

HEARTLAND AREA EDUCATION AGENCY 11

Independent Auditor's Report
Basic Financial Statements & Supplemental Information
Schedule of Findings and Questioned Costs
June 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
Officials	1-2
Independent Auditor's Report	3-4
Management's Discussion and Analysis (MD&A)	5-10
Basic Financial Statements:	
	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 11
Statement of Activities	B 12
Government Funds Financial Statements:	
Balance Sheet-Governmental Funds	C 13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	D 14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	E 15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	F 16
Notes to Financial Statements	17-26
Required Supplementary Information:	
Budgetary Comparison Schedule – All Governmental Funds	28
Notes to Required Supplementary Information – Budgetary Reporting	29
Schedule of Funding Progress for the Retiree Health Plan	30
Other Supplementary Information:	<u>Schedule</u>
Schedule of Revenues by Source and Expenditures by Function – All Governmental Fund Types	1 32
Schedule of Expenditures of Federal Awards	2 33-35
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	36-37
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	38-39
Schedule of Findings and Questioned Costs	40-42
Staff	43

HEARTLAND AREA EDUCATION AGENCY 11

OFFICIALS

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

AREA SERVED

Audubon County: Audubon School District Exira School District	Carroll County (continued): Manning School District St. Angela Center St. Lawrence School
Boone County: Boone School District Madrid School District Ogden School District Sacred Heart School Trinity Lutheran School United School District	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
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	Guthrie County: Adair-Casey School District Guthrie Center School District Panorama School District West Central Valley School District

HEARTLAND AREA EDUCATION AGENCY 11

AREAS 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 (continued):

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, 2009, 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 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, 2009, 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 8, 2010 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, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and pages 28 through 30 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 opinions 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, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 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.

Arthur & Company, LLP

January 8, 2010

HEARTLAND AREA EDUCATION AGENCY 11

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, 2009. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund Revenues were \$78,786,515 and General Fund Expenditures were \$77,430,546 in FY2009. General Fund Other Financing Sources and Uses for FY2009 were a net use of \$1,111,678. Revenues less Expenditures and Other Uses resulted in a net operating gain of \$244,291. The Agency's General Fund fund balance increased from \$6,158,163 in FY2008 to \$6,402,454 in FY2009.
- The Agency's special education support services revenue was cut by the Governor in December 2008 when he announced a 1.5% across the board funding reduction of state aid in the amount of \$364,387.
- The Agency entered into a Lease Purchase Agreement with First National Bank of Ames in the amount of \$1,600,000 to fund a major remodeling project on the Johnston Campus to create an Administrative Center. The remodeling was completed in FY 09.
- The Agency received \$3.7 million in IDEA Part B flow-through money from the American Recovery and Reinvestment Act (ARRA). These funds upon receipt were immediately disbursed to AEA 11 local school districts. In addition, the agency received and utilized approximately \$480,000 of IDEA Part B ARRA funds to support special education services.
- The Agency implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2009.

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.

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis

USING THIS ANNUAL REPORT (continued)

- 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.
- Other Supplementary Information provides detailed information about nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the Agency.

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.

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis

REPORTING THE AGENCY AS A WHOLE (continued)

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 FY2009 totaled approximately \$12.8 million. The analysis that follows provides a summary of the Agency's Net Assets at June 30, 2009 for the Governmental Activities as compared to Net Assets at June 30, 2008. The Agency does not have Business-Type Activities, therefore the total is only composed of the governmental funds.

Condensed Statement of Net Assets

	FY2009	FY2008	% Change
Current and other assets	\$ 16,785,247	\$ 14,495,461	16%
Capital assets	8,532,018	7,290,841	17%
Total Assets	\$ 25,317,265	\$ 21,786,302	16%
Long-term obligations	\$ 2,106,000	\$ 1,300,000	62%
Other liabilities	10,382,792	8,337,297	25%
Total Liabilities	\$ 12,488,792	\$ 9,637,297	30%
Net Assets:			
Invested in capital assets, net of related debt	\$ 6,457,018	\$ 5,990,841	8%
Restricted	1,103,158	704,563	57%
Unrestricted	5,268,297	5,453,601	(3%)
Total Net Assets	\$ 12,828,473	\$ 12,149,005	6%

The Agency's combined Net Assets increased by \$679,468 from FY2008. The change occurred primarily as a result of operational activity creating excess revenue over expenditures, primarily in the category of restricted assets.

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The following analysis shows the changes in Net Assets for the year ended June 30, 2009 as compared to June 30, 2008. The Agency does not have Business-Type Activities, therefore the total is composed of the Governmental Funds.

