**This guide is provided in accordance with Chapter 11.6(7) of the Code of Iowa. Use of this guide in your practice requires a proper implementation of professional standards. This guide is not a substitute for an understanding of the applicable professional standards. While this guide has been reviewed internally by CPAs within the Auditor of State’s Office and is subject to outside peer review every three years, the guide has not undergone an external Quality Control Material Review or Examination.**

|  |
| --- |
| **SAMPLE AREA EDUCATION AGENCY**  **INDEPENDENT AUDITOR’S REPORTS**  **BASIC FINANCIAL StatemenTS AND SUPPLEMENTARY INFORMATION**  **SCHEDULE OF FINDINGS AND QUESTIONED COSTS  JUNE 30, 2021** |

|  |  |
| --- | --- |
|  | ====== Office of ======  **AUDITOR OF STATE**  **State Capitol Building • Des Moines, Iowa**  ======================= |
|  |  |
|  | **Rob Sand** **Auditor of State** |

September 20, 2007

Practitioners:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of Area Education Agencies (AEA) should be performed in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format shows the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this Office. The detail presented in the basic financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the AEA feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

AEAs with $750,000 or more of federal expenditures are required to receive a Single Audit in accordance with the Uniform Guidance. Any questions concerning Single Audit requirements should be directed to the Agency's cognizant or oversight agency, which is generally:

|  |  |
| --- | --- |
| Office of Inspector General United States Department of Education 8930 Ward Parkway, Suite 2401 Kansas City, MO 64114-3302 (817) 268-0500 | Iowa Department of Education Division of School Finance and Support Services Grimes Building 400 East 14th Street Des Moines, IA 50319-0146 (515) 281-5293 |

In accordance with the Uniform Guidance, the reporting package and Data Collection Form shall be submitted to the central clearinghouse the earlier of 30 days after issuance of the audit report or 9 months after the reporting period. The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. The Data Collection Form and reporting package must be submitted using the Clearinghouse’s Internet Data Entry System at <http://harvester.census.gov/facweb/>. The system requires the reporting package be uploaded in a single PDF file. Both the auditee and auditor contacts receive automated e-mails from the Federal Audit Clearinghouse as verification of the submission.

Under Rule 15c2-12 of the Securities and Exchange Commission governing ongoing disclosure by municipalities to the bond markets, virtually any municipality which issues more than $1 million of securities per issue is subject to an ongoing filing responsibility. All continuing disclosure submissions must be provided to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system. In addition, submissions must be in an electronic format (text-searchable PDF), i.e., not scanned.

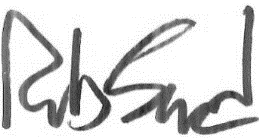
The findings on compliance, items IV-A-10 through IV-J-21, and IV-K-21 (if applicable), detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

As required by Chapter 11.14 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the AEA for the notification. We have developed a standard news release to be used for this purpose. The news release (paper copy or electronic format) should be completed by the CPA firm or the AEA and submitted to this Office with a **text-searchable** electronic copy of the audit report sent by the CPA firm. Report filing requirements are detailed on the attached listing. We will make the audit report and news release available to the news media in our Office.

In accordance with Chapter 11.6(7) of the Code of Iowa, this Office is to be notified immediately regarding any suspected embezzlement, theft or other significant financial irregularities.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to Area Education Agencies. Together, we are able to provide a significant benefit to all taxpayers in the state.



Rob Sand  
 Auditor of State

**Report** – The AEA or CPA firm is required to submit an electronic, **text-searchable**, PDF copy of the audit report, including the management letter(s) if issued separately, with this Office upon release to the AEA within nine months following the end of the fiscal year subject to audit. Text-searchable files are required for the following reasons:

* The files created are much smaller in size than scanned-image files. Accordingly, text-searchable files require less storage space.

* Text-searchable files are required by the Census bureau when submitting Data Collection Forms and Single Audit reporting packages (i.e., consistent with Federal requirements).
* Text- searchable files provide transparency to the public.

**Per Diem Audit Billing & News Release** – A copy of the CPA firm's per diem audit billing, including total cost and hours, and a copy of the news release or media notification should also be submitted. These items can be submitted as either paper copies or electronic copies.

**Filing Fee** – The filing fee should be submitted based on the following designated budget strata:

|  |  |
| --- | --- |
| Budgeted Expenditures in | Filing |
| Millions of Dollars | Fee Amount |
| Under 1 | $ 100 |
| At least 1 but less than 3 | 175 |
| At least 3 but less than 5 | 250 |
| At least 5 but less than 10 | 425 |
| At least 10 but less than 25 | 625 |
| 25 and over | 850 |

**Submission** – Electronic submission (text-searchable PDF) of the audit report, per diem audit billing and news release should be e-mailed to [SubmitReports@AOS.iowa.gov](mailto:SubmitReports@AOS.iowa.gov).

If you are unable to e-mail the PDF files, you may mail a CD containing the files to this Office. You may direct any questions about submitting electronic files to the above e-mail address.

An electronic (PDF format) copy of the audit report, including the management letter(s) if issued separately, should also be filed with the Iowa Department of Education. Each report should be emailed to [ED.Audit@iowa.gov](mailto:ED.Audit@iowa.gov). For more information, call (515) 281-5293.

Paper copies (if not submitted electronically) of the per diem audit billing and news release, as well as the filing fee, should be sent to the following address:

Office of Auditor of State

State Capitol Building

Room 111

1007 East Grand Avenue

Des Moines, IA 50319-0001

**Early Childhood Iowa Area Board** – For Area Education Agencies which act as a fiscal agent for an Early Childhood Iowa Area Board and have additional audit procedures performed for the Area Board as a part of the AEA’s audit, an electronic, text-searchable, PDF copy of the audit report, including the management letter(s) if issued separately, should be emailed to [Shanell.Wagler@iowa.gov](mailto:Shanell.Wagler@iowa.gov) or [Amanda.Winslows@iowa.gov](mailto:Amanda.Winslows@iowa.gov) with the Iowa Department of Management.

