

**IOWA ASSOCIATION FOR
EDUCATIONAL PURCHASING**

CEDAR FALLS, IOWA

JUNE 30, 2014

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Board of Directors

Name	Title	Representing
Francis Peterson	Board Member	Keystone AEA
Dr. Debra Rich	Board Member	AEA 267
Steve Jimmerson	Board Member	Prairie Lakes AEA
Joe Adam	Board Member	Mississippi Bend AEA
Jim Green	Board Member	Grant Wood AEA
Dr. Earl Bridgewater	Board Member	Heartland AEA
Roger Brinkert	Board Member	Northwest AEA
Julie Wilken	Board Member	Green Hills AEA
Dr. Joy Prothero	Board Member	Great Prairie AEA
Robert Vittengl, Ph.D.	Executive Director	
Dan Dreyer	Director of the Food Program	
Marie Hills	Administrative Assistant	

Independent Auditor's Report

Board of Directors
Iowa Association for Educational Purchasing
Cedar Falls, Iowa

Report on the Financial Statements

We have audited the accompanying statement of net position of the Iowa Association for Educational Purchasing as of June 30, 2014, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Association for Educational Purchasing as of June 30, 2014, and the changes in its net position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management with the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014 on our consideration of the Iowa Association for Educational Purchasing'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* in considering the Iowa Association for Educational Purchasing's internal control over financial reporting and compliance.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 13, 2014

Management's Discussion and Analysis

The Iowa Association for Educational Purchasing (Association) provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities of the Association is for the year ended June 30, 2014. Readers are encouraged to read the management's discussion and analysis in conjunction with the Association's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Association's operating revenue was \$671,777 in fiscal year 2014, a decrease from \$731,032 in fiscal year 2013.
- The Association's operating expenses were \$598,140 in fiscal year 2014, a decrease from \$838,789 in fiscal year 2013.
- The Association's net position increased by \$74,200 in fiscal year 2014, compared to a \$106,971 decrease in fiscal year 2013.

USING THIS ANNUAL REPORT

The Iowa Association for Educational Purchasing is a 28E organization and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to the Association's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Association's financial activities.

The statement of net position presents information on the Association's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating.

The statement of revenue, expenses and changes in net position is the basic statement of activities for proprietary funds. This statement presents information on the Association's operating revenue and expenses, nonoperating revenue and expenses and whether the Association's financial position has improved or deteriorated as a result of the year's activities.

The statement of cash flows presents the change in the Association's cash during the year. This information can assist the user of the report in determining how the Association financed its activities and how it met its cash requirements.

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE ASSOCIATION

Statement of Net Position

Net position may serve over time as a useful indicator of the Association's financial position. The Association's net position at the end of fiscal year 2014 totaled \$332,991. A summary of the Association's net position as of June 30, 2014 and 2013 is presented below.

	2014	2013
Current assets	\$ 334,605	\$ 341,731
Capital assets, net of accumulated depreciation	<u>19,764</u>	<u>22,531</u>
Total Assets	<u>354,369</u>	<u>364,262</u>
 Current Liabilities	 <u>21,378</u>	 <u>105,471</u>
 Net Position		
Investment in capital assets	19,764	22,531
Unrestricted	<u>313,227</u>	<u>236,260</u>
 Total Net Position	 <u>\$ 332,991</u>	 <u>\$ 258,791</u>

The unrestricted portion of the Association's net position (94%) can be used to meet the Association's obligations as they come due. Investment in capital assets (e.g., furniture, equipment and vehicle) (6%) is resources allocated to capital assets.

Statement of Revenue, Expenses and Changes in Net Position

Operating revenue is received for the cooperative food purchasing program. Operating expenses are expenses paid to operate the Association. Nonoperating revenue includes interest income. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenue, expenses and changes in net position for the years ended June 30, 2014 and 2013 is presented below:

	2014	2013
Operating Revenue		
Cooperative	<u>\$ 671,777</u>	<u>\$ 731,032</u>
 Operating Expenses		
Wages and payroll taxes	261,419	251,381
Rebates	170,318	400,000
Professional fees	89,064	125,214
Travel	19,604	14,454
Purchased services	950	950
Supplies	13,484	3,675
Insurance	9,229	8,319
Telephone and communication	4,731	4,387
Depreciation	6,052	5,105
Meeting expense	6,099	17,507
Marketing	274	1,022
Information technology	2,596	4,968
Repairs and maintenance	161	511
Rent	12,540	—
Staff dues	<u>1,619</u>	<u>1,296</u>
Total Operating Expenses	<u>598,140</u>	<u>838,789</u>

	2014	2013
Operating Income (Loss)	\$ 73,637	\$ (107,757)
Nonoperating Revenue		
Interest income.....	<u>563</u>	<u>786</u>
Change in Net Position	74,200	(106,971)
Net Position - Beginning of Year.....	<u>258,791</u>	<u>365,762</u>
Net Position - End of Year	<u>\$ 332,991</u>	<u>\$ 258,791</u>

Statement of Cash Flows

The statement of cash flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash from operating activities includes cooperative revenue reduced by payments to employees and suppliers. Cash from capital and related financing activities includes the purchase of capital assets. Cash from investing activities includes interest income.

