

HEARTLAND AREA EDUCATION AGENCY 11

Independent Auditor's Report
Basic Financial Statements & Supplemental Information
Schedule of Findings and Questioned Costs
June 30, 2008

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HEARTLAND AREA EDUCATION AGENCY 11

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------|----------------------------------|---------------------|
| Board of Directors: | | |
| Jane Bell | President | 2008 |
| Ann Wilson | Vice President | 2009 |
| Earl Bridgewater | Member | 2011 |
| Bruce Christensen | Member | 2009 |
| Steve Rose | Member | 2008 |
| Nels Turnquist | Member | 2008 |
| Marcy Sparks | Member | 2009 |
| George Jackson | Member | 2011 |
| Margaret Borgen | Member | 2011 |
| Agency: | | |
| Dr. Maxine Kilcrease | Chief Administrator | |
| Jenny Ugolini | Board Secretary | |
| Terrill Wycoff | Treasurer | |
| David King | Director of Finance and Business | |

AREA SERVED

Audubon County:

Audubon School District
Exira School District

Boone County:

Boone School District
Madrid School District
Ogden School District
Sacred Heart School
Trinity Lutheran School
United School District

Carroll County:

Carroll School District
Christ the King School
Coon Rapids Bayard School District
Glidden-Ralston School District
Holy Spirit School
Holy Trinity School
Kuemper School

Carroll County:

Manning School District
St. Angela Center
St. Lawrence School

Dallas County:

Adel-DeSoto-Minburn School District
Assumption School
Dallas Center-Grimes School District
West Central Valley School District
Perry School District
St. Patricks School
Van Meter School District
Waukee School District
Woodward-Granger School District

Guthrie County:

Adair-Casey School District
Guthrie Center School District
Panorama School District
West Central Valley School District

HEARTLAND AREA EDUCATION AGENCY 11

Officials

Area Served (Continued)

Jasper County:

Baxter School District
Colfax-Mingo School District
Lynnville-Sully School District
Newton School District
Newton Christian Day School
PCM School District
Sully Christian School

Madison County:

Earlham School District
Interstate 35 School District
Winterset School District

Marion County:

Knoxville School District
Melcher-Dallas School District
Pella School District
Pella Christian Grade School
Pella Christian High School
Peoria Christian School
Pleasantville School District
Twin Cedars School District

Polk County:

Ankeny School District
Bondurant-Farrar School District
Christ the King School
Des Moines School District
Des Moines Christian School
Des Moines Jewish Academy
Dowling High School
Early Education Center
Holy Family Schools
Holy Trinity School

Polk County:

Iowa Christian Academy
Johnston School District
Mt. Olive Lutheran School
New Life Christian School
North Polk School District
Sacred Heart School
St. Anthony School
St. Augustine School
St. Francis of Assisi School
St. Joseph Elementary School
St. Pius X School
St. Theresa School
Saydel School District
Southeast Polk School District
Urbandale School District
West Des Moines School District

Story County:

Ames School District
Ballard School District
Collins-Maxwell School District
Colo-Nesco School District
Gilbert School District
Nevada School District
Roland-Story School District
St. Cecelia School

Warren County:

Carlisle School District
Indianola School District
Martensdale-St. Marys School District
Norwalk School District
Southeast Warren School District



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Heartland Area Education Agency 11:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heartland Area Education Agency 11 as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Heartland Area Education Agency 11, at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated January 2, 2009 on our consideration of Heartland Area Education Agency 11's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 10 and pages 25 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on financial statements that collectively comprise Heartland Area Education Agency 11's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which none are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 and 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fithian Company, LLP

January 2, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Area Education Agency 11 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund Revenues were \$72,929,448 and General Fund Expenditures were \$72,399,533 in FY08. General Fund Other Financing Sources and Uses for FY08 were a net use of \$250,868. Revenues less Expenditures and Other Uses resulted in a net operating gain of \$279,047. The Agency's General Fund fund balance increased from \$5,879,116 in FY07 to \$6,158,163 in FY08.
- The Agency entered into a Lease Purchase Agreement with Beara Investments LC, a developer, to construct an office building in Adel, Iowa to replace office space previously rented. The construction was completed in FY08. The Lease Purchase Agreement with Beara Investments, LC was paid off and replaced by a Lease Purchase Agreement with First National Bank of Ames. (See Debt Administration on page 11).
- The Agency finalized plans for a major remodeling project on the Johnston Campus to create an Administrative Center. The remodeling will be completed in FY 09. (See Debt Administration on page 11).

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 Assets and a Statement of Activities. These provide information about the activities of Area Education Agency 11 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the Agency's operations in more detail than the Government-Wide Statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year to actual expenditures, and Other Supplementary Information provides detailed information about expenditures by function and federal awards.

Reporting the Agency as a Whole

The Statement of Net Assets and the Statement of Activities

The Government-Wide Statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year 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 assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are indicators of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's student population base and the condition of its facilities need to be considered.
- The Government-Wide Financial Statements include the Agency's basic services, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts fees, property taxes, state aid and federal grants finance most of these activities.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as Juvenile Home funding.

The Agency's Governmental Funds include 1) the General Fund, 2) the Special Revenue Funds, 3) the Capital Projects Fund, and 4) the Debt Service Fund. Governmental Funds account for all of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the Governmental Fund Statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-Wide Statements, additional information at the bottom of the Governmental Fund Statements explains the relationship or differences between the two statements.

The Governmental Funds required financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

A summary reconciliation between the Government-Wide Financial Statements and the Fund Financial Statements follows the Fund Financial Statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, Net Assets may serve over time as a useful indicator of financial position. Area Education Agency 11's Net Assets at the end of FY08 totaled approximately \$12.1 million. The analysis that follows provides a summary of the Agency's Net Assets at June 30, 2008 for the Governmental Activities as compared to Net Assets at June 30, 2007. The Agency does not have Business-Type Activities, therefore the total is only composed of the governmental funds.