1. Implemented GASB (GASBS) No. 84, Fiduciary Activities. The following changes have been made to the Sample Report:

* Revised the Independent Auditor’s Report to include an emphasis of a matter paragraph to address adoption of new accounting guidance related to GASBS No. 84.
* Modified Exhibit J – changed the title to Statement of Fiduciary Net Position – Custodial Funds and changed the format to conform to GASBS No. 84.
* Added Exhibit K – Statement of Changes in Fiduciary Net Position – Custodial Funds to conform to GASBS No. 84 reporting requirements.
* Added a note disclosure (Note 13) for the restatement of the beginning Fiduciary Net Position.

1. Added a note disclosure regarding a prospective accounting change for GASB Statement No. 87, Leases. (Note 14)

**Additional Notes**

1. Attached are a sample Corrective Action Plan for Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not intended to match the findings shown in the sample entity nor are they required to be filed with this Office.
2. AEAs are to submit the Certified Annual Report (CAR) to the Iowa Department of Education (DE) through an upload to the DE website. In order to properly certify the CAR to the DE, the AEA’s CAR must be free of errors as determined by the DE’s edit checks.

The DE does not accept amendments to the CAR. Material errors noted during the audit should be reviewed with the AEA and amended by the AEA through the “upward and downward auditor’s adjustments” to the beginning balance on the subsequent year CAR.

AEAs must certify the fiscal year 2021 CAR to the DE by September 15, 2021. If the AEA does not properly certify the CAR by the deadline, comment IV-I-21 in the Schedule of Findings and Questioned Costs should be modified as follows:

Certified Annual Report – The Certified Annual Report was not properly certified to the Iowa Department of Education by September 15, 2021.

Recommendation – In the future, the Agency should ensure the Certified Annual Report is certified timely to the Iowa Department of Education.

Response –

Conclusion –

1. Confirmations from the Iowa Department of Education will be available electronically through the web. Also, all correspondence to auditors from the Iowa Department of Education will be done by e-mail. Please send e-mail addresses or updates to [carolyn.engelhardt@iowa.gov](mailto:carolyn.engelhardt@iowa.gov).
2. Following is an example footnote for an early retirement or other benefit plan or policy which meets the definition of a “termination benefit” as defined by GASB Statement No. 47.

**Sample Note – Termination Benefits**

In September 2020, the Agency approved a voluntary early retirement plan for employees. Eligible employees must have completed at least fifteen years of full-time service to the Agency and must have reached the age of fifty-five on or before June 30, 2021. The application for early retirement is subject to approval by the Board of Directors.

Early retirement benefits are equal to 60% of the employee’s regular contractual salary in effect during the employee’s last year of employment, with a maximum retirement benefit of $30,000.

Early retirement benefits will be paid in three equal annual installments beginning July 1, 2021.

At June 30, 2021, the Agency has obligations to eleven participants with a total liability of $171,285. Actual early retirement expenditures for the year ended June 30, 2021 totaled $85,642.

1. Categorical funding legislation – Iowa Code section 11.6 requires categorical funding be covered during the annual audit. Specifically:

“The audit of school offices shall include at a minimum a determination that the laws of the state are being followed, that categorical funding is not used to supplant other funding except as otherwise provided, that supplementary weighting is pursuant to an eligible sharing condition, and that postsecondary courses provided in accordance with section 257.11 and chapter 261E supplement, rather than supplant, school district courses.”

As a result, procedures to test categorical funding are included in the AEA Audit Program Guide.

The auditor is required to include a statutory comment on categorical funding in the Schedule of Findings and Questioned Costs, regardless of whether there are any instances of   
non-compliance or not.

An example to report non-compliance is included in item 8 of the “Additional Notes” section and item IV-L-21 of the Schedule of Findings and Questioned Costs of the Sample Community School District sample report.

1. The Early Childhood Iowa Initiative is established by Chapter 256I of the Code of Iowa. Chapter 256I.5 of the Code of Iowa requires the Department of Management and the Early Childhood Iowa State Board to establish reporting and other requirements to address the financial activities of Area Boards and audit requirements of fiscal agents for Area Boards.

If an Area Education Agency and Area Board choose to have procedures performed as part of its fiscal agent’s audit, the procedures to be performed are included in a separate section of the Sample Entity audit program titled “Early Childhood Iowa Area Board”.

The Sample AEA report illustrates an example of the reporting requirements if the AEA acts as the fiscal agent for an Area Board and the audit procedures are performed as part of the AEA’s audit. The required disclosure of the financial data of the Area Board is included in Note 10 to the financial statements.

The auditor is also required to include a statutory comment on the Early Childhood Iowa Area Board, regardless of whether there are any instances of non-compliance or not. This statutory comment is included as item IV-K-21 in the Schedule of Findings and Questioned Costs of the Sample AEA report. The following is an example statutory comment if no instances of non-compliance are noted:

**Early Childhood Iowa Area Board** – Sample AEA is the fiscal agent for the Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. Financial transactions of the Area Board are included in the AEA’s financial statements as an Agency Fund because of the AEA’s fiduciary relationship with the organization.

No instances of non-compliance were noted as a result of the audit procedures performed.

The Sample AEA report also includes an internal control deficiency for the Early Childhood Iowa Area Board, which is reported as item II-D-21 in the Schedule of Findings and Questioned Costs.