Changes in Net Assets			
	FY2009	FY2008	% Change
Revenues:			
Program Revenues:			
Charges for services	\$ 1,721,890	\$ 2,931,303	(41%)
Operating grants and contributions	36,522,257	31,226,876	17%
General Revenues:			
Property tax	18,543,818	17,580,890	5%
State Aid	24,153,753	22,830,227	6%
Unrestricted investment earnings	95,097	320,206	(70%)
Total Revenues	\$ 81,036,815	\$ 74,889,502	8%
Program Expenses:			
Instruction	\$ 3,798,042	\$ 3,438,376	10%
Student support services	27,263,424	25,530,265	7%
Instructional staff support services	22,351,776	21,428,218	4%
General administration	4,530,481	4,899,823	(8%)
Regional administration	3,619,656	3,389,802	7%
Business administration	984,004	874,820	12%
Central and other support services	3,964,488	4,011,534	(1%)
Printing, delivery, and coop services	993,437	1,283,729	(23%)
Coop purchasing cost of goods sold	108,639	1,281,705	(92%)
Plant operations and maintenance	1,787,875	1,596,008	12%
Student transportation	1,836	1,651	11%
Community services operations	194,715	191,685	2%
LEA Part B flow-through	10,323,433	6,504,371	59%
Depreciation-unallocated	144,849	98,142	48%
Long-term debt interest	111,584	45,389	146%
Facilities acquisition	179,108	11,157	1505%
Total Expenses	\$ 80,357,347	\$ 74,586,675	8%
Increase in Net Assets	\$ 679,468	\$ 302,827	124%
Net Assets-Beginning	12,149,005	11,846,178	3%
Net Assets-Ending	\$ 12,828,473	\$ 12,149,005	6%

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The State foundation aid funding formula, consisting of State Aid and Property taxes, accounts for 53% of the total revenue. Operating Grants and Contributions from local, state and federal sources account for 45% of the total revenue. Charges for Services decreased 41% in part because the cooperative purchasing program ceased operations in FY2008 (other than a small run out activity). The significant decrease in Unrestricted Investment Earnings is largely due to the decline in investment interest rates.

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.

The large decline in Printing, Delivery and Coop Services, and the Coop Purchasing Cost of Goods Sold is because the coop purchasing program was phased out in FY2008, except for a small amount of final activity in FY 2009. Therefore the expenditures were greatly reduced from FY2008. The LEA Part B Flow-Through increased because of additional funds disbursed due to the American Recovery and Reinvestment Act. The increase in Debt Interest was because of payments for the Adel regional facility and payments on the remodeling of the administrative service center. The remodel project also caused the facilities acquisition costs to increase.

Governmental Activities

Revenues for Governmental Activities were \$81,036,815 and expenses were \$80,357,347.

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 \$6,402,454, which is \$244,291 more than last year's ending fund balances of \$6,158,163. General Fund revenues increased approximately \$6.1 million, more than half of which is attributable to American Recovery and Reinvestment Act income. The revenue increase also included \$1.6 million from lease purchase proceeds on the financing of the administrative service center facility remodeling. Expenditures increased approximately \$5 million as a result of increased operational costs, Part B funds paid to local schools from the American Recovery and Reinvestment Act funding and facility remodeling 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.

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the Agency had invested \$6.4 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 remodeling of the administrative service center facility was off-set by the long-term lease purchase used to acquire the asset.

Area Education Agency 11 had depreciation expense of \$807,812 in FY2009 and total accumulated depreciation of \$8,158,842 at June 30, 2009. More detailed information about capital assets is available in Note 3 to the financial statements.

Debt Administration

At June 30, 2009 the Agency had \$2,075,000 in long-term outstanding debt. The Agency continues to have a lease purchase agreement with First National Bank of Ames for an office building in Adel, Iowa. On August 29, 2008 the Agency entered into an additional lease purchase with First National Bank of Ames for \$1,600,000 to finance the remodeling of a building at the Johnston campus into an administrative service center.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency is aware that due to the economic downturn being experienced in the U.S. and in the State of Iowa, FY2010 budget resources may be reduced by legislative action or an across-the-board funding reduction. The legislature reduced the state foundation aid formula funding the agency was statutorily entitled to receive by \$364,387, the amount of the Governor's 1.5% cut instituted in FY 2009. In October 2009 the Governor announced an additional 10% across-the-board cut. It is not known at this time if there will be additional budget cuts in FY2010.

Significant federal funds will be received from the American Recovery and Reinvestment act in FY2010. These funds are available for Special Education expenditures until September 30, 2011.

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, 6500 Corporate Drive, Johnston, Iowa 50131.