Condensed Statement of Net Assets

| | FY08 | FY07 | % Change |
|--|---------------|---------------|----------|
| Current and Other Assets | \$ 14,495,463 | \$ 15,907,161 | -9% |
| Capital Assets | 7,290,841 | 5,967,061 | 22% |
| Total Assets | \$ 21,786,304 | \$ 21,874,222 | 0% |
| Long-Term Obligations | \$ 1,300,000 | -0- | N/A |
| Other Liabilities | 8,337,299 | \$ 10,028,045 | -17% |
| Total Liabilities | \$ 9,637,299 | \$ 10,028,045 | -4% |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 5,990,841 | \$ 5,967,062 | 0% |
| Restricted | 704,563 | 757,799 | -7% |
| Unrestricted | 5,453,601 | 5,121,317 | 6% |
| Total Net Assets | \$ 12,149,005 | \$ 11,846,178 | 3% |

The Agency's combined Net Assets increased by approximately \$303,000 from FY07. The change occurred primarily as a result of operational activity creating excess revenue over expenditures.

The following analysis shows the changes in Net Assets for the year ended June 30, 2008 as compared to June 30, 2007. The agency does not have Business-Type Activities, therefore the total is composed of the Governmental Funds.

Changes in Net Assets

| | FY08 | FY07 | % Change |
|---------------------------------------|----------------------|----------------------|----------|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for Services | \$ 2,931,303 | \$ 3,366,189 | -13% |
| Operating Grants and Contributions | 31,226,876 | 28,818,826 | 8% |
| General Revenues | | | |
| Property Tax | 17,580,890 | 16,702,433 | 5% |
| State Aid | 22,830,227 | 21,005,509 | 9% |
| Unrestricted Investment Earnings | 320,206 | 490,643 | -35% |
| Total Revenues | <u>\$ 74,889,502</u> | <u>\$ 70,383,600</u> | 6% |
| Program Expenses: | | | |
| Instruction | \$ 3,438,376 | \$ 3,240,636 | 6% |
| Student Support Services | 25,530,265 | 25,098,358 | 2% |
| Instructional Staff Support Services | 21,428,218 | 20,573,583 | 4% |
| General Administration | 4,899,823 | 4,003,823 | 22% |
| Regional Administration | 3,389,802 | 2,065,367 | 64% |
| Business Administration | 874,820 | 703,631 | 24% |
| Central and Other Support Services | 4,011,534 | 3,831,951 | 5% |
| Printing, Delivery, and Coop Services | 1,283,729 | 1,324,660 | -3% |
| Coop Purchasing Cost of Goods Sold | 1,281,705 | 1,588,644 | -19% |
| Plant Operations and Maintenance | 1,596,008 | 1,589,617 | 0% |
| Student Transportation | 1,651 | 1,718 | -4% |
| Community Services Operations | 191,685 | 166,013 | 15% |
| LEA Part B Flow-Through | 6,504,371 | 6,463,696 | 1% |
| Depreciation-Unallocated | 98,142 | 75,505 | 30% |
| Long-Term Debt Interest | 45,389 | -0- | N/A |
| Facilities Acquisition | 11,157 | 62,197 | -82% |
| Total Expenses | <u>\$ 74,586,675</u> | <u>\$ 70,789,270</u> | 5% |
| Increase (Decrease) in Net assets | \$ 302,827 | \$ (405,670) | 275% |
| Net Assets-Beginning | 11,846,178 | 12,251,848 | -3% |
| Net Assets-Ending | <u>\$ 12,149,005</u> | <u>\$ 11,846,178</u> | 3% |

The State foundation aid funding formula, consisting of State Aid and Property taxes, accounts for 54% of the total revenue. Operating Grants and Contributions from local, state and federal sources account for 46% of the total revenue. Charges for Services decreased 13% in part because the cooperative purchasing program is in its last year and is being transitioned to a state-wide consortium. Therefore, the sales of materials decreased. The significant decrease in Unrestricted Investment Earnings is due largely to declining interest rates on investments.

The Agency's expenses primarily relate to instructional support services provided to local school districts, which account for 90% of the operating expenses. Instructional support services provided to schools are reported above in the areas of Instruction, Student Support Services, Instructional Staff Support Services, Printing, Delivery and Coop Services, LEA Part B Flow-Through and a large portion of the Central and Other Support Services.

Although the Agency's total expenditures only increased 5%, shifts and repurposing between functions caused significant percentage increases and decreases. For example, the Agency repurposed several administrative positions from supervisors in the student support and instructional support functions to the regional administrative function to demonstrate the agency's desire to push decision-making closer to the clients. In addition, Special Education clerks were added to each region to provide support to Special Education practitioners. The result of this is regional administration increased but student support and instructional support did not increase as much as they might have otherwise.

Another example of this shift occurred between printing, delivery and coop purchasing services with a decrease of 3% and business and general administration with an average increase of 23%. The print and production areas were decreased due to a management retirement and the supervision of those areas was assumed by communications, which is in the general administration function. Also, because the cooperative purchasing program is being eliminated, the personnel from there are being shifted to warehousing and receiving, which is part of business administration.

Governmental Activities

Revenues for Governmental Activities were \$74,889,502 and expenses were \$74,586,675.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As previously noted, Area Education Agency 11 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's Governmental Funds reported combined fund balances of \$6,158,163, which is approximately \$279,047 more than last year's ending fund balances of \$5,879,116. General Fund revenues increased approximately \$7.1 million over the prior year due primarily to increases in new state funding for teacher quality and early access. This revenue increase also included approximately \$2.6 million from lease proceeds on the financing and re-financing of the Adel facility. Expenditures increased approximately \$6.4 million as a result of increased operational costs and lease purchase activity.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After 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. Over the course of the year, the Agency amended its annual operating budget one time to reflect adjustments to revenue and expenditures associated with the services needed and provided to local school districts. 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 ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the Agency had invested \$6 million, net of accumulated depreciation and related debt in a broad range of capital assets, including land, buildings, computers, equipment, software, and an extensive library/media collection. There was no significant change in net capital assets from last year. The increase to net assets caused by the acquisition of the Adel facility was off-set by the long-term lease purchase used to acquire the asset.