Sample Area Education Agency  
Corrective Action Plan  
Year ended June 30, 2021

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Comment Number | Comment Title | Corrective Action Plan | Contact Person,  Title,  Phone Number | Anticipated  Date of  Completion |
| II-A-21 | Segregation of Duties | We have reviewed procedures and plan to make the necessary changes to improve internal control. | Tom Claim,  Administrator,  (515) YYY-XXXX | November 2, 2021 |
| II-B-21 | Financial Reporting | We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future. | Joe Smith,  Program Director,  (515) YYY-XXXX | November 2, 2021 |
| 2021-001 | Unsupported Expenditures | We will revise our procedures so documentation (e.g. invoices and time cards) is maintained to support federal expenditures. We returned the $25,589 of questioned costs to the Iowa Economic Development Authority on October 3, 2021. | Tom Claim,  Administrator,  (515) YYY-XXXX | Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Economic Development Authority on October 3, 2021. |
| 2021-002 | Segregation of Duties over Federal Revenues | We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by the Deputy Treasurer will be separated and spread among the Treasurer, Deputy Treasurer and Clerk. | Julie Ledger,  Treasurer,  (515) YYY-XXXX | November 2, 2021 |
| 2021-003 | Financial Reporting | We have implemented an independent review process which requires review by the Program Director, effective immediately. In addition, beginning with the December 2021 quarterly report, we will submit federal financial reports within the required time frame. | Joe Smith,  Program Director,  (515) YYY-XXXX | Review procedures have been implemented. Timely report filing will begin with the quarter ending December 2021. |

**In accordance with Uniform Guidance Section 200.511(a), the Corrective Action Plan must include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.**

Sample Area Education Agency  
Summary Schedule of Prior Audit Findings  
Year ended June 30, 2021

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Comment Reference | | Comment Title | | Status | | If not corrected, provide reason for finding’s recurrence and planned corrective action or other explanation |
| 2018-001 2019-001 2020-001 | | Minority Business Enterprise/ Women Business Enterprise (MBE/WBE) | | No longer valid; does not warrant further action. | | Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding, nor has a management decision been issued on its part. | | |
| II-A-19 2019-002 II-A-20 2020-002 | | Segregation of Duties over Federal Revenues | | Not corrected. | | Limited staff resulting from staff turnover. Plan to segregate duties for custody, recordkeeping and reconciling among staff when positions are filled. | | |
| II-B-19 II-B-20 | | Capital Assets | | Corrective action taken. | |  | | |
| 2020-003 | | Financial Reporting | | Partially corrected. | | Time was necessary to develop and implement review procedures.  Timely report filing will begin with the quarter ending December 2021. | | |

**In accordance with Uniform Guidance Section 200.511(a), the Summary Schedule of Prior Audit Findings must also include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | NEWS RELEASE | Contact: | |
|  |  |  | |
| FOR RELEASE |  | |  |

Auditor of State Rob Sand today released an audit report on Sample Area Education Agency in Anywhere, Iowa.

**FINANCIAL HIGHLIGHTS:**

The Agency’s revenues totaled $\_\_\_\_\_\_\_\_ for the year ended June 30, 2021, a(n) \_\_\_% increase (decrease) from the prior year. Expenses for the Agency operations for the year ended June 30, 2021 totaled $\_\_\_\_\_\_\_\_\_, a(n) \_\_\_% increase (decrease) from the prior year. The significant increase (decrease) in revenues and expenses is due primarily to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**AUDIT FINDINGS:**

Sand reported four findings related to the receipt and expenditure of taxpayer funds and two findings related to the Early Childhood Iowa Area Board (Early Childhood Board) for which the Agency acts as fiscal agent. They are found on pages 70 through 76 of this report. The findings address issues such as lack of segregation of duties, material amounts of receivables, payables and capital asset additions not recorded in the Agency’s financial statements, handwritten checks which were not prenumbered and $571 of questionable expenditures which may not meet the public purpose requirements. Sand provided the Agency and the Early Childhood Board with recommendations to address each of the findings.

Three of the four findings discussed above which relate to the Agency and two findings related to the Early Childhood Board are repeated from the prior year. The Area Education Agency’s Board of Directors and management of the Early Childhood Board have a fiduciary responsibility to provide oversight of the Area Education Agency’s and the Early Childhood Board’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity.

**(NOTE to CPAs: Include significant findings, including material weaknesses, significant non-compliance and all Federal findings. Auditor judgement should be used to determine which significant deficiencies reported under Government Auditing Standards, if any, should be included.)**

A copy of the audit report is available for review on the Auditor of State’s web site at <https://auditor.iowa.gov/audit-reports>.

# # #

SAMPLE AREA EDUCATION AGENCY  
  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS   
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
  
JUNE 30, 2021

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**Sample Area Education Agency  
Officials**

Term    
Name Title Expires

Board of Directors

Lawrence Riley President Dec 2023

Rex Meyer Vice-President Dec 2023

Shirley Jones Member Dec 2021

Oscar Newton Member Dec 2021

Leda Rouse Member Dec 2021

Robert Burns Member Dec 2021

Gladys Johnson Member Dec 2023

Gerald Morgan Member Dec 2023

Gordon Smith Member Dec 2023

**Agency**

Richard L. Boss Administrator Indefinite

Sharon Shorthand Board Secretary Indefinite

Bob Balance Business Manager and Treasurer Indefinite

## Independent Auditor's Report

To the Board of Directors of Sample Area Education Agency:

Report on the Financial Statements

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 Sample Area Education Agency as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the Agency’s basic financial statements listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to 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 from 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 Agency’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 Agency’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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Sample Area Education Agency as of June 30, 2021, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 13 to the financial statements, Sample Area Education Agency adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities. Our opinions are not modified with respect to this matter.