HEARTLAND AREA EDUCATION AGENCY 11
Statement of Net Assets
June 30, 2009

ASSETS

Cash and cash equivalents	\$ 14,497,742
Due from other governments	2,204,966
Other receivables	39,535
Prepaid expenses	43,004
Capital assets, net of depreciation	8,532,018
Total Assets	<u>\$ 25,317,265</u>

LIABILITIES

Accounts payable and other current liabilities	\$ 7,594,817
Deferred revenues	
Federal	2,506,676
Miscellaneous	281,299
Non-current liabilities	
Lease purchase	2,075,000
OPEB liability	31,000
Total Liabilities	<u>\$ 12,488,792</u>

NET ASSETS

Invested in fixed assets	\$ 6,457,018
Restricted for:	
Media materials resource	1,033,192
State Teacher Quality	69,372
Phase II	594
Unrestricted	5,268,297
Total Net Assets	<u>\$ 12,828,473</u>

See accompanying notes to the financial statements.

HEARTLAND AREA EDUCATION AGENCY 11
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Program Revenues			Charges for Services	Capital Grants and Contributions		Net (Expense) Revenues and Changes in Net Assets
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities		
Governmental Activities:							
Instruction	\$ 3,798,042	\$ 12,984	\$ 3,512,242	\$ -	\$ -	\$ -	(272,816)
Student support services	27,263,424	36,424	11,924,068	-	-	-	(15,302,932)
Instructional staff support services	22,351,776	1,004,815	9,662,130	-	-	-	(11,684,831)
General administration	4,530,481	47,485	298,646	-	-	-	(4,184,350)
Regional administration	3,619,656	-	29,272	-	-	-	(3,590,384)
Business administration	984,004	37,459	480,246	-	-	-	(466,299)
Central and other support services	3,964,488	162,648	43,275	-	-	-	(3,758,565)
Printing, delivery services and coop services	993,437	350,119	-	-	-	-	(643,318)
Coop services cost of goods sold	108,639	68,887	-	-	-	-	(39,752)
Plant operations and maintenance	1,787,875	1,007	52,471	-	-	-	(1,734,397)
Student transportation	1,836	-	1,836	-	-	-	-
Community services	194,715	62	194,638	-	-	-	(15)
LEA Part B flow-through	10,323,433	-	10,323,433	-	-	-	-
Facilities acquisition	179,108	-	-	-	-	-	(179,108)
Debt service	111,584	-	-	-	-	-	(111,584)
Depreciation-unallocated	144,849	-	-	-	-	-	(144,849)
Total Primary Government	\$80,357,347	\$ 1,721,890	\$ 36,522,257	\$ -	\$ -	\$ -	(42,113,200)

General Revenues

Property taxes, levied for general purposes	\$ 18,543,818
State Aid-formula grants	24,153,753
Unrestricted investment earnings	95,097
Total General Revenues	\$ 42,792,668
Change in Net Assets	679,468
Net Assets-Beginning	12,149,005
Net Assets-Ending	\$ 12,828,473

See accompanying notes to the financial statements

HEARTLAND AREA EDUCATION AGENCY 11
Balance Sheet -
Governmental Funds
June 30, 2009

	Non-Major Governmental Funds						Total
	General	Special Revenue	Shelter Care	Capital Projects	Debt Service	Non-Major Funds Sub-Total	
ASSETS							
Cash and cash equivalents	\$ 14,342,691	\$ -	\$ 153,551	\$ 1,500	\$ -	\$ 155,051	\$ 14,497,742
Due from other governments	2,085,784	10,090	109,092	-	-	119,182	2,204,966
Other receivables	39,535	-	-	-	-	-	39,535
Prepaid expenses	40,800	-	2,204	-	-	2,204	43,004
Total Assets	\$ 16,508,810	\$ 10,090	\$ 264,847	\$ 1,500	\$ -	\$ 276,437	\$ 16,785,247
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable and other current liabilities	\$ 7,382,224	\$ 201	\$ 201,003	\$ 1,500	\$ -	\$ 202,704	\$ 7,584,928
Excess of warrants issued over bank balance	-	9,889	-	-	-	9,889	9,889
Deferred revenues							
Federal	2,506,676	-	-	-	-	-	2,506,676
Miscellaneous	217,455	-	63,844	-	-	63,844	281,299
Total Liabilities	\$ 10,106,355	\$ 10,090	\$ 264,847	\$ 1,500	\$ -	\$ 276,437	\$ 10,382,792
FUND BALANCE							
Reserved							
Prepaid expenses	\$ 40,800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,800
Encumbrances	48,406	-	-	-	-	-	48,406
Materials resource	1,033,192	-	-	-	-	-	1,033,192
State teacher categorical	69,966	-	-	-	-	-	69,966
Designated							
Unemployment	33,150	-	-	-	-	-	33,150
Capital needs and repairs	144,532	-	-	-	-	-	144,532
Johnston facility construction	834,345	-	-	-	-	-	834,345
Unreserved/undesignated	4,198,064	-	-	-	-	-	4,198,064
Total Fund Balance	\$ 6,402,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,402,455
Total Liabilities and Fund Balances	\$ 16,508,810	\$ 10,090	\$ 264,847	\$ 1,500	\$ -	\$ 276,437	\$ 16,785,247

