,458,235)</u>	<u>(6,861,555)</u>	<u>(3,460,020)</u>	<u>1,785</u>
Revenue and Other Financing Sources Over Expenditures/ Expenses and Other Financing Uses.....	1,085,515	66,571	1,152,086	458,969	166,031	986,055
Balance - Beginning of Year ...	6,463,074	7,998	6,471,072	6,038,694	6,492,072	(21,000)
Balance - End of Year	<u>\$ 7,548,589</u>	<u>\$ 74,569</u>	<u>\$ 7,623,158</u>	<u>\$ 6,497,663</u>	<u>\$ 6,658,103</u>	<u>\$ 965,055</u>

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

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/expense level. The Agency prepares its budget by major functions. While actual expenditures/expenses for certain functions above exceeded the budget, the Agency's total expenditures/expenses did not exceed the total approved budget.

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

Year Ended June 30, 2011

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
2011	7-1-10	—	4,986,000	4,986,000	0.0	39,500,000	12.6

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, 2011

	<u>Special Revenue Juvenile Home</u>	<u>Debt Service</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 148,086	\$ —	\$ 148,086
Receivables			
Accrued interest	<u>—</u>	<u>3</u>	<u>3</u>
Total Assets	<u>\$ 148,086</u>	<u>\$ 3</u>	<u>\$ 148,089</u>
 Liabilities			
Accounts payable	\$ 2,161	\$ —	\$ 2,161
Salaries and benefits payable	100,883	—	100,883
Due to other funds	—	3	3
Deferred revenue	<u>45,042</u>	<u>—</u>	<u>45,052</u>
Total Liabilities	<u>\$ 148,086</u>	<u>\$ 3</u>	<u>\$ 148,089</u>

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

Year Ended June 30, 2011

	<u>Special Revenue</u> Juvenile Home	Capital Projects	Debt Service	Total
Revenue				
Local sources	\$ —	\$ —	\$ 18	\$ 18
State sources.....	<u>976,612</u>	<u>—</u>	<u>—</u>	<u>976,612</u>
Total Revenue.....	<u>976,612</u>	<u>—</u>	<u>18</u>	<u>976,630</u>
Expenditures				
Current				
Instruction	889,500	—	—	889,500
Instructional staff support services	70	—	—	70
General administration.....	75,106	—	—	75,106
Plant operations and maintenance	11,936	—	—	11,936
Facilities acquisition and construction	—	270,015	—	270,015
Debt service.....	<u>—</u>	<u>—</u>	<u>389,002</u>	<u>389,002</u>
Total Expenditures.....	<u>976,612</u>	<u>270,015</u>	<u>389,002</u>	<u>1,635,629</u>
Revenue Under Expenditures	—	(270,015)	(388,984)	(658,999)
Other Financing Sources				
Transfers in.....	<u>—</u>	<u>270,015</u>	<u>204,959</u>	<u>474,974</u>
Revenue and Other Financing Sources Under Expenditures.....	—	—	(184,025)	(184,025)
Fund Balances - Beginning of Year..	<u>—</u>	<u>—</u>	<u>184,025</u>	<u>184,025</u>
Fund Balances - End of Year.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Combining Schedule of Net Assets - Nonmajor Proprietary Funds

At June 30, 2011

	Nutrition	Technology and Repair Services	Total
Assets			
Cash and pooled investments	\$ 2,830	\$ —	\$ 2,830
Accounts receivable	—	61,060	61,060
Inventories	<u>—</u>	<u>52,349</u>	<u>52,349</u>
Total Assets	<u>\$ 2,830</u>	<u>\$ 113,409</u>	<u>\$ 116,239</u>
Liabilities			
Accounts payable	\$ 2,830	\$ 3,602	\$ 6,432
Due to other funds	<u>—</u>	<u>35,238</u>	<u>35,238</u>
Total Liabilities	<u>2,830</u>	<u>38,840</u>	<u>41,670</u>
Net Assets - Unrestricted	<u>—</u>	<u>74,569</u>	<u>74,569</u>
Total Liabilities and Net Assets	<u>\$ 2,830</u>	<u>\$ 113,409</u>	<u>\$ 116,239</u>