Other Matters

*Required Supplementary Information*

U.S. generally accepted accounting principles require Management’s Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Agency’s Proportionate Share of the Net Pension Liability, the Schedule of Agency Contributions and the Schedule of Changes in the Agency’s Total OPEB Liability, Related Ratios and Notes on pages 8 through 13 and 48 through 57 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about 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.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sample Area Education Agency’s basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2020 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2021 on our consideration of Sample Area Education Agency’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 solely 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 effectiveness of the Sample Area Education Agency’s 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 Sample Area Education Agency’s internal control over financial reporting and compliance.

Marlys K. Gaston, CPA  
 Deputy Auditor of State

October 30, 2021

MANAGEMENT’S DISCUSSION AND ANALYSIS

Sample Area Education Agency provides this Management’s Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2021. We encourage readers to consider this information in conjunction with the Agency’s financial statements, which follow.

2021 Financial Highlights

* The Agency implemented Governmental Accounting Standards Board Statement (GASBS) No. 84, Fiduciary Activities, during fiscal year 2021. The beginning net position for fiduciary (custodial) funds was restate by $49,354 to retroactively report fiduciary funds in accordance with the GASBS.
* General Fund revenues increased from $15,495,554 in fiscal year 2020 to $16,265,957 in fiscal year 2021. The increase in General Fund revenues was attributable to an increase in local and federal grant revenue in fiscal year 2021.
* General Fund expenditures increased from $17,302,985 in fiscal year 2020 to $18,199,767 in fiscal year 2021. The increase in expenditures was due primarily to an increase in services provided to local school districts.
* The Agency’s General Fund balance decreased from $4,962,836 at the end of fiscal year 2020 to $2,885,747 at the end of fiscal year 2021, a 41.9% decrease. One reason the General Fund balance decreased is because the services provided to local school districts were greater than the Agency’s increase in General Fund revenue for fiscal year 2021. As a result, the Agency funded a portion of the current year General Fund services from the carryover fund balance.

USING THIS ANNUAL REPORT

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 Agency’s financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Sample Area Education Agency 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 financial statements by providing information about the most significant funds. The remaining financial statements provide information about activities for which the Agency acts solely as an agent of custodian for the benefit of those outside of the Agency (Custodial Funds).

Notes to Financial Statements provide additional information 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, the Agency’s proportionate share of the net pension liability and related contributions, as well presenting the Schedule of Changes in the Agency’s Total OPEB Liability, Related Ratios and Notes.

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’S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

### 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 Position includes all of the Agency’s assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference reported as net position. All of the current year revenues 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 position and how it has changed. Net position is one way to measure the Agency’s financial health or financial position. Over time, increases or decreases in the Agency’s net position is an indicator of whether financial position is improving or deteriorating. 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 cooperative purchasing program is 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 showit is properly using certain revenues, such as federal grants.

### The Agency has three kinds of funds:

* Governmental funds account for most of the Agency’s basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund financial 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 1) the General Fund, 2) the Special Revenue Funds, 3) the Debt Service Fund and 4) the Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, 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 financial statements. The Agency's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The Agency currently has one Enterprise Fund, the Cooperative Purchasing Fund.

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

* Fiduciary funds are funds through which the Agency administers and accounts for certain federal and/or state grants as a fiscal agent and cannot be used to support the Agency’s own programs.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

### Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

#### **GOVERNMENT-WIDE Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of financial position. Sample Area Education Agency’s net position at the end of fiscal year 2021 totaled approximately $(3.8) million compared to approximately $(3.2) million at the end of fiscal year 2020. The analysis that follows focuses on the net position and changes in net position.



The Agency’s total net position decreased 21.0% or approximately $665,000, from fiscal year 2020. The decrease occurred primarily in governmental activities as a result of increase in negotiated salaries and benefits during the year ended June 30, 2021.

The following analysis details the changes in net position resulting from the Agency’s activities.



Property tax and state foundation aid account for 60.7% of the total revenue while operating grants and contributions from local, state and federal sources account for 36.8% of the total revenue. The Agency’s total revenues were approximately $20.4 million, of which approximately $20.2 million was for governmental activities and approximately $254,000 was for business type activities. The Agency’s expenditures/expenses primarily relate to instruction and student and instructional staff support services, which account for 81.4% of total expenses.

The Agency as a whole experienced a 1.4% increase in revenues and a 6.9% increase in expenses. State foundation aid revenues increased approximately $213,000 to fund the increase in expenses. The increase in expenses is primarily related to increases in negotiated salaries and benefits.

**Governmental** **Activities**

Revenues for governmental activities were $20,232,605 and expenses were $20,894,556. In a difficult budget year, the Agency was able to use some of the carryover balances to pay for the additional services offered to and needed by local school districts.

**Business Type Activities**

Revenues of the Agency’s business type activities were $253,221, a 1.6% increase over the prior year, while expenses totaled $256,552, a 2.4% increase over the prior year. The Agency’s business type activity is the Cooperative Purchasing program. Revenues for this activity are comprised of charges for service. Expenses are for the purchase of items for resale.

**INDIVIDUAL FUND Analysis**

As previously noted, Sample Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency’s governmental funds reported combined fund balances of $3,123,091 which were $2,385,537 below last year’s ending fund balances of $5,508,628. The primary reasons for the decrease in combined fund balances at the end of fiscal year 2021 were the increased expenditures in negotiated salaries and benefits.

**Governmental Fund Highlights**

* The Agency’s decreasing General Fund financial position is the product of many factors, including growth during the year in the number of students served and the services needed by local school districts. The increase in revenues was more than offset by the Agency’s increase in General Fund expenditures, requiring the Agency to use carryover fund balance to meet its financial obligations during the year.
* The General Fund balance decreased from $4,962,836 to $2,885,747 due to additional services provided.
* The Special Revenue, Special Education Instruction Fund expenditures remained consistent when compared to the prior year, while the revenues increased approximately $30,000 due to increased state aid funding. The ending fund balance increased $155,748 from the prior year to $192,363.