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, 2009

Total Fund Balances-Governmental Funds	\$ 6,402,455
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Liability for Other Post-Employment Benefits	(31,000)
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 \$16,690,860 less the accumulated depreciation of \$8,158,842 and less the associated long-term debt of \$2,075,000.	6,457,018
Total Net Assets-Governmental Activities	<u><u>\$ 6,371,455</u></u>

See accompanying notes to the financial statements.

HEARTLAND AREA EDUCATION AGENCY 11
Statement of Revenues, Expenditures and
Changes in Fund Balances-Governmental Funds
For the Year Ended June 30, 2009

	Non-Major Governmental Funds							Total
	General	Special Revenue			Debt Service	Non-Major Funds Sub-Total		
		Spec Ed Instructional	Shelter Care	Capital Projects				
REVENUES								
Local sources	\$ 20,301,997	\$ 10,090	\$ 1,741	\$ 6,085	\$ -	\$ 17,916	\$ 20,319,913	
State sources	27,987,776	-	2,082,399	-	-	2,082,399	30,070,175	
Federal sources	30,496,742	-	109,092	-	-	109,092	30,605,834	
Total Revenues	\$ 78,786,515	\$ 10,090	\$ 2,193,232	\$ 6,085	\$ -	\$ 2,209,407	\$ 80,995,922	
EXPENDITURES								
Instruction	\$ 1,950,435	\$ 9,829	\$ 1,835,500	\$ -	\$ -	\$ 1,845,329	\$ 3,795,764	
Student support services	27,261,580	-	-	-	-	-	27,261,580	
Instructional staff support services	22,069,424	-	129,602	-	-	129,602	22,199,026	
General administration	4,364,583	-	150,986	-	-	150,986	4,515,569	
Regional administration	3,594,192	-	-	-	-	-	3,594,192	
Business administration	984,004	-	-	-	-	-	984,004	
Central and other support services	3,825,688	-	413	2,167	-	2,580	3,828,268	
Printing, delivery and coop services	993,437	-	-	-	-	-	993,437	
Coop purchasing cost of goods sold	108,639	-	-	-	-	-	108,639	
Plant operations and maintenance	1,760,431	10	32,110	-	-	32,120	1,792,551	
Student transportation	-	-	1,836	-	-	1,836	1,836	
Community services operations	194,700	-	-	-	-	-	194,700	
LEA Part B flow-through	10,323,433	-	-	-	-	-	10,323,433	
Facilities acquisition	-	-	-	1,833,899	-	1,833,899	1,833,899	
Debt service	-	-	-	-	936,584	936,584	936,584	
Total Expenditures	\$ 77,430,546	\$ 9,839	\$ 2,150,447	\$ 1,836,066	\$ 936,584	\$ 4,932,936	\$ 82,363,482	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,355,969	\$ 251	\$ 42,785	\$ (1,829,981)	\$ (936,584)	\$ (2,723,529)	\$ (1,367,560)	
OTHER FINANCING SOURCES (USES)								
Prior year expenditures and revenue	\$ 5,268	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,268	
Sale of equipment	6,583	-	-	-	-	-	6,583	
Proceeds from lease purchase	-	-	-	1,600,000	-	1,600,000	1,600,000	
Transfers in	168,482	-	9,309	346,118	936,584	1,292,011	1,460,493	
Transfers out	(1,292,011)	(251)	(52,094)	(116,137)	-	(168,482)	(1,460,493)	
Total Financing Sources (Uses)	\$ (1,111,678)	\$ (251)	\$ (42,785)	\$ 1,829,981	\$ 936,584	\$ 2,723,529	\$ 1,611,851	
Net Change in Fund Balances	\$ 244,291	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 244,291	
Fund Balances--Beginning	\$ 6,158,163	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,158,163	
Fund Balances--Ending	\$ 6,402,454	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,402,454	

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, 2009

Total Net Change in Fund Balances-Governmental Funds **\$ 244,291**

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

Capital outlays are reported in Governmental Funds as expenditures. 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 (\$2,020,474) and donation revenue (\$28,515) for free materials exceed depreciation (\$807,812). 1,241,177

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. (775,000)

Change for the recognition of other post employment benefits (31,000)

Total Change in Net Assets of Governmental Activities **\$ 679,468**

See accompanying notes to the financial statements.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to Financial Statements

June 30, 2009

(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.