Area Education Agency 11 had depreciation expense of \$782,880 in FY08 and total accumulated depreciation of \$7,645,058 at June 30, 2008. More detailed information about capital assets is available in Note 3 to the financial statements.

Debt Administration

At June 30, 2008 the Agency had \$1,300,000 in long-term outstanding debt. The agency entered into a Lease Purchase Agreement dated November 6, 2007 with Beara Investments LC, a developer, to construct an office building in Adel Iowa to replace office space previously rented. The lease purchase to Beara Investments L.C. was paid off and replaced by a lease purchase agreement with First National Bank of Ames on December 14, 2007.

The Agency entered into an additional lease purchase on August 29, 2008 with First National Bank of Ames for \$1,600,000 for the remodel of a building at the Johnston campus. This occurred after the year of FY 08 and therefore is not reflected in these financials.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time of these financial statements the Agency has implemented a two-phase plan to reduce administrative space at the Johnston campus while increasing room for client services. Phase 1 was moving administration to a smaller space at 6445 Corporate Drive. Construction is expected to be completed, and the facility occupied, before the end of FY09. Phase 2 is a plan to remodel and renovate the larger building on the Johnston Campus into a Teaching and Learning Service Center. The Board has designated a portion of Fund Balance for facility acquisition, construction and renovation, which may be used, for a portion of these costs. These plans are subject to approval by the Agency Board of Directors and the Director of the Iowa Department of Education.

The Agency is aware that due to the economic downturn being experienced in the U.S. and in the State of Iowa, FY09 budget resources may be reduced by legislative action or an across-the-board funding reduction. In December 2008, the Governor issued a proclamation that there will be a 1.5% across-the-board cut in State Aid. Management is considering various scenarios for cost-saving measures in light of this funding cut. At this time, it is not known if there will be any further cuts during FY09.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance and Business of Area Education Agency 11, 6445 Corporate Drive, Johnston, Iowa 50131.

Heartland Area Education Agency 11
Statement of Net Assets
June 30, 2008

ASSETS

| | |
|-------------------------------------|-----------------------------|
| Cash and Cash Equivalents | \$ 11,235,481 |
| Due from Other Governments | 3,083,940 |
| Other Receivables | 18,800 |
| Inventories | 101,589 |
| Prepaid Expenses | 55,653 |
| Capital Assets, Net of Depreciation | 7,290,841 |
| Total Assets | <u><u>\$ 21,786,304</u></u> |

LIABILITIES

| | |
|--|----------------------------|
| Accounts Payable and Other Current Liabilities | \$ 7,889,594 |
| Deferred Revenues | |
| Federal | 119,397 |
| Miscellaneous | 328,308 |
| Non-Current Liabilities | |
| Lease Purchase | 1,300,000 |
| Total Liabilities | <u><u>\$ 9,637,299</u></u> |

NET ASSETS

| | |
|---|-----------------------------|
| Invested in Capital Assets, Net of Related Debt | \$ 5,990,841 |
| Restricted | |
| Media Materials Resource | 704,563 |
| Unrestricted | 5,453,601 |
| Total Net Assets | <u><u>\$ 12,149,005</u></u> |

See accompanying notes to financial statements.

Heartland Area Education Agency 11
Statement of Activities
For the Year Ended June 30, 2008

| Functions/Programs | Program Revenues | | | Net (Expense) Revenues and Changes in Net Assets |
|---|---------------------|----------------------|------------------------------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| Instruction | \$ 3,438,376 | \$ 14,845 | \$ 3,190,742 | \$ (232,789) |
| Student support services | 25,530,265 | 2,537 | 11,388,105 | (14,139,623) |
| Instructional staff support services | 21,428,218 | 1,016,431 | 8,615,455 | (11,796,332) |
| General administration | 4,899,823 | 32,496 | 277,432 | (4,589,895) |
| Regional administration | 3,389,802 | 4 | 516,321 | (2,873,477) |
| Business administration | 874,820 | 29,490 | 444,264 | (401,066) |
| Central & other support services | 4,011,534 | 187,785 | 53,917 | (3,769,832) |
| Printing, delivery services & coop services | 1,283,729 | 300,636 | - | (983,093) |
| Coop services cost of goods sold | 1,281,705 | 1,331,789 | - | 50,084 |
| Plant operations and maintenance | 1,596,008 | 12,892 | 42,933 | (1,540,183) |
| Student transportation | 1,651 | - | 1,651 | - |
| Community services | 191,685 | 2,398 | 191,685 | 2,398 |
| LEA Part B Flowthrough | 6,504,371 | - | 6,504,371 | - |
| Facilities acquisition | 11,157 | - | - | (11,157) |
| Debt service | 45,389 | - | - | (45,389) |
| Depreciation-unallocated | 98,142 | - | - | (98,142) |
| Total Primary Government | \$74,586,675 | \$ 2,931,303 | \$ 31,226,876 | \$ (40,428,496) |

| General Revenues | |
|---|----------------------|
| Property Taxes, Levied for General Purposes | \$ 17,580,890 |
| State Aid-Formula Grants | 22,830,227 |
| Unrestricted Investment Earnings | 320,206 |
| Total General Revenues | \$ 40,731,323 |
| Change in Net Assets | 302,827 |
| Net Assets-Beginning | 11,846,178 |
| Net Assets-Ending | \$ 12,149,005 |