**Proprietary Fund Highlights**

* The Cooperative Purchasing Fund’s net position decreased from $14,223 at June 30, 2020 to $10,892 at June 30, 2021, representing a decrease of approximately 23.4%. The Agency has not revised its pricing policies in the past 3 years and has reported a net loss for the second consecutive year.

**Budgetary Highlights**

Over the course of the year, the Agency amended its budget once to reflect additional revenues and expenditures associated with the additional services needed and provided to local school districts.

The Agency’s total revenues were $184,210 less than total budgeted revenues, a variance of less than 1%. Total expenditures were $606,305 less than budgeted, a variance of 2.6%.

A schedule showing the original and final budget amounts compared to the Agency’s actual financial activity is included in the Required Supplementary Information section of this report.

**Capital AssetS and Debt Administration**

**Capital Assets**

At June 30, 2021, the Agency had invested approximately $4.5 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, intangibles, computers and audio-visual equipment. This is a net increase of approximately $1.3 million over last year. This increase was primarily due to the continued construction of the new learning center and an increase in library materials, many of which are included in the new learning center.

Sample Area Education Agency had depreciation/amortization expense of $479,464 in fiscal year 2021. Detailed information about capital assets is presented in Note 3 to the financial statements.

**Long-Term Debt**

At June 30, 2021, the Agency had $899,388 of long-term debt outstanding, compared to $1,007,111 at June 30, 2020. More detailed information about the Agency’s long-term liabilities is presented in Note 4 to the financial statements.

**economic Factors and next year’s budget**

At the time these financial statements were prepared and audited, the Agency was aware of several existing circumstances which could significantly affect its financial health in the future:

* The Agency has experienced an increase in the number of students being served by its programs in the past three years. A slight increase in enrollment is expected and included in the budget based on requests from local school districts.
* The Agency has evaluated its pricing policies regarding the cooperative purchasing program. The Board of Directors has approved an increase in the administrative fee charged, so revenues are anticipated to increase in the next fiscal year.

**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 Agency’s Business Manager’s Office, 77 Sunset Strip, Anywhere, Iowa, 50000-XXXX.

Sample Area Education Agency

Basic Financial Statements

Sample Area Education Agency

Sample Area Education Agency  
  
Statement of Net Position  
  
June 30, 2021



Sample Area Education Agency  
  
Statement of Activities  
  
Year ended June 30, 2021



Sample Area Education Agency  
  
Balance Sheet  
Governmental Funds  
  
June 30, 2021



Sample Area Education Agency  
  
Reconciliation of the Balance Sheet – Governmental  
Funds to the Statement of Net Position  
  
June 30, 2021



Sample Area Education Agency  
  
Statement of Revenues, Expenditures and  
Changes in Fund Balances   
Governmental Funds   
  
Year ended June 30, 2021



Sample Area Education Agency  
  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances –

Governmental Funds to the Statement of Activities

Year ended June 30, 2021



Sample Area Education Agency  
  
Statement of Net Position  
Proprietary Fund  
  
June 30, 2021



Sample Area Education Agency  
  
Statement of Revenues, Expenses and   
Changes in Fund Net Position  
Proprietary Fund  
  
Year ended June 30, 2021



Sample Area Education Agency  
  
Statement of Cash Flows  
Proprietary Fund  
  
Year ended June 30, 2021



Sample Area Education Agency  
  
Statement of Fiduciary Net Position  
Custodial Fund  
  
June 30, 2021



Sample Area Education Agency  
  
Statement of Changes in Fiduciary Net Position  
Custodial Fund  
  
June 30, 2021



Sample Area Education Agency

1. Summary of Significant Accounting Policies

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

The Agency’s financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sample Area Education Agency has included all funds, organizations, 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. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

1. Basis of Presentation

Government-wide financial statements – The Statement of Net Position and the Statement of Activities report information on all of the 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 revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the Agency’s nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which 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 revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 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 restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

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 nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues 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 a program 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.

The Agency reports the following major proprietary fund:

The Enterprise, Cooperative Purchasing Fund is used to account for the cooperative purchasing activities for local school districts and activities performed as a service to staff and consist primarily of vending machine operations.

The Agency also reports the following fiduciary fund:

The Agency Fund is used to account for assets held by the Agency as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. 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. Revenues are 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current year 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 grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Agency’s policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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 balance and then from, less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues 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 revenues of the Agency’s Enterprise Fund is charges to customers for services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position

Cash, Cash Equivalents 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 and non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, 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 consist 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 and intangibles acquired after July 1, 1980 are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the Agency as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.



Capital assets of the Agency are depreciated/amortized using the straight line method of depreciation/amortization over the following estimated useful lives:



Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense and contributions from the Agency after the measurement date but before the end of the Agency’s reporting period.

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.

Advances from Grantors – Grant proceeds which have been received by the Agency but will be spent in a succeeding fiscal year.

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 Position representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2021. 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 Position.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Total OPEB Liability – For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and OPEB expense, information has been determined based on the Sample Area Education Agency’s actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The total OPEB liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the fund financial statements consist of receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of the unrecognized items not yet charged to pension expense and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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 the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

1. Cash, Cash Equivalents and Pooled Investments

The Agency’s deposits in banks at June 30, 2021 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 ensure 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; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2021, the Agency had the following investments:



The Agency uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The recurring fair value measurement for the U.S. Treasury Notes of $3,970,150 was determined using the last reported sales price at current exchange rates. (Level 1 inputs)

At June 30, 2021, the Agency had investments in the Iowa Schools Joint Investment Trust (ISJIT) Government Obligation Portfolio which are valued at an amortized cost of $327,441. There were no limitations or restrictions on withdrawals for the ISJIT investments. The investments in the ISJIT were rated AAAm by Standard & Poor’s Financial Services.