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, 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.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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.

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.

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.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies (continued)

D. Measurement Focus and Basis of Accounting (continued)

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.

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 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, 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 a maturity date no longer than three months.

Inventories - Inventories are not reported on the financial statements due to immateriality.

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, 2009

(1) Summary of Significant Accounting Policies (continued)

F. Assets, Liabilities and Fund Equity (continued)

Capital Assets (continued) - Capital assets of the Agency 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, 2009. 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, Restricted Fund Balances are reported for amounts that are not available for appropriation or are legally reserved by outside parties for a specific purpose, pursuant to GASB 54. The portion of the fund balance shown as "Assigned" 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.

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Financial Statements
June 30, 2009

(2) Fair Value Measurement

For the year ended June 30, 2009, the Agency has opted to defer, in part, the application of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, as allowed. Under SFAS 157, management discloses the "fair value" of each category of assets or liabilities, as well as the method by which management determined the "fair value" of each category of assets or liabilities. "Fair value" is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Management may use any of the following three "inputs" to determine their valuation approach for determining the fair value of its assets and liabilities:

1. Quoted market prices for identical assets or liabilities in active markets;
2. Observable prices for similar assets or liabilities in markets that are not active;
3. Unobservable inputs based upon management's assumptions, which are not corroborated by observable market data.

Management's estimates of fair value at June 30, 2009, for significant classes of assets and liabilities are as follows:

<u>Asset/Liability Class</u>	<u>Financial Statement Value</u>	<u>Fair Value</u>	<u>Input Source</u>
Due from other governments	\$ 2,204,966	\$ 2,204,966	2
Capital Assets, net	8,532,018	8,530,000	2 and 3
Total Liabilities	12,488,792	12,488,792	2 and 3

(3) Cash and Cash Equivalents

The Agency's cash and cash equivalents at June 30, 2009 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.

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.

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Financial Statements
June 30, 2009

(3) Cash and Cash Equivalents (continued)

The Agency's investments at June 30, 2009 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
Iowa Schools Joint Investment Trust	\$ <u>204,736</u>	\$ <u>204,736</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.

Credit risk – The investment in the Iowa School Joint Investment Trust is rated AAA by Moody's Investors Service.

(4) Capital Assets

A summary of changes in Capital Assets for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance Ending of Year
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,136,985	\$ -0-	\$ -0-	\$ 1,136,985
Capital Assets Being Depreciated:				
Buildings	\$ 4,107,321	\$ 1,654,792	\$ -0-	\$ 5,762,113
Improvements Other than Buildings	2,095,161	-0-	-0-	2,095,161
Furniture and Equipment	4,030,737	96,682	49,560	4,077,859
Library/Media Collection	<u>3,565,696</u>	<u>297,517</u>	<u>244,470</u>	<u>3,618,743</u>
Total Capital Assets Being Depreciated	\$ <u>13,798,915</u>	\$ <u>2,048,991</u>	\$ <u>294,030</u>	\$ <u>15,553,876</u>
Less Accumulated Depreciation for:				
Buildings	\$ 1,080,812	\$ 101,929	\$ -0-	\$ 1,182,741
Improvements Other than Buildings	1,367,325	42,920	-0-	1,410,245
Furniture and Equipment	2,913,479	301,090	49,560	3,165,009
Library/Media Collection	<u>2,283,442</u>	<u>361,874</u>	<u>244,470</u>	<u>2,400,846</u>
Total Accumulated Depreciation	\$ <u>7,645,058</u>	\$ <u>807,813</u>	\$ <u>294,030</u>	\$ <u>8,158,841</u>
Total Capital Assets Being Depreciated, Net	\$ <u>6,153,857</u>	\$ <u>1,241,178</u>	\$ <u>-0-</u>	\$ <u>7,395,035</u>
Governmental Activities Capital Assets, Net	\$ <u>7,290,842</u>	\$ <u>1,241,178</u>	\$ <u>-0-</u>	\$ <u>8,532,020</u>

HEARTLAND AREA EDUCATION AGENCY 11

Notes to Financial Statements

June 30, 2009

(4) Capital Assets (continued)

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

Governmental Activities:	
Instruction	\$ 639
Student support services	23,885
Instructional staff support services	424,025
General administration	17,499
Regional administration	22,736
Business services	174,180
Plant operations and maintenance	-
Unallocated	<u>144,849</u>
Total Governmental Activities Depreciation Expense	\$ <u>807,813</u>

(5) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance Ending of Year
Capital Leases	\$ 1,300,000	\$ 1,600,000	\$ 825,000	\$ 2,075,000
Net OPEB liabilities	-0-	31,000	-0-	31,000
Total	\$ <u>1,300,000</u>	\$ <u>1,631,000</u>	\$ <u>825,000</u>	\$ <u>2,106,000</u>

Capital Leases

During FY2008 the Agency entered into a lease purchase agreement for the purchase of a facility in Adel, IA. During FY2009 the Agency made an additional payment of \$600,000 on the Adel lease purchase agreement. Below is a schedule of minimum capital lease payments required on the lease purchase agreements as of June 30, 2009 for the Adel facility.