CAPITAL ASSETS

As of June 30, 2014, the Association had \$19,764 invested in capital assets, net of accumulated depreciation of \$12,087. Depreciation expense totaled \$6,052 for fiscal year 2014. More detailed information about the Association's capital assets is presented in Note 2 to the financial statements.

ECONOMIC FACTORS

The Iowa Association for Educational Purchasing began operation on July 1, 2011. In its fourth year of operation, the Association had approximately 300 school district clients which purchased over \$29,000,000 of food products and lunchroom supplies through our program. We estimate that by the clients' participation in our program, the Association saved them approximately \$2,030,000 in food and supply costs.

The Association fee of 50 cents per case yielded \$614,867 in fees. After all expenses are paid, the Association will rebate any remaining monies to clients on a pro rata basis.

During the 2013-14 year, the Association continued to utilize the services of a full-time food program consultant to help clients deal with the numerous state and federal dietary regulations. The program consultant made the program more appealing to those who weren't clients which led to several of them joining the program.

For the 2014-15 year, the Association is hopeful that it will see slight increases in both the number of clients served and its total sales volume.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and customers with a general overview of the Association's finances and to show the Association's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Iowa Association for Educational Purchasing, 3712 Cedar Heights Drive, Cedar Falls, Iowa 50613.

Financial Statements

Statement of Net Position

As of June 30, 2014

Assets

Current Assets

Cash.....	\$ 328,759
Accounts receivable	<u>5,846</u>
Total Current Assets	<u>334,605</u>

Capital Assets, Net of Accumulated Depreciation	<u>19,764</u>
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Total Assets	<u>\$ 354,369</u>
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Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 20,424
Accrued expenses	<u>954</u>
Total Current Liabilities	<u>21,378</u>

Net Position

Investment in capital assets.....	19,764
Unrestricted	<u>313,227</u>
Total Net Position	<u>332,991</u>

Total Liabilities and Net Position	<u>\$ 354,369</u>
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Statements of Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2014

Operating Revenue

Cooperative **\$ 671,777**

Operating Expenses

Wages and payroll taxes 261,419
Rebates 170,318
Professional fees 89,064
Travel 19,604
Purchased services 950
Supplies 13,484
Insurance 9,229
Telephone and communication 4,731
Depreciation 6,052
Meeting expense 6,099
Marketing 274
Information technology 2,596
Repairs and maintenance 161
Rent 12,540
Staff dues 1,619
Total Operating Expenses **598,140**

Operating Income **73,637**

Nonoperating Revenue

Interest income **563**

Change in Net Position **74,200**

Net Position - Beginning of Year **258,791**

Net Position - End of Year **\$ 332,991**

Statement of Cash Flows

Year Ended June 30, 2014

Cash Flows From Operating Activities

Cash received from cooperative	\$ 665,931
Cash paid to suppliers for goods and services.....	(399,722)
Cash paid to employees for services	<u>(276,459)</u>

Net Cash Used in Operating Activities..... **(10,250)**

Cash Flows From Capital and Related Financing Activities

Purchase of capital assets.....	<u>(3,285)</u>
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Cash Flows From Investing Activities

Interest received.....	<u>563</u>
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Net Decrease in Cash..... (12,972)

Cash at Beginning of Year..... 341,731

Cash at End of Year..... **\$ 328,759**

Reconciliation of Operating Income to Net Cash Used in Operating Activities

Operating income.....	\$ 73,637
Adjustments to Reconcile Operating Income to Net Cash Used in Operating Activities	
Depreciation.....	6,052
Changes in Assets and Liabilities	
Increase in accounts receivable	(5,846)
Decrease in accounts payable.....	(69,053)
Decrease in accrued expenses	<u>(15,040)</u>

Net Cash Used in Operating Activities..... **\$ (10,250)**

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Nature of Activities

The Iowa Association for Educational Purchasing is an Iowa organization formed by the Iowa Area Education Agencies (AEAs) under Chapter 28E of the Code of Iowa to assist member schools with the purchase of products and services that enhance their school meals programs in support of the educational goals of students. Member schools include Iowa public schools, accredited nonpublic schools and any other institution participating in the National School Lunch Program and served by the Iowa AEAs.