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) to 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.

1. Capital Assets

Capital assets activity for the year ended June 30, 2021 was as follows:



Furniture and equipment within governmental activities includes $375,000 of information technology equipment acquired under a capital lease. Accumulated depreciation on these assets totaled $40,625 at June 30, 2021.



1. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2021 is as follows:



Certificates of Participation

The Agency sold certificates of participation for land and facilities for a total of $750,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twelve years with an interest rate of 5% per annum. During the year ended June 30, 2021, the Agency paid principal of $78,993 and interest of $60,854 on the certificates. The following is a schedule by year of the future minimum payments required:



Capital Lease

On May 25, 2020, the Agency entered into a capital lease purchase agreement for information technology equipment with a total cost of $375,000. The agreement bears interest at 5% per annum and is payable in annual installments over 5 years, with a final payment of $45,927 due by May 25, 2026. During the year ended June 30, 2021, the Agency paid principal of $28,730 and interest of $45,268 on the lease. The following is a schedule by year of future payments required:



1. Operating Leases

The Agency has leased various facilities within the area to house the different divisions of the Agency. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2022 and June 30, 2026. 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 the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2021.



Total rental expenditures for the year ended June 30, 2021 for all operating leases, except those with terms of a month or less that were not renewed, was $141,220.

1. Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Agency, except for those covered by another retirement system. Employees of the Agency are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report that is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

* A multiplier based on years of service.
* The member’s highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member’s earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2021, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Agency contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Agency’s contribution to IPERS for the year ended June 30, 2021 totaled $1,302,170.

Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2021, the Agency reported a liability of $10,309,490 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency’s proportion of the net pension liability was based on the Agency’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2020, the Agency’s proportion was 0.208674%, which was an increase of 0.008918% over its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Agency recognized pension expense of $866,998. At June 30, 2021, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



$1,302,170 reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:



There were no non-employer contributing entities to IPERS.

ActuarialAssumptions – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:



The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2007 generational adjustments.

The long-term expected rate of return on IPERS’ investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:



Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS’ fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS’ investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Agency’s proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Agency’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (9.00%) than the current rate.



IPERS Fiduciary Net Position – Detailed information about IPERS’ fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at [www.ipers.org](http://www.ipers.org).

Payables to IPERS – At June 30, 2021, the Agency reported payables to IPERS of $102,250 for legally required Agency contributions and $68,129 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

1. Other Postemployment Benefits (OPEB)

Plan Description – The Agency administers a single-employer benefit plan which provides medical, prescription drug and dental benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by Sample Area Education Agency and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical, prescription drug and dental benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. At June 30, 2021, the following employees were covered by the benefit terms:



Total OPEB Liability – The Agency’s total OPEB liability of $1,324,360 was measured as of June 30, 2021 and was determined by an actuarial valuation as of that date.

ActuarialAssumptions – The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.



Discount Rate – The discount rate used to measure the total OPEB liability was 2.66% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Mortality rates are from the SOA Public Plan 2010 tables. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used by IPERS.

Changes in the Total OPEB Liability



Changes of assumptions reflect a change in the discount rate from 3.51% in fiscal year 2020 to 2.66% in fiscal year 2021.

Sensitivity of the Agency’s Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Agency, as well as what the Agency’s total OPEB liability would be if it were calculated using a discount rate that is 1% lower (1.66%) or 1% higher (3.66%) than the current discount rate.



Sensitivity of the Agency’s Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the Agency, as well as what the Agency’s total OPEB liability would be it were calculated using healthcare cost trend rates that are 1% lower (7.00%) or 1% higher (9.00%) than the current healthcare cost trend rates.



OPEB Expense and Deferred Outflows of Resources Related to OPEB – For the year ended June 30, 2021, the Agency recognized OPEB expense of $154,325. At June 30, 2021, the Agency reported deferred outflows of resources related to OPEB from the following resources:



The amount reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:



1. 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 have not exceeded commercial insurance coverage in any of the past three fiscal years.

1. Deficit Balance

The Agency had a governmental activities deficit net position balance of $3,842,544 at June 30, 2021, primarily due to the net pension liability.

1. Early Childhood Iowa Area Board

The Agency is the fiscal agent for the Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. The Area Board receives state grants to administer early childhood and school ready programs. Financial transactions of the Area Board are included in the Agency’s financial statements as an Agency Fund because of the Agency’s fiduciary relationship with the organization. The Area Board’s financial data for the year ended June 30, 2021 is as follows:



Findings related to the operations of the Early Childhood Iowa Area Board are included as items II-D-21 and IV-K-21 in the Schedule of Findings and Questioned Costs.

1. Categorical Funding

In accordance with Iowa Administrative Code Section 98.1, categorical funding is financial support from the state and federal governments targeted for particular categories of students, special programs, or special purposes. This support is in addition to school district or area education agency general purpose revenue, for purposes beyond the basic educational program and most often has restrictions on its use. Any portion of categorical funding provided by the state that is not expended by the end of the fiscal year must be carried forward as a restricted fund balance.

The following is a schedule of the categorical funding restricted in the General Fund at June 30, 2021.



1. **COVID-19**

In March 2020, the COVID–19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of Sample Area Education Agency, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of Sample Area Education Agency. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to Sample Area Education Agency.

1. **Accounting Change/Restatement**

Governmental Accounting Standards Board has issued Statement No. 84, Fiduciary Activities, was implemented during fiscal year 2021. The new requirements change the definition of fiduciary activity and establish new financial reporting requirements for state and local governments which report fiduciary activity,

The restatement to retroactively report the change in net position is as follows:



1. **Prospective Accounting Change**

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2022. The revised requirements of this statement will require reporting of certain potentially significant lease liabilities that are not currently reported

**Required Supplementary Information**

Sample Area Education Agency  
  
Schedule of Revenues, Expenditures/Expenses and Changes   
in Balances – Budget and Actual –  
All Governmental Funds and Proprietary Fund  
  
Required Supplementary Information  
  
Year ended June 30, 2021



Sample Area Education Agency

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 U.S. generally accepted accounting principles for all funds except Agency Funds. Although the budget document presents function 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.