See accompanying notes to the financial statements

**Heartland Area Education Agency 11
Balance Sheet
Governmental Funds
June 30, 2008**

| | Non-Major Governmental Funds | | | | | | | Total |
|--|------------------------------|-------------------|------------------|--------------|---------------------------|--|---------------------|-------|
| | Special Revenue | | Capital Projects | Debt Service | Non-Major Funds Sub-Total | | | |
| | Instructional | Shelter Care | | | | | | |
| ASSETS | | | | | | | | |
| Cash and Cash Equivalents | \$10,704,449 | \$ 338,756 | \$192,276 | - | \$ 531,032 | | \$ 11,235,481 | |
| Due from Other Governments | 3,074,252 | - | - | - | 9,688 | | 3,083,940 | |
| Due From Other Funds | 117,395 | - | - | - | - | | 117,395 | |
| Other Receivables | 17,785 | 1,015 | - | - | 1,015 | | 18,800 | |
| Inventories | 101,589 | - | - | - | - | | 101,589 | |
| Prepaid Expenses | 53,449 | 2,204 | - | - | 2,204 | | 55,653 | |
| Total Assets | \$14,068,919 | \$ 341,975 | \$192,276 | \$ - | \$ 543,939 | | \$14,612,858 | |
| LIABILITIES AND FUND BALANCE | | | | | | | | |
| LIABILITIES | | | | | | | | |
| Accounts Payable and Other Current Liabilities | \$ 7,624,315 | \$ 180,710 | \$ 74,881 | - | \$ 255,591 | | \$ 7,879,906 | |
| Due To Other Funds | - | - | 117,395 | - | 117,395 | | 117,395 | |
| Excess of Warrants Issued over Bank Balance | - | - | - | - | 9,688 | | 9,688 | |
| Deferred Revenues | | | | | | | | |
| Federal | 119,397 | - | - | - | - | | 119,397 | |
| Miscellaneous | 167,043 | 161,265 | - | - | 161,265 | | 328,308 | |
| Total Liabilities | \$ 7,910,755 | \$ 341,975 | \$192,276 | \$ - | \$ 543,939 | | \$ 8,454,694 | |
| FUND BALANCE | | | | | | | | |
| Reserved | | | | | | | | |
| Inventory | \$ 101,589 | - | - | - | - | | \$ 101,589 | |
| Prepaid Expenses | 53,449 | - | - | - | - | | 53,449 | |
| Encumbrances | 8,176 | - | - | - | - | | 8,176 | |
| Materials Resource | 704,563 | - | - | - | - | | 704,563 | |
| State Teacher Quality Designated | 187,986 | - | - | - | - | | 187,986 | |
| Unemployment | 33,150 | - | - | - | - | | 33,150 | |
| Branch Office Construction | 254,281 | - | - | - | - | | 254,281 | |
| Capital Needs and Repairs | 250,000 | - | - | - | - | | 250,000 | |
| Johnston Facility Acquisition | 834,345 | - | - | - | - | | 834,345 | |
| Unreserved/Undesignated | 3,730,625 | - | - | - | - | | 3,730,625 | |
| Total Fund Balance | \$ 6,158,164 | \$ - | \$192,276 | \$ - | \$ - | | \$ 6,158,164 | |
| Total Liabilities and Fund Balances | \$14,068,919 | \$ 341,975 | \$192,276 | \$ - | \$ 543,939 | | \$14,612,858 | |

See accompanying notes to the financial statements

Heartland Area Education Agency 11
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2008

Total Fund Balances-Governmental Funds \$ 6,158,163

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported as assets in Governmental Funds. The cost of the assets is \$14,935,899 less the accumulated depreciation of \$7,645,058 and less the associated long-term debt of \$1,300,000.00 5,990,841

Total Net Assets-Governmental Activities \$12,149,004

See accompanying notes to financial statements.

Heartland Area Education Agency 11
Statement of Revenues, Expenditures and
Changes in Fund Balances-Governmental Funds
For the Year Ended June 30, 2008

| | Non-Major Governmental Funds | | | | | | | Total |
|--|------------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|---------------------------------|-----------------------|
| | Special Revenue | | Capital | | Debt | | Non-Major Funds Sub-Total | |
| | Spec Ed Instructional | Shelter Care | Projects | Service | Service | - | | |
| Revenues | | | | | | | | |
| Local Sources | \$ 20,860,631 | 5,068 | - | - | - | - | \$ 14,756 | \$ 20,875,387 |
| State Sources | 25,475,112 | \$ 1,919,009 | - | - | - | - | 1,919,009 | 27,394,121 |
| Federal Sources | 26,593,705 | - | - | - | - | - | - | 26,593,705 |
| Total Revenues | \$ 72,929,448 | \$ 1,924,077 | - | - | - | - | \$ 1,933,765 | \$ 74,863,213 |
| Expenditures | | | | | | | | |
| Instruction | \$ 1,832,745 | \$ 1,595,542 | - | - | - | - | \$ 1,604,992 | \$ 3,437,737 |
| Student Support Services | 25,536,664 | - | - | - | - | - | - | 25,536,664 |
| Instructional Staff Support Services | 21,205,836 | 110,484 | - | - | - | - | 110,484 | 21,316,320 |
| General Administration | 4,666,552 | 138,886 | - | - | - | - | 138,886 | 4,805,438 |
| Regional Administration | 3,488,662 | - | - | - | - | - | - | 3,488,662 |
| Business Administration | 874,820 | - | - | - | - | - | - | 874,820 |
| Central and Other Support Services | 3,833,529 | 4,069 | - | - | - | - | 4,069 | 3,837,598 |
| Printing, Delivery & Coop Services | 1,283,729 | - | - | - | - | - | - | 1,283,729 |
| Coop Purchasing Cost of Goods Sold | 1,281,705 | - | - | - | - | - | - | 1,281,705 |
| Plant Operations and Maintenance | 1,699,235 | 11 | 30,060 | - | - | - | 30,071 | 1,729,306 |
| Student Transportation | - | 1,651 | - | - | - | - | 1,651 | 1,651 |
| Community Services Operations | 191,685 | - | - | - | - | - | - | 191,685 |
| LEA Part B Flowthrough | 6,504,371 | - | - | - | - | - | - | 6,504,371 |
| Facilities Acquisition | - | - | \$ 1,473,941 | - | - | - | 1,473,941 | 1,473,941 |
| Debt Service | - | - | - | \$ 1,333,791 | - | - | 1,333,791 | 1,333,791 |
| Total Expenditures | \$ 72,399,533 | \$ 1,880,692 | \$ 1,473,941 | \$ 1,333,791 | \$ 1,333,791 | \$ 1,333,791 | \$ 4,697,885 | \$ 77,097,418 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | \$ 529,915 | \$ 43,385 | \$(1,473,941) | \$(1,333,791) | \$(1,333,791) | \$(2,764,120) | \$ (2,234,205) | \$ (2,234,205) |
| Other Financing Sources (uses) | | | | | | | | |
| Prior year expenditures and revenue | (77,798) | - | - | - | - | - | - | (77,798) |
| Sale of Equipment | 2,648 | - | - | - | - | - | - | 2,648 |
| Proceeds from lease purchase | 1,288,402 | - | - | \$ 1,300,000 | - | - | \$ 1,300,000 | 2,588,402 |
| Transfers In | 43,612 | - | \$ 1,473,941 | 33,791 | - | - | 1,507,732 | 1,551,344 |
| Transfers Out | (1,507,732) | (227) | (43,385) | - | - | - | (43,612) | (1,551,344) |
| Total Financing Sources (Uses) | \$ (250,868) | \$ (43,385) | \$ 1,473,941 | \$ 1,333,791 | \$ 1,333,791 | \$ 2,764,120 | \$ 2,764,120 | \$ 2,513,252 |
| Net Change in Fund Balances | \$ 279,047 | - | - | - | - | - | - | \$ 279,047 |
| Fund Balances--Beginning | \$ 5,879,116 | - | - | - | - | - | - | \$ 5,879,116 |
| Fund Balances--Ending | \$ 6,158,163 | - | - | - | - | - | - | \$ 6,158,163 |