The Association is composed of all of the Iowa AEAs. The members are: AEA 267, Keystone AEA, Green Hills AEA, Mississippi Bend AEA, Grant Wood AEA, Northwest AEA, Great Prairie AEA, Prairie Lakes AEA and Heartland AEA.

Reporting Entity

For financial reporting purposes, the Iowa Association for Educational Purchasing has included all funds, organizations, agencies, boards, commissions and authorities. The Association 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 Association are such that exclusion would cause the Association'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 Association 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 Association. The Iowa Association for Educational Purchasing has no component units which meet the Governmental Accounting Standards Board criteria.

Measurement Focus and Basis of Presentation

The accounts of the Association are organized as an enterprise fund. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Basis of Accounting

The 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 met.

The Association distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the Association's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses.

Cash

The Association's deposits in banks as of June 30, 2014 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 Association has a written investment policy and 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 Association; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2014, the Association had no investments.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Capital Assets

Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Capital assets of the Association are depreciated using the straight-line method over the following estimated useful lives:

Type	Estimated Useful Lives
Automobiles.....	5 Years
Furniture and equipment	5 Years

Depreciation expense for the year ended June 30, 2014 was \$6,052.

Subsequent Events

Management has evaluated subsequent events through October 13, 2014, the date which the financial statements were available to be issued.

Notes to the Financial Statements

(2) Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year
Capital Assets Being Depreciated				
Furniture and equipment	\$ 7,000	\$ 3,285	\$ —	\$ 10,285
Vehicle	<u>21,566</u>	<u>—</u>	<u>—</u>	<u>21,566</u>
Total Capital Assets Being Depreciated.....	<u>28,566</u>	<u>3,285</u>	<u>—</u>	<u>31,851</u>
Less Accumulated Depreciation for				
Furniture and equipment	2,800	1,739	—	4,539
Vehicle	<u>3,235</u>	<u>4,313</u>	<u>—</u>	<u>7,548</u>
Total Accumulated Depreciation...	<u>6,035</u>	<u>6,052</u>	<u>—</u>	<u>12,087</u>
Net Capital Assets	<u>\$ 22,531</u>	<u>\$ (2,767)</u>	<u>\$ —</u>	<u>\$ 19,764</u>

(3) Risk Management

The Association 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 Association assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(4) Pension and Retirement Benefits

Plan Description

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

Plan members are required to contribute 5.95% of their annual covered salary and the Association is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Association's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$20,752, \$18,362 and \$0, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(5) Related Party Transactions

The Association paid \$20,172 to Grant Wood AEA for services. The Association owed \$16,838 to Grant Wood AEA as of June 30, 2014, which is reflected in the statement of net position.

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 Government Auditing Standards

Board of Directors
Iowa Association for Educational Purchasing
Cedar Falls, Iowa

We have audited, in accordance with the 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, the financial statements of the Iowa Association for Educational Purchasing as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iowa Association for Educational Purchasing's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Iowa Association for Educational Purchasing's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Association for Educational Purchasing's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control that we consider to be a material weakness.

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 there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 14-IC-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Association for Educational Purchasing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters which are described in the accompanying schedule of findings.

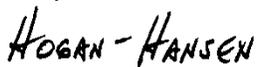
Comments involving statutory and other legal matters about the Association's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Association. Since our audit was based on tests and samples, 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.

Iowa Association for Educational Purchasing's Responses to Findings

The Iowa Association for Educational Purchasing's responses to findings identified in our audit are described in the accompanying schedule of findings. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HOGAN - HANSEN

Mason City, Iowa
October 13, 2014

Schedule of Findings

Year Ended June 30, 2014

Findings Related to the Financial Statement

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

14-IC-1 Supporting Documentation for Expenses

Finding - During our audit, we tested several disbursements, three of which were not supported by proper documentation.

Auditor's Recommendation - The Association should have procedures in place to ensure that all expenses have appropriate support before payment is issued.

Association's Response - The Association has requested that documentation for expenses to be paid be obtained before payment is issued. We will review our procedures and make the necessary changes to ensure that all expenses have appropriate supporting documentation.

Auditor's Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting

14-C-1 Questionable Expenses - We noted no expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, except for those discussed in finding 14-IC-1.

14-C-2 Travel Expense - No expenditures for travel expenses of spouses of Association officials or employees were noted. However, we noted that for two individual travel expense transactions, there was a lack of documentation to show that the expense met the public purpose requirement as defined in an Attorney General's opinion dated April 25, 1979 as discussed in finding 14-IC-1.

14-C-3 Board Minutes - No transactions were found that we believe should have been approved in the Association minutes but were not.

14-C-4 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Association's investment policy.