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

Year Ended June 30, 2011

	Nutrition	Cooperative Purchasing	Technology and Repair Services	Total
Operating Revenue				
Charges for services.....	<u>\$ 32,829</u>	<u>\$ 905,605</u>	<u>\$ 404,358</u>	<u>\$ 1,342,792</u>
Operating Expenses				
Noninstructional Programs				
General Administration				
Purchased services.....	—	4	1,342	1,346
Business Administration				
Salaries	—	32,668	—	32,668
Benefits	—	8,265	—	8,265
Purchased services.....	—	1,462	—	1,462
Materials and supplies	—	815,822	—	815,822
Total Business Administration ..	—	858,217	—	858,217
Plant Operations and Maintenance				
Purchased services.....	—	5,783	853	6,636
Materials and supplies	—	2,637	4,645	7,282
Total Plant Operations and Maintenance.....	—	8,420	5,498	13,918
Central and Other Support Services				
Salaries	—	—	170,198	170,198
Benefits	—	—	67,720	67,720
Purchased services.....	—	—	14,651	14,651
Materials and supplies	—	—	117,342	117,342
Total Central Support and Other Services	—	—	369,911	369,911
Food Service Operations				
Salaries	43,179	—	—	43,179
Benefits	22,036	—	—	22,036
Purchased services.....	62	—	—	62
Materials and supplies	77,405	—	—	77,405
Total Food Service Operations	<u>142,682</u>	<u>—</u>	<u>—</u>	<u>142,682</u>
Total Operating Expenses	<u>142,682</u>	<u>866,641</u>	<u>376,751</u>	<u>1,386,074</u>
Income (Loss) From Operations	<u>(109,853)</u>	<u>38,964</u>	<u>27,607</u>	<u>(43,282)</u>
Nonoperating Revenue				
State sources.....	1,193	—	—	1,193
Federal sources.....	<u>94,420</u>	<u>—</u>	<u>—</u>	<u>94,420</u>
Total Nonoperating Revenue ...	<u>95,613</u>	<u>—</u>	<u>—</u>	<u>95,613</u>
Change in Net Assets Before Transfers	(14,240)	38,964	27,607	52,331
Transfers in (out)	<u>14,240</u>	<u>(46,962)</u>	<u>46,962</u>	<u>14,240</u>
Change in Net Assets.....	—	(7,998)	74,569	66,571
Net Assets - Beginning of Year	<u>—</u>	<u>7,998</u>	<u>—</u>	<u>7,998</u>
Net Assets - End of Year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 74,569</u>	<u>\$ 74,569</u>

Combining Schedule of Cash Flows - Nonmajor Proprietary Funds

At June 30, 2011

	Nutrition	Cooperative Purchasing	Technology and Repair Services	Total
Cash Flows From Operating Activities				
Cash received from customers	\$ 32,893	\$ 1,145,691	\$ 393,750	\$ 1,572,334
Cash paid to employees for services	(65,683)	(42,969)	(237,918)	(346,570)
Cash paid to suppliers for goods and services	(73,910)	(499,803)	(153,948)	(727,661)
Net Cash Provided by (Used in) Operating Activities	<u>(106,700)</u>	<u>602,919</u>	<u>1,884</u>	<u>498,103</u>
Cash Flows From Noncapital Financing Activities				
State grants received	1,193	—	—	1,193
Federal grants received	89,797	—	—	89,797
Repayment received on advances to other funds	—	—	25,638	25,638
Repayment of advances from other funds	—	(555,957)	(74,484)	(630,441)
Transfers in (out)	14,240	(46,962)	46,962	14,240
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>105,230</u>	<u>(602,919)</u>	<u>(1,884)</u>	<u>(499,573)</u>
Net Decrease in Cash	(1,470)	—	—	(1,470)
Cash at Beginning of Year	4,300	—	—	4,300
Cash at End of Year	<u>\$ 2,830</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,830</u>
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities				
Income (loss) from operations	\$ (109,853)	\$ 38,964	\$ 27,607	\$ (43,282)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities				
Commodities used	4,623	—	—	4,623
(Increase) decrease in accounts receivable	64	240,086	(10,608)	229,542
(Increase) decrease in inventories	414	431,700	(9,220)	422,894
Decrease in accounts payable	(1,480)	(105,795)	(5,895)	(113,170)
Decrease in salaries and benefits payable	(468)	(2,036)	—	(2,504)
Net Cash Provided by (Used in) Operating Activities	<u>\$ (106,700)</u>	<u>\$ 602,919</u>	<u>\$ 1,884</u>	<u>\$ 498,103</u>

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

Year Ended June 30, 2011

	Balance 7-1-10	Additions	Deductions	Balance 6-30-11
Assets				
Cash and pooled investments	\$ 653,181	\$ 1,389,306	\$ 1,591,018	\$ 451,469
Accounts receivable	<u>110</u>	<u>54,103</u>	<u>110</u>	<u>54,103</u>
Total Assets	<u>\$ 653,291</u>	<u>\$ 1,443,409</u>	<u>\$ 1,591,128</u>	<u>\$ 505,572</u>
 Liabilities				
Accounts payable	\$ 69,876	\$ 268,453	\$ 69,876	\$ 268,453
Due to other governments	79,316	—	79,316	—
Deferred revenue.....	189,596	—	189,596	—
Deposits held in custody of others.....	<u>314,503</u>	<u>1,174,956</u>	<u>1,252,340</u>	<u>237,119</u>
Total Liabilities	<u>\$ 653,291</u>	<u>\$ 1,443,409</u>	<u>\$ 1,591,128</u>	<u>\$ 505,572</u>