See accompanying notes to the financial statements

**Heartland Area Education Agency 11
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures, and Changes in Fund Balances to the Statement of Activities
 For the Year ended June 30, 2008**

Total Net Change in Fund Balances-Government Funds **\$ 279,047**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlays are reported in Governmental Funds as expenditures. 1,323,780
 However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful life as depreciation expense. This is the amount by which capital outlay (\$2,083,019) and donation revenue (\$23,641) for free materials exceed depreciation (\$782,880).

The issuance of long-term debt (lease purchase) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt. (1,300,000)

Change in Net Assets of Governmental Activities \$ 302,827

See accompanying notes to financial statements.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

Heartland Area Education Agency 11 is an intermediate school corporation between the State Department of Education and the local school districts in its area as provided by Chapter 273 of the Code of Iowa. The agency provides programs and support services necessary to meet the identified educational needs in the local school districts to enable them to operate efficiently and effectively. The Agency serves 54 school districts and 33 non-public schools in an eleven-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Heartland Area Education Agency 11 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. Heartland Area Education Agency 11 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Assets 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 Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to clients who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, state aid, non-categorical federal funds, and unrestricted interest income are reported instead as general revenues.

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Financial Statements
June 30, 2008

(1) Summary of Significant Accounting Policies (continued)

Fund Financial Statements – Separate financial statements are provided for the Governmental Funds. All of the Agency's individual Governmental Funds are reported as separate columns in the Fund Financial Statements. Only the General Fund is considered a major fund.

The Agency reports the following major Governmental Fund:

The General Fund is the general operating fund of the Agency. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Agency reports the following non-major Governmental Funds:

The Special Revenue, Special Education Instruction Fund is used to account for programs where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the pupils' resident school districts.

The Special Revenue, Shelter Care Fund is used to account for instructional programs where the Area Education Agency employs teachers to provide instruction to pupils in juvenile shelters and juvenile detention facilities. The actual costs of providing these instructional services are paid by the State of Iowa.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Debt Service is used to account for payment of interest and principal on the Agency's long term debt.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Measurement Focus and Basis of Accounting

The Government-Wide Financial Statements are reported using the economic resources measurement focus. Also, they are reported using 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 met.

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 period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 90 days after year end.

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Financial Statements
June 30, 2008

(1) Summary of Significant Accounting Policies (continued)

Intergovernmental revenues (state aid, property tax, shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenues 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, long-term liabilities, such as, principal and interest on long-term debt, claims and judgements 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 recorded as other financing sources.

E. Budgets and Budgetary Accounting

The Agency's Board of Directors annually prepares a budget on a basis consistent with generally accepted accounting principles. 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. Budgetary control is based on total expenditures.

F. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents- Cash includes amounts in demand deposits, money market funds and certificate of deposits. 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.

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 maturity date no longer than three months.

Inventories - Inventories are stated at lower of cost (first-in, first-out method) or market and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption or in the case of coop purchasing items at the time of resale to the local education agencies.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the Governmental column in the Government-Wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of \$3,000 and estimated useful lives in excess of two years.

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Financial Statements
June 30, 2008

(1) Summary of Significant Accounting Policies (continued)

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

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|-------------------------|--|
| Buildings | 50 |
| Improvements | 20 |
| Furniture and equipment | 5 |
| Film and book library | 10 |

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

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

Compensated Absences - Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. This liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid by the General and Special Revenue Funds.

Long-term obligations - In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the Governmental Activities column in the Statement of Net Assets.

Encumbrances - Encumbrances outstanding at year-end represent the amount ultimately estimated to result in expenditures if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

Fund Balances - In the Governmental Fund Financial Statements, Reserved Fund Balances are reported for amounts that are not available for appropriation or are legally reserved by outside parties for a specific purpose.

Designated Fund Balance - The portion of the fund balance shown as Designated represents the amount Heartland Area Education Agency 11 has designated for facility and equipment needs and other special purposes.

Restricted Net Assets - In the Government-Wide Statement of Net Asset, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

(2) Cash and Cash Equivalents

The Agency's cash and cash equivalents at June 30, 2008 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Financial Statements
June 30, 2008

(2) Cash and Cash Equivalents (continued)

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.

Investments in the Iowa Schools Joint Investment Trust are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 and is rated AAA by Moody's Investor's Service.