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 65,000	\$ 28,619	\$ 93,619
2011	65,000	25,531	90,531
2012	65,000	22,444	87,444
2113	65,000	19,356	84,356
2114	65,000	16,269	81,269
2015 and beyond	<u>310,000</u>	<u>33,013</u>	<u>343,013</u>
Total	\$ <u>635,000</u>	\$ <u>145,232</u>	\$ <u>780,232</u>

The Agency entered into an additional lease purchase agreement on August 29, 2008 with First National Bank of Ames for \$1,600,000 to remodel a building at the Johnston campus. Below is a schedule of minimum capital lease payments required on the lease purchase agreements as of June 30, 2009 for the Johnston campus remodeling project.

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 160,000	\$ 61,200	\$ 221,200
2011	160,000	54,400	214,400
2012	160,000	47,600	207,600
2113	<u>960,000</u>	<u>40,800</u>	<u>1,000,800</u>
Total	\$ <u>1,440,000</u>	\$ <u>204,000</u>	\$ <u>1,644,000</u>

HEARTLAND AREA EDUCATION AGENCY 11

Notes to Financial Statements

June 30, 2009

(6) 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, 2009 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.

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, 2009.

<u>Year Ending June 30,</u>	
2010	\$229,299
2011	55,469
2012	55,469
2013	21,098
2014	<u>3,207</u>
Total	<u>\$364,542</u>

(7) 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 4.10% of their annual covered salary and the Agency is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 was \$2,390,695, \$2,130,629, and \$1,823,979 respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

The Agency implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2009.

Plan Description – The Agency operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 590 active and 66 retired members in the plan. Participants must be age 58 years of age or older at retirement and have attained a minimum of 15 years of service. In fiscal year 2011 the age requirement for benefits will be changed to 60.

The medical/prescription drug coverage is through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

HEARTLAND AREA EDUCATION AGENCY 11

Notes to Financial Statements

June 30, 2009

(8) Other Postemployment Benefits (OPEB) (continued)

Annual OPEB Cost and Net OPEB Cost – The Agency’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 25 years.

The following table shows the components of the Agency’s annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan and changes in the Agency’s net OPEB obligation:

Annual Required Contribution	\$ 708,000
Contributions Made	(677,000)
Increase in Net OPEB Obligation	\$ 31,000
Net OPEB Obligation – Beginning of Year	-0-
Net OPEB Obligation – End of Year	\$ <u>31,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

For the year ended June 30, 2009, the Agency contributed \$677,000 to the medical plan. Plan members eligible for benefits contributed \$490,000, or 42% of the premium costs.

The Agency’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2009 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$708,000	95.6%	\$31,000

Funding Status and Funding Progress – As of July 1, 2008, the most recent actuarial valuation data for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$7,517,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,517,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$37,788,581 and the ratio of the UAAL to covered payroll was 20%. As of June 30, 2009, there were no trust fund assets.

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

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Financial Statements
June 30, 2009

(8) Other Postemployment Benefits (OPEB) (continued)

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

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

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

Projected claim costs of the medical plan are \$594 per month for retirees of age 60. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 25 years.

(9) 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.

(10) Subsequent Events

Management has reviewed and evaluated material subsequent events from the balance sheet date of June 30, 2009 through the financial statements issue date of January 8, 2010. All appropriate subsequent event disclosures, if any, have been made to the financial statements.