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

For the Last Seven Years

	Years Ended June 30,						
	2011	2010	2009	2008	2007	2006	2005
Revenue							
Local sources	\$ 37,475,083	\$ 39,255,589	\$ 37,963,299	\$ 35,320,511	\$ 34,467,848	\$ 33,309,117	\$ 31,453,896
State sources.....	18,729,978	16,787,160	18,421,837	16,590,759	13,862,015	12,706,309	12,020,599
Federal sources.....	<u>18,945,236</u>	<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>
Total Revenue	<u>\$ 75,150,297</u>	<u>\$ 85,973,090</u>	<u>\$ 75,636,788</u>	<u>\$ 68,782,500</u>	<u>\$ 66,326,483</u>	<u>\$ 64,620,030</u>	<u>\$ 61,007,665</u>
Expenditures							
Current							
Instruction	\$ 26,315,571	\$ 27,131,683	\$ 25,831,081	\$ 23,671,016	\$ 22,924,955	\$ 21,763,378	\$ 20,467,445
Student support services	17,944,382	18,710,718	17,601,257	16,629,025	15,267,040	15,447,597	17,889,315
Instructional staff support services.....	12,615,919	13,514,721	12,732,796	11,438,951	11,965,394	11,940,186	11,207,636
General administration.....	6,298,209	6,566,067	5,976,269	5,758,953	5,718,006	5,396,285	5,474,878
Business administration	2,967,959	3,155,816	2,991,439	3,457,122	2,996,568	2,813,973	2,873,359
Plant operations and maintenance	2,109,525	2,690,751	2,195,038	2,274,798	2,062,109	2,213,313	3,035,099
Central and other support services	1,543,050	1,699,324	1,799,788	1,586,136	1,689,199	1,642,549	104,132
Noninstructional programs	138,675	—	—	—	—	—	—
Facilities acquisition and construction	270,015	377,454	—	—	—	1,584,465	1,286,662
Debt service.....	<u>389,002</u>	<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>
Total Expenditures	<u>\$ 70,592,307</u>	<u>\$ 74,263,848</u>	<u>\$ 69,542,256</u>	<u>\$ 65,232,027</u>	<u>\$ 63,039,773</u>	<u>\$ 63,166,256</u>	<u>\$ 64,346,310</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Agriculture - Indirect			
Pass-Through Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	N/A	\$ 25,925
National School Lunch Program.....	10.555	N/A	59,438
National School Lunch Program - Food Donation (noncash).....	10.555	N/A	<u>4,623</u>
Total Child Nutrition Cluster			<u>89,986</u>
Child Nutrition Discretionary Grants Limited Availability	10.579	N/A	<u>4,433</u>
Total U.S. Department of Agriculture			<u>94,419</u>
U.S. Department of Education - Indirect			
Pass-Through Center for Civic Education			
Civic Education - We the People and the Cooperative Education Exchange Program			
Citizen and Constitution	84.304	N/A	10,917
Project Citizen.....	84.304	N/A	<u>14,259</u>
Total Pass-Through Center of Civic Education ...			<u>25,176</u>
Pass-Through Grant Wood Area Education Agency			
Educational Technology State Grants	84.318*	N/A	<u>105,715</u>
Pass-Through Iowa Department of Education			
Special Education - Grants to States			
Preschool Handicapped Program	84.027**	101107	11,350,412
Preschool Handicapped Program - Flow Through	84.027**	OKB2-07	3,458,235
Enhancing the Parent Educator Connection	84.027**	07407	<u>151,319</u>
Total Special Education - Grants to States			<u>14,959,966</u>
Special Education - Preschool Grants			
Section 619	84.173**	10619-07	427,498
IQPPS Grant	84.173**	CT030011	<u>3,630</u>
Total Special Education - Preschool Grants.....			<u>431,128</u>
ARRA - Special Education - Grants to States, Recovery Act.....			
	84.391**	RKB1	<u>1,240,461</u>
ARRA - Special Education - Preschool Grants, Recovery Act.....			
	84.392**	R619-07	<u>223,626</u>
Career and Technical Education - Basic Grants to States	84.048***	N/A	<u>278,764</u>
Early Intervention Services Cluster (IDEA)			
Special Education - Grants for Infants and Families ..	84.181	C10-07	413,331
ARRA - Special Education - Grants for Infants and Families, Recovery Act	84.393	RC-07	<u>192,521</u>
Total Early Intervention Services Cluster (IDEA)			<u>605,852</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Education - Indirect			
Pass-Through Iowa Department of Education			
Safe and Drug-Free Schools and Communities - National Programs			
Iowa Safe and Supportive Schools	84.184	1SS3-B-07	\$ 7,634
Iowa Safe and Supportive Schools	84.184	1SS3-A-07	<u>3,084</u>
Total Safe and Drug-Free Schools and Communities - National Programs			<u>10,718</u>
Educational Technology State Grants	84.318*	N/A	<u>15,193</u>
Special Education - State Personnel Development	84.323	SPDG/267	<u>51,129</u>
English Language Acquisition Grants	84.365	N/A	<u>324,236</u>
Total Pass-Through Iowa Department of Education			<u>18,141,073</u>
Pass-Through Iowa Valley Community College District			
Tech-Prep Education	84.243	N/A	<u>16,000</u>
Pass-Through Marshalltown Community School District			
Title I Grants to Local Educational Agencies	84.010****	N/A	<u>101,400</u>
Pass-Through Mason City Community School District			
Title I Grants to Local Educational Agencies	84.010****	N/A	38,839
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389****	N/A	<u>32,576</u>
Total Pass-Through Mason City Community School District			<u>71,415</u>
Pass-Through School Administrators of Iowa			
Parental Information and Resource Centers.....	84.310	N/A	<u>49,509</u>
Pass-Through State Training School for Boys			
Special Education - Grants to States	84.027**	N/A	9,526
ARRA - Special Education - Grants to States, Recovery Act	84.391**	N/A	<u>19,222</u>
Total Pass-Through State Training School for Boys			<u>28,748</u>
Pass-Through Waterloo Community School District			
Title I Grants to Local Educational Agencies	84.010****	N/A	<u>12,366</u>
Career and Technical Education - Basic Grants to States	84.048***	N/A	<u>17,811</u>
Total Pass-Through Waterloo Community School District			<u>30,177</u>
Total U.S. Department of Education			<u>18,569,213</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Corporation for National and Community Service - Indirect			
Pass-Through Iowa Department of Education			
Learn and Serve America - School and Community Based Programs.....			
Service Learning.....	94.004	10SL267	\$ 1,719
Service Learning.....	94.004	11SL267	<u>4,916</u>
Total Corporation for National and Community Service.....			<u>6,635</u>
Total.....			<u>\$ 18,670,267</u>