The Agency's investments at June 30, 2008 consisted of the following:

| | <u>Cost</u> | <u>Market Value</u> |
|-------------------------------------|---------------------|---------------------|
| Iowa Schools Joint Investment Trust | \$ <u>4,901,138</u> | \$ <u>4,901,138</u> |

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.

(3) Capital Assets

A summary of changes in Capital Assets for the year ended June 30, 2008 is shown below.

| | <u>Balance Beginning of Year</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance Ending of Year</u> |
|---|----------------------------------|---------------------|-------------------|-------------------------------|
| Governmental Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 1,086,985 | \$ 50,000 | -0- | \$ 1,136,985 |
| Capital Assets Being Depreciated: | | | | |
| Buildings | \$ 3,182,569 | 924,752 | -0- | \$ 4,107,321 |
| Improvements Other than Buildings | 1,473,832 | 621,329 | -0- | 2,095,161 |
| Furniture and Equipment | 3,927,477 | \$ 189,618 | \$ 86,358 | 4,030,737 |
| Library/Media Collection | <u>3,367,544</u> | <u>320,961</u> | <u>122,809</u> | <u>3,565,696</u> |
| Total Capital Assets Being Depreciated | \$ <u>11,951,422</u> | \$ <u>2,056,660</u> | \$ <u>209,167</u> | \$ <u>13,798,915</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | \$ 1,006,387 | \$74,425 | -0- | \$ 1,080,812 |
| Improvements Other than Buildings | 1,343,608 | 23,717 | -0- | 1,367,325 |
| Furniture and Equipment | 2,671,669 | 328,168 | \$ 86,358 | 2,913,477 |
| Library/Media Collection | <u>2,049,681</u> | <u>356,570</u> | <u>122,809</u> | <u>2,283,442</u> |
| Total Accumulated Depreciation | \$ <u>7,071,345</u> | <u>782,880</u> | \$ <u>209,167</u> | \$ <u>7,645,058</u> |
| Total Capital Assets Being Depreciated, Net | \$ <u>4,880,077</u> | \$ <u>1,273,779</u> | <u>-0-</u> | \$ <u>6,153,856</u> |
| Governmental Activities Capital Assets, Net | \$ <u>5,967,062</u> | \$ <u>1,323,779</u> | <u>-0-</u> | \$ <u>7,290,841</u> |

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Financial Statements
June 30, 2008

(3) Capital Assets (continued)

Depreciation expense was charged to functions of the Agency as follows:

| | |
|--|-------------------|
| Governmental Activities: | |
| Instruction | \$ 639 |
| Student Support Services | 21,263 |
| Instructional Staff Support Services | 420,913 |
| General Administration | 16,830 |
| Regional Administration | 14,821 |
| Business Services | 210,272 |
| Plant Operations and Maintenance | - |
| Unallocated | <u>98,142</u> |
| Total Governmental Activities Depreciation Expense | <u>\$ 782,880</u> |

(4) Long-Term Debt

The Agency entered into a lease purchase agreement during FY08. A summary of changes in long-term debt for the year ended June 30, 2008 is as follows:

| | |
|---------------------------|------------------------------|
| | <u>Capital Lease Payable</u> |
| Balance Beginning of Year | -0- |
| Net Additions | \$1,300,000 |
| Reductions | -0- |
| Balance End of Year | <u>\$1,300,000</u> |

Capital Lease

During FY 2008 the Agency entered into a lease purchase agreement for the purchase of a facility in Adel, IA. Below is a schedule of minimum capital lease payments required on the lease purchase agreement as of June 30, 2008

| Year ended June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|--------------------|------------------|--------------------|
| 2009 | \$65,000 | \$60,206 | \$125,206 |
| 2010 | 65,000 | 57,119 | 122,119 |
| 2011 | 65,000 | 54,031 | 119,031 |
| 2012 | 65,000 | 50,944 | 115,944 |
| 2113 | 65,000 | 47,856 | 112,856 |
| 2014 and beyond | <u>975,000</u> | <u>177,531</u> | <u>1,153,531</u> |
| Total | <u>\$1,300,000</u> | <u>\$447,687</u> | <u>\$1,747,687</u> |

The Agency entered into an additional lease purchase on August 29, 2008 with First National Bank of Ames for \$1,600,000 to remodel a building at the Johnston campus. This occurred after the end of FY 08 and therefore is not reflected in these financials.

(5) Operating Leases

The Agency has leased various facilities within the area to house the different regions 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, 2008 and January 31, 2014. 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.

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Financial Statements
June 30, 2008

(5) Operating Leases (continued)

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, 2008.

| Year Ending | <u>Amount</u> |
|----------------|------------------|
| <u>June 30</u> | |
| 2009 | \$267,857 |
| 2010 | 131,024 |
| 2011 | 30,569 |
| 2012 | 30,569 |
| 2013 | 21,098 |
| Thereafter | <u>3,207</u> |
| Total | <u>\$484,324</u> |

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.90% of their annual covered salary and the Agency is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 was approximately \$2,130,629, \$1,823,979, and \$1,721,614 respectively, equal to the required contributions for each year.

(7) Risk Management

Heartland Area Education Agency 11 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Legislative Action

The Agency is aware that due to the economic downturn being experienced in the U.S. and in the State of Iowa, FY09 budget resources may be reduced by legislative action or an across-the-board funding reduction. In December 2008, the Governor issued a proclamation that there will be a 1.5% across-the-board cut in State Aid. Management is considering various scenarios for cost saving measures in light of this funding cut. At this time, it is not known if there will be any further cuts during FY09.