HEARTLAND AREA EDUCATION AGENCY 11

Required Supplementary Information

HEARTLAND AREA EDUCATION AGENCY 11
Required Supplementary Information
Budgetary Comparison Schedule-All Governmental Funds
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final budget- Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 21,010,849	\$ 20,310,552	\$ 20,319,913	\$ 9,361
State sources	29,947,674	30,490,165	30,070,175	(419,990)
Federal sources	26,819,764	31,085,047	30,605,834	(479,213)
Total Revenues	\$ 77,778,287	\$ 81,885,764	\$ 80,995,922	\$ (889,842)
EXPENDITURES				
Instruction	\$ 3,548,491	\$ 3,957,824	\$ 3,795,764	\$ 162,060
Student support services	27,103,799	26,945,761	27,261,580	(315,819)
Instructional staff support services	20,832,814	23,426,897	22,199,026	1,227,871
General administration	4,977,835	5,021,108	4,515,569	505,539
Regional administration	4,664,375	3,914,567	3,594,192	320,375
Business administration	984,004	1,001,233	984,004	17,229
Central and other support services	5,445,075	4,242,743	3,828,268	414,475
Printing, delivery and coop services	1,170,609	1,123,092	993,437	129,655
Coop purchasing cost of goods sold	500,000	108,700	108,639	61
Plant operations and maintenance	1,863,720	1,805,539	1,792,551	12,988
Student transportation	7,000	7,000	1,836	5,164
Community services operations	176,194	187,399	194,700	(7,301)
LEA Part B flow-through	6,504,371	10,323,433	10,323,433	-
Facilities acquisition	995,000	2,266,700	1,833,899	432,801
Debt service	125,200	636,578	936,584	(300,006)
Total Expenditures	\$ 78,898,487	\$ 84,968,574	\$ 82,363,482	\$ 2,605,092
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,120,200)	\$ (3,082,810)	\$ (1,367,560)	\$ 1,715,250
OTHER FINANCING SOURCES (USES)				
Prior year expenditures and revenue	-	-	5,268	5,268
Sales of equipment	-	-	6,583	6,583
Proceeds - lease purchase agreement	995,000	1,850,000	1,600,000	(250,000)
Excess (Deficiency) of Revenues Over Expenditures and Other Financing (Uses)	\$ (125,200)	\$ (1,232,810)	\$ 244,291	\$ 1,477,101

See accompanying independent auditor's report

HEARTLAND AREA EDUCATION AGENCY 11
Note to Required Supplementary Information – Budgetary Reporting
June 30, 2009

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 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, 2009, the Agency's expenditures/expenses did not exceed the approved budget.

HEARTLAND AREA EDUCATION AGENCY 11
Required Supplementary Information
Schedule of Funding Progress for the Retiree Health Plan
For the Year Ended June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2008	0	\$ 7,517,000	\$ 7,517,000	0%	\$ 37,788,581	19.89%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See accompanying independent auditor's report.

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 ending June 30,			
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
REVENUES				
Local sources	\$ 20,319,913	\$ 20,875,387	\$ 20,666,913	\$ 19,456,794
State	30,070,175	27,394,121	23,588,220	21,292,677
Federal	30,605,834	26,593,705	26,089,029	26,144,724
Total Revenues	<u>\$ 80,995,922</u>	<u>\$ 74,863,213</u>	<u>\$ 70,344,162</u>	<u>\$ 66,894,195</u>
EXPENDITURES				
Instruction	\$ 3,795,764	\$ 3,437,737	\$ 3,234,831	\$ 2,892,334
Student support services	27,261,580	25,536,664	25,109,233	23,682,921
Instructional staff support services	22,199,026	21,316,320	20,413,662	20,139,600
General administration	4,515,569	4,805,438	4,039,805	5,705,028
Regional administration	3,594,192	3,488,662	2,065,367	-
Business administration	984,004	874,820	718,096	3,557,567
Central and other support services	3,828,268	3,837,598	3,906,732	2,805,186
Printing, delivery and coop services	993,437	1,283,729	1,363,495	-
Coop purchasing cost of goods sold	108,639	1,281,705	1,588,644	-
Plant operations and maintenance	1,792,551	1,729,306	1,589,617	1,377,351
Student transportation	1,836	1,651	1,718	4,343
Community services operations	194,700	191,685	166,013	160,773
LEA Part B flow-through	10,323,433	6,504,371	6,463,696	6,414,400
Facilities acquisition and construction	1,833,899	1,473,941	62,197	15,569
Debt service	936,584	1,333,791	-	-
Total Expenditures	<u>\$ 82,363,482</u>	<u>\$ 77,097,418</u>	<u>\$ 70,723,106</u>	<u>\$ 66,755,072</u>

See accompanying independent auditor's report.