For the year ended June 30, 2021, the Agency’s expenditures/expenses did not exceed the approved budget.

Sample Area Education Agency  
  
Schedule of the Agency’s Proportionate Share of the Net Pension Liability

Iowa Public Employees’ Retirement System

For the Last Seven Years\*  
(In Thousands)  
  
Required Supplementary Information



Sample Area Education Agency  
  
Schedule of Agency Contributions

Iowa Public Employees’ Retirement System

For the Last Ten Years   
(In Thousands)  
  
Required Supplementary Information



*Changes of benefit term*s:

There are no significant changes in benefit terms.

*Changes of assumptions*:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

* Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
* Adjusted retirement rates.
* Lowered disability rates.
* Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
* Adjust the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

* Decreased the inflation assumption from 3.00% to 2.60%.
* Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
* Decreased the discount rate from 7.50% to 7.00%.
* Decreased the wage growth assumption from 4.00% to 3.25%.
* Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

* Decreased the inflation assumption from 3.25% to 3.00%.
* Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
* Adjusted male mortality rates for retirees in the Regular membership group.
* Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Sample Area Education Agency

Schedule of Changes in the Agency’s  
Total OPEB Liability, Related Ratios and Notes

For the Last Four Years

Required Supplementary Information



**Notes to Schedule of Changes in the Agency’s Total OPEB Liability and Related Ratios**

*Changes in benefit terms:*

There were no significant changes in benefit terms.

*Changes in assumptions:*

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended June 30, 2021 2.66%

Year ended June 30, 2020 3.51%

Year ended June 30, 2019 3.58%

Year ended June 30, 2018 4.50%

Year ended June 30, 2017 4.25%

Sample Area Education Agency

Supplementary Information

Sample Area Education Agency  
  
Combining Balance Sheet  
Nonmajor Governmental Funds  
  
June 30, 2021



Sample Area Education Agency  
  
Combining Schedule of Revenues, Expenditures and   
Changes in Fund Balances

Nonmajor Governmental Funds  
  
Year ended June 30, 2021



Sample Area Education Agency  
  
Schedule of Revenues by Source and Expenditures by Function -  
All Governmental Funds   
  
For the Last Ten Years



**Sample Area Education Agency**

Sample Area Education Agency  
  
Schedule of Expenditures of Federal Awards  
  
Year ended June 30, 2021



**Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Sample Area Education Agency under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Sample Area Education Agency, it is not intended to and does not present the financial position, changes in financial position or cash flows of Sample Area Education Agency.

**Summary of Significant Accounting Policies** – Expenditures reported in the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Indirect Cost Rate** – Sample Area Education Agency uses a federally negotiated indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor’s report.

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

To the Board of Directors of Sample Area Education Agency:

We have audited in accordance with U.S. generally accepted auditing standards 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 governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Area Education Agency as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the Agency’s basic financial statements, and have issued our report thereon dated October 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sample Area Education Agency’s internal control over financial reporting to determine the audit procedures 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 Sample Area Education Agency’s internal control. Accordingly, we do not express an opinion on the effectiveness of Sample Area Education Agency’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 have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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 a material misstatement of the Agency’s financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items  
II-A-21 and II-B-21 to be material weaknesses.

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. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-21 and II-D-21 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample Area Education Agency’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Sample Area Education Agency’s operations for the year ended June 30, 2021 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Sample Area Education Agency. 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.

Sample Area Education Agency’s Responses to the Findings

Sample Area Education Agency’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Sample Area Education Agency’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 Agency’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 Agency’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Area Education Agency during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Marlys K. Gaston, CPA  
 Deputy Auditor of State

October 30, 2021

Independent Auditor’s Report on Compliance

for Each Major Federal Program and on Internal Control over Compliance

Required by the Uniform Guidance

To the Board of Directors of Sample Area Education Agency:

Report on Compliance for Each Major Federal Program

We have audited Sample Area Education Agency’s compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2021. Sample Area Education Agency’s major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for Sample Area Education Agency’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Sample Area Education Agency’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Sample Area Education Agency’s compliance.

Opinion on the Major Federal Program

In our opinion, Sample Area Education Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Report on Internal Control Over Compliance

The management of Sample Area Education Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sample Area Education Agency’s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Sample Area Education Agency’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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified deficiencies in internal control over compliance we consider to be a material weakness and a significant deficiency.

A deficiency in 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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-20 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-B-21 to a significant deficiency.

Sample Area Education Agency’s responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Sample Area Education Agency’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Marlys K. Gaston, CPA  
 Deputy Auditor of State

October 30, 2021

**Part I: Summary of the Independent Auditor’s Results:**

(a) Unmodified opinions were issued on the financial statements prepared in accordance with U.S. generally accepted accounting principles.

(b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) A significant deficiency and a material weakness in internal control over the major program were disclosed by the audit of the financial statements.

(e) An unmodified opinion was issued on compliance with requirements applicable to the major program.

(f) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516.

(g) The major program was the Special Education Cluster (IDEA).

(h) The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

(i) Sample Area Education Agency did not qualify as a low-risk auditee.

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-21 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Agency’s financial statements.

Condition – Generally, one individual in the Agency has control over cash receipts listings, bank deposits and posting cash receipts to the cash receipts journal.

Cause – The Agency has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Agency’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Agency should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff to provide additional control through review of financial transactions, reconciliations and reports. These independent reviews should be documented by the signature or initials of the reviewer and the date of the review.