Heartland Area Education Agency 11

Required Supplementary Information

**Heartland Area Education Agency
Required Supplementary Information
Budgetary Comparison Schedule-All Governmental Funds
For the Year Ended June 30, 2008**

| | Budgeted Amounts | | Actual | Variance with Final budget- Positive (Negative) |
|---|------------------|----------------|----------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Local Sources | \$ 20,362,406 | \$ 21,078,416 | \$ 20,875,387 | \$ (203,029) |
| State Sources | 24,976,660 | 27,526,076 | 27,394,121 | (131,955) |
| Federal Sources | 27,967,413 | 27,676,808 | 26,593,705 | (1,083,103) |
| Total Revenues | \$ 73,306,479 | \$ 76,281,300 | \$ 74,863,213 | \$ (1,418,087) |
| EXPENDITURES | | | | |
| Instruction | \$ 3,607,246 | \$ 3,532,991 | \$ 3,437,737 | \$ 95,254 |
| Student Support Services | 26,172,906 | 26,268,122 | 25,536,664 | 731,458 |
| Instructional Staff Support Services | 20,336,947 | 21,852,261 | 21,316,320 | 535,941 |
| General Administration | 4,278,019 | 4,876,783 | 4,805,438 | 71,345 |
| Regional Administration | 2,164,600 | 4,290,500 | 3,488,662 | 801,838 |
| Business Administration | 759,006 | 815,686 | 874,820 | (59,134) |
| Central and Other Support Services | 4,288,012 | 3,995,588 | 3,837,598 | 157,990 |
| Printing, Delivery & Coop Services | 1,502,238 | 1,457,504 | 1,283,729 | 173,775 |
| Coop Purchasing Cost of Goods Sold | 1,364,000 | 1,500,000 | 1,281,705 | 218,295 |
| Plant Operations and Maintenance | 1,531,297 | 1,873,020 | 1,729,306 | 143,714 |
| Student Transportation | 7,000 | 7,000 | 1,651 | 5,349 |
| Community Services Operations | 176,395 | 176,194 | 191,685 | (15,491) |
| LEA Part B Flowthrough | 6,618,813 | 6,504,371 | 6,504,371 | - |
| Facilities Acquisition | 2,000,000 | 1,329,402 | 1,473,941 | (144,539) |
| Debt Service | - | 1,340,992 | 1,333,791 | 7,201 |
| Total Expenditures | \$ 74,806,479 | \$ 79,820,414 | \$ 77,097,418 | \$ 2,722,996 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (1,500,000) | \$ (3,539,114) | \$ (2,234,205) | \$ 1,304,909 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Prior year expenditures and revenue | - | (75,000) | (77,798) | (2,798) |
| Sales of Equipment | - | 500 | 2,648 | 2,148 |
| Proceeds Lease Purchase Agreement | 1,500,000 | 2,588,402 | 2,588,402 | - |
| Excess (Deficiency) of Revenues Over Expenditures and Other Financing (Use) | \$ - | \$ (1,025,212) | \$ 279,047 | \$ 1,304,259 |

See accompanying independent auditor's report

Heartland Area Education Agency 11

Note to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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. Although the budget document presents function disbursements 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.

Heartland Area Education Agency 11

Other Supplementary Information

Heartland Area Education Agency 11

Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types For the Last Four Years

| | Modified Accrual Basis | | | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Years ended June 30, | | | |
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
| Revenues: | | | | |
| Local sources | \$ 20,875,387 | \$ 20,666,913 | \$ 19,456,794 | \$ 18,790,330 |
| State | 27,394,121 | 23,588,220 | 21,292,677 | 20,137,319 |
| Federal | 26,593,705 | 26,089,029 | 26,144,724 | 24,733,996 |
| Total | <u>\$ 74,863,213</u> | <u>\$ 70,344,162</u> | <u>\$ 66,894,195</u> | <u>\$ 63,661,645</u> |
| Expenditures: | | | | |
| Instruction | \$ 3,437,737 | \$ 3,234,831 | \$ 2,892,334 | \$ 4,258,189 |
| Student support services | 25,536,664 | 25,109,233 | 23,682,921 | 22,909,329 |
| Instructional staff support services | 21,316,320 | 20,413,662 | 20,139,600 | 15,045,012 |
| General administration | 4,805,438 | 4,039,805 | 5,705,028 | 3,694,545 |
| Regional administration | 3,488,662 | 2,065,367 | - | - |
| Business administration | 874,820 | 718,096 | 3,557,567 | 3,753,222 |
| Central and other support services | 3,837,598 | 3,906,732 | 2,805,186 | 6,580,844 |
| Printing, delivery and coop services | 1,283,729 | 1,363,495 | - | - |
| Coop purchasing cost of goods sold | 1,281,705 | 1,588,644 | - | - |
| Plant operations and maintenance | 1,729,306 | 1,589,617 | 1,377,351 | 1,005,177 |
| Student transportation | 1,651 | 1,718 | 4,343 | 3,688 |
| Community Services Operations | 191,685 | 166,013 | 160,773 | - |
| LEA Part B flow through | 6,504,371 | 6,463,696 | 6,414,400 | 5,988,243 |
| Facilities acquisition and constructio | 1,473,941 | 62,197 | 15,569 | 29,423 |
| Debt Service | 1,333,791 | - | - | - |
| Total | <u>\$ 77,097,418</u> | <u>\$ 70,723,106</u> | <u>\$ 66,755,072</u> | <u>\$ 63,267,672</u> |

See accompanying independent auditor's report.

HEARTLAND AREA EDUCATION AGENCY 11
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2008

| <u>Project Title</u> | <u>CFDA Number</u> | <u>Pass through Grantor's Number</u> | <u>Expenditures</u> |
|--|------------------------|--|---------------------|
| U.S. Department of Education: Passed-through State Dept. of Education | | | |
| Special Education—Part B | | | |
| Early Childhood Education for the Handicapped | 84.027 | 070811 | \$ 24,179,669 |
| DE Consultant Agreement 2007-2008 | 84.027 | 13808 | 93,469 |
| Diagnostic Evaluation Program 2007-2008 | 84.027 | 7K72 | 24,971 |
| Parent Educator Model 2007-2008 | 84.027 | 77411 | 197,258 |
| Para-Educator Inservice 2007-2008 | 84.027 | 7K76-11 | 23,589 |
| Every Child Reads | 84.027 | ECR-7KE4-11 | 5,650 |
| Instructional Decision Making | 84.027 | 7K791DM-11 | 138,651 |
| | | * | <u>24,663,257</u> |
| Special Education—Basic 619 | | | |
| Preschool 3 thru 5 P.L. 99-457 | 84.173 | 07619-11 | <u>539,028</u> |
| Special Education—Part C | | | |
| Education of Handicapped Act Part C | 84.181 | C07-11 | <u>572,898</u> |
| Title II | | | |
| E2T2, Part D | 84.318 | | 69,845 |
| E2T2, Part D | 84.318 | | 42,281 |
| E2T2, State-wide | 84.318 | | <u>36,958</u> |
| | | | <u>149,084</u> |
| Title III | | | |
| ELL-LEP | 84.365 | | 200,945 |
| ELL/LEP | 84.365 | | 108,231 |
| ELDA Grant | 84.365 | | <u>2,315</u> |
| | | | <u>311,491</u> |