HEARTLAND AREA EDUCATION AGENCY 11
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2009

<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	80911	\$ 24,037,009
DE Consultant Agreement 2008-2009	84.027	3209	92,516
Parent Educator Model 2008-2009	84.027	87411	201,958
Instructional Decision Making	84.027	11	<u>149,160</u>
			* 24,480,643
Special Education—Basic 619			
Preschool 3 thru 5 P.L. 99-457	84.173	11	556,304
Special Education—Part C			
Education of Handicapped Act Part C	84.181	11	592,678
Service Coordination Agreement	84.181	83109	<u>2,932</u>
			595,610
Title II			
E2T2, Part D	84.318		1,825
E2T2, Part D	84.318		34,875
E2T2, State-wide	84.318		64,076
E2T2, State-wide	84.318		<u>49,148</u>
			149,924
Title III			
ELL-LEP	84.365		255,069
Career Ladder			
Miscellaneous Reimbursement	84.323		4,060
State Professional Development	84.323		<u>62,770</u>
			66,830
Every Student Counts	84.367	118708	1,400
Every Learner Inquires	84.367	402509	7,451
Federal Teacher Quality	84.367		1,920
Title II, Part A	84.367		6,392
Title II, Part A	84.367		<u>23,948</u>
			41,111

See accompanying independent auditor's report.

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

<u>Project Title</u>	<u>CFDA Number</u>	<u>Pass through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Education (continued):			
Passed-through State Dept. of Education (continued):			
Title I Accountability Model Core Curriculum	84.348		\$ 3,685
Reading First State Grants Reading First	84.357		5,513
Reading First	84.357		<u>15,955</u>
			21,468
ARRA – Special Education Grants to States, Recovery Act	84.391	*	4,116,788
ARRA – Special Education – Preschool Grants, Recovery Act	84.392	*	28,647
Total Passed-Through Iowa Department of Education			<u>30,316,079</u>
Passed-through Iowa Public Television:			
PBS Teacherline	84.286		<u>9,621</u>
Passed-through Ames Community Schools:			
Title I Neglected and Delinquent 2008-2009	84.010		8,620
Passed-through Des Moines Independent Schools:			
Title I Neglected and Delinquent 2008-2009	84.010		88,356
Des Moines Partnership	84.367		<u>70,047</u>
Total Passed-through Des Moines Independent Schools			158,403
Passed-through Indianola Community Schools:			
Title I Neglected and Delinquent 2008-2009	84.010		1,588
Passed-through Manning Community Schools:			
Title I Neglected and Delinquent 2008-2009	84.010		4,256

See accompanying independent auditor's report.

HEARTLAND AREA EDUCATION AGENCY 11
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2009

<u>Project Title</u>	<u>CFDA Number</u>	<u>Pass through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Education (continued):			
Passed-through Newton Community Schools:			
Title I Neglected and Delinquent 2008-2009	84.010		\$ <u>6,353</u>
Total U.S. Department of Education			\$ <u>30,504,920</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, each major fund and the aggregate remaining fund information of Heartland Area Education Agency 11 as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated January 8, 2010. 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, 2009 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 have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 8, 2010

Arthur Company, LLP



**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, 2009. 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, 2009.

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 our opinion on compliance, 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 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. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency. The deficiency in internal control over compliance was not a material weakness.

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 deficiency, 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 than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-09 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control. We do not consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questions Costs to be a material weakness in internal control over compliance relating to major programs.

Heartland Area Education Agency's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the Agency's response, we did not audit Heartland Area Agency's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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.

Pitman & Company, LLP

January 8, 2010

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

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) One significant deficiency in internal control over major programs was disclosed by the audit of the financial statements. The significant deficiency is not considered a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed one audit finding which was 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
 - CFDA Number 84.391 – ARRA – Special Education Grants to States, Recovery Act
 - CFDA Number 84.392 – ARRA – Special Education Preschool Grants, Recovery Act
- (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.

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

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

No Findings

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF MATERIAL NON-COMPLIANCE:

No matters noted.

SIGNIFICANT DEFICIENCIES:

CFDA Number 84.027: Special Education – Grants to States
CFDA Number 84.391: ARRA – Special Education Grants to States, Recovery Act
CFDA Number 84.392: ARRA – Special Education Preschool Grants, Recovery Act
Federal Award Year: 2009
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-09 Sub-recipient Monitoring – The Agency did not perform procedures to ensure that all sub-recipients receiving over \$500,000 in Federal awards met the audit requirements of OMB Circular A-133. The Agency did not review sub-recipient audit reports for audit findings or require the sub-recipients with audit findings to timely respond with an appropriate corrective action plan.

Recommendation – The Agency should immediately adopt procedures to ensure that all sub-recipients receiving \$500,000 or more in Federal awards during the year have met the audit requirements of OMB Circular A-133.

Response and Corrective Action Planned – In fiscal year 2008-2009 we should have reviewed the audit reports of two sub-recipients who received more than \$500,000 each in 2007-2008. The two audit reports have now been obtained and reviewed as required. We will adopt procedures to obtain the audits of future qualifying sub-recipients. We will review the audit reports and require timely and appropriate corrective action plans for any audit findings.

Conclusion – Response accepted.

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

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

- IV-A-09 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, 2009.
- IV-B