Response and Corrective Action Planned – We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the cash receipts listing, depositing and posting duties will be separated and spread among several employees. We plan to implement these changes November 2, 2021.

Conclusion – Response accepted.

II-B-21Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Agency’s financial statements.

Condition – Material amounts of receivables, payables and capital asset additions were not recorded in the Agency’s financial statements. Adjustments were subsequently made by the Agency to properly report these amounts in the Agency’s financial statements.

Cause – Agency policies do not require, and procedures have not been established to require independent review of year end cut-off transactions to ensure the Agency’s financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in Agency employees not detecting the errors in the normal course of performing their assigned functions and material adjustments to the Agency’s financial statements were necessary.

Recommendation – The Agency should implement procedures to ensure all receivables, payables and capital asset additions are identified and properly reported in the Agency’s financial statements.

Response – We will develop a policy to have an independent person double check these in the future to avoid missing receivables, payables or capital asset transactions.

Conclusion – Response accepted.

II-C-21Prenumbered Checks

Criteria – Properly designed policies and procedures for expenditures include steps to detect or prevent payments to unauthorized payees and unauthorized amounts. The use of handwritten checks can circumvent established procedures.

Condition – General Fund handwritten checks were numbered as they were written, checks were not written in the proper sequence and the numerical sequence of checks written is not accounted for.

Cause – Agency policies do not require, and procedures have not been established to require checks to be prenumbered by a printer or by an independent individual.

Effect – Lack of policies and procedures may result in duplicate check numbers being issued. Handwritten checks may also result in payments to unauthorized payees and unauthorized amounts.

Recommendation – The Agency should issue prenumbered checks by a printer or by an independent individual. Additionally, checks should be issued in the proper sequence. The numerical sequence of checks written should be accounted for by someone independent of writing checks and recording disbursements.

Response and Corrective Action Planned – Prenumbered checks will be ordered from the printer beginning in October 2021 and the numerical sequence of checks issued will be accounted for by an independent person.

Conclusion – Response accepted.

II-D-21EarlyChildhoodIowaAreaBoard – SupportingDocumentationand Approval

Criteria – An effective internal control system provides for internal controls related to ensuring disbursements are properly and adequately supported and reviewed. The Area Board contracted with 7 providers. The provider contracts require detailed monthly invoices be submitted to the Coordinator prior to payment. The Coordinator is to verify the accuracy and adequacy of the documentation and approve the disbursements.

Condition – For 5 of 10 provider claims tested, adequate supporting documentation was not available or did not agree with the amount paid. For 2 of 10 provider claims tested, the claims did not include evidence of approval by the Coordinator.

Cause – Although Agency policies have been adopted to require adequate documentation and approval, those requirements have not been communicated to providers or the Coordinator. Additionally, the lack of Agency oversight resulted in lack of approval documentation.

Effect – Lack of communicating requirements to providers and oversight by the Agency may result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – All contract payments should be supported by detailed invoices or other supporting documentation as required by the provider contracts. The invoices and supporting documentation should be reviewed and approved by the Coordinator and be made available to the Area Board for timely review.

Response – We will obtain the documentation required by the provider contracts and the documentation will be reviewed by the Coordinator and the Area Board. We will comply with these recommendations for all future contract payments.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**AL Number 84.027: Special Education Grants to States   
AL Number 84.173: Special Education Preschool Grants  
Pass-Through Entity Identifying Number: 2021-15, 19621-15**

**Federal Award Year: 2021  
Prior Year Finding Number: III-A-20, III-B-20  
U.S. Department of Education  
Passed through the Iowa Department of Education**

|  |  |
| --- | --- |
| III-A-21  (2021-001) | Segregation of Duties – The Agency did not properly segregate the cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal, including those related to federal programs. See item II-A-21. |
| III-B-21  (2021-002) | Prenumbered Checks – The Agency issued handwritten checks which were numbered as they were written, including those related to federal programs. See item II-B-21 |

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

IV-A-21 Certified Budget – Expenditures during the year ended June 30, 2021 did not exceed the amounts budgeted.

IV-B-21 Questionable Expenditures – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain expenditures were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General's opinion since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:



According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Board of Directors should determine and document the public purpose served by these types of expenditures prior to authorizing any further payments. If this practice is continued, the Agency should establish written policies and procedures, including requirements for proper public purpose documentation.

Response – We will document this in the future.

Conclusion – Response accepted.

IV-C-21 Travel Expense – No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-21 Business Transactions – No business transactions between the Agency and Agency officials or employees were noted.

IV-E-21 Restricted Donor Activity – No transactions were noted between the Agency, Agency officials, Agency employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

IV-F-21 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 ensure the coverage is adequate for current operations.

IV-G-21 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-21 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency’s investment policy were noted.

IV-I-21 Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-J-21 Categorical Funding – No instances of categorical funding being used to supplant rather than supplement other funds were noted.

IV-K-21 Early Childhood Iowa Area Board – The Agency is the fiscal agent for the Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. Financial transactions of the Area Board are included in the Agency’s financial statements as an Agency Fund because of the Agency’s fiduciary relationship with the organization.

Certain expenditures of $536 for food and refreshments for meetings which may not meet the purpose for which the grant funds were provided were noted.

Recommendation – The Area Board should determine and document how these expenditures meet the intended purpose of the state grants before authorizing any further payments.

Response – We will discontinue the practice of providing meals for the monthly Board meetings.

Conclusion – Response accepted.

This audit was performed by:

Marlys K. Gaston, CPA, Deputy

John Q. Review, CPA, Manager

Margo Setter, CPA, Senior Auditor

Jerome Warning, CPA, Senior Auditor

Terry Tickmark, CPA, Assistant Auditor