* Total for CFDA Number 84.318 is \$120,908.

** Total for CFDA Number 84.027 is \$14,969,492, total for CFDA Number 84.391 is \$1,259,683 and total for Special Education Cluster (IDEA) is \$16,883,929.

*** Total for CFDA Number 84.048 is \$296,575.

**** Total for CFDA Number 84.010 is \$152,605 and total for Title I, Part A Cluster is \$185,181.

(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 \$3,458,235 of federal awards to various school districts as part of the Preschool Handicapped Program.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards

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, 2011, and the discretely presented component units at December 31, 2010 and June 30, 2011, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated December 2, 2011. 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 weakness 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*. However, we noted an immaterial instance of noncompliance or other matter which is described in Part IV of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about Area Education Agency 267's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Area Education Agency 267. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Area Education Agency 267's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. While we have expressed a conclusion on the Agency's response, we did not audit Area Education Agency 267's response and, accordingly, we express no opinion on it.

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.

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Mason City, Iowa
December 2, 2011

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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

Compliance

We have audited Area Education Agency 267's compliance, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or 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.

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Mason City, Iowa
December 2, 2011

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

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
84.181 and 84.393

Name of Federal Program or Cluster

Special Education Cluster
Early Intervention Services Cluster
(IDEA)

Dollar threshold used to distinguish between Type A and Type B programs: \$560,108

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

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

- 11-IV-CS-1 Certified Budget** - Expenditures during the year ended June 30, 2011 did not exceed the amount budgeted.
- 11-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.
- 11-IV-CS-3 Travel Expenses** - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 11-IV-CS-4 Business Transactions** - No business transactions between the Agency and Agency officials or employees were noted.
- 11-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.
- 11-IV-CS-6 Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.
- 11-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, with the following exception:

Finding - The Agency held deposits at one institution in excess of the maximum amount authorized by the Board of Directors.

Recommendation - The Agency should review its procedures to ensure it is in compliance with all Board policies.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2011

Response - The Agency will monitor procedures to ensure that deposits made with qualified depositories are within the limits authorized by the Board.

Conclusion - Response accepted.

11-IV-CS-8 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

11-IV-CS-9 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.