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

| <u>Project Title</u> | <u>CFDA Number</u> | <u>Pass through Grantor's Number</u> | <u>Expenditures</u> |
|---|------------------------|--|---------------------|
| Every Student Counts | 84.367 | | 3,645 |
| Every Student Counts | 84.367 | 88257 | 543 |
| Every Learner Inquires | 84.367 | 40607 | 6,380 |
| Federal Teacher Quality Title II, Part A | 84.367 | 23608 | 10,269 |
| Title II, Part A | 84.367 | | 26,266 |
| | | | <u>3,774</u> |
| | | | <u>50,877</u> |
| Career Ladder | | | |
| QPPS Expansion | 84.323 | QPPS-07X-11 | 4,506 |
| State Professional Development | 84.323 | SPDG-11 | <u>6,333</u> |
| | | | <u>10,839</u> |
| Our Kids Summer Institute | 84.215 | 028108 | <u>16,600</u> |
| Safe & Drug Free Data Pilot | 84.186 | 40005 | <u>44,717</u> |
| Model Core Curriculum | 84.348 | 21708 | <u>8,431</u> |
| Reading First State Grants | | | |
| Reading First | 84.357 | | 16,996 |
| Reading First | 84.357 | | <u>4,594</u> |
| | | | <u>21,590</u> |
| Total passed-through Iowa Department of Education | | | <u>26,388,812</u> |
| Passed-through Iowa Public Television | | | |
| PBS Teacherline | 84.286 | | <u>15,889</u> |
| Passed-through Iowa State University | 84.318 | | <u>13,079</u> |
| Passed through Ames Community Schools | | | |
| Title I Neglected and Delinquent 2007-2008 | 84.010 | | <u>8,531</u> |
| Passed-through Des Moines Independent Schools | | | |
| Title I Neglected and Delinquent 2007-2008 | 84.010 | | <u>68,912</u> |

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

| <u>Project Title</u> | <u>CFDA Number</u> | <u>Pass through Grantor's Number</u> | <u>Expenditures</u> |
|--|------------------------|--|-----------------------------|
| Passed-through Indianola Community Schools Title I Neglected and Delinquent 2007-2008 | 84.010 | | <u>1,047</u> |
| Passed-through Manning Community Schools Title I Neglected and Delinquent 2007-2008 | 84.010 | | <u>4,268</u> |
| Passed-through Newton Community Schools Title I Neglected and Delinquent 2007-2008 | 84.013 | | <u>6,187</u> |
| | | | <u>117,913</u> |
| TOTAL | | | \$ <u>26,506,725</u> |

* These programs are considered major programs under provisions of the Single Audit Act Amendment of 1996.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Heartland Area Education Agency 11 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

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
Heartland Area Education Agency 11:

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 Heartland Area Education Agency 11 as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated January 2, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Heartland Area Education Agency 11's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Heartland Area Education Agency 11's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Heartland Area Education Agency 11's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Heartland Area Education Agency 11's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Heartland Area Education Agency 11's financial statements that is more than inconsequential will not be prevented or detected by Heartland Area Education Agency's internal control. We noted no matters involving the internal control over financial reporting and its operations to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Heartland Area Education Agency 11.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operations to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heartland Area Education Agency 11'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 Governmental Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the 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.

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

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

A handwritten signature in black ink that reads "Pithman & Company, LLP". The signature is written in a cursive, flowing style.

January 2, 2009

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
In Accordance with OMB Circular A-133**

To the Board of Directors of
Heartland Area Education Agency 11:

Compliance

We have audited the compliance of Heartland Area Education Agency 11, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Heartland Area Education Agency 11's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Heartland Area Education Agency 11's management. Our responsibility is to express an opinion on Heartland Area Education Agency 11's compliance, based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Heartland Area Education Agency 11'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. Our audit does not provide a legal determination on Heartland Area Education Agency 11's compliance with those requirements.

In our opinion, Heartland Area Education Agency 11 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of Heartland Area Education Agency 11 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Heartland Area Education Agency 11's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Heartland Area Education Agency 11's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Agency's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in the Agency's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficient, or combination of control deficiencies, that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more that inconsequential will not be prevented or detected by the Agency's internal control. We noted no matters involving internal control over compliance and its operations to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies that result in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Heartland Area Education Agency 11 and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Pithman & Company, LLP". The signature is written in a cursive, flowing style.

January 2, 2009

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies or 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) No significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.027 - Special Education - Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$795,202.
- (i) Heartland Area Education Agency 11 qualified as a low-risk auditee.

Part II: Findings Related to the General Purpose Financial Statements:

No Findings

Part III: Findings and Questioned Costs for Federal Awards:

No Findings

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

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

- IV-A-08 Official Depositories - A resolution naming official depositories has been adopted by the Agency. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2008.
- IV-B-08 Budget - Expenditures during the year ended June 30, 2008 did not exceed the amount budgeted.
- IV-C-08 Questionable Expense - We noted no exceptions that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-08 Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-E-08 Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.
- IV-F-08 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 that the coverage is adequate for current operations.
- IV-G-08 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- IV-H-08 Deposits and Investments - The Agency complied with provisions of Chapters 12B and 12C of the Code of Iowa.
- IV-I-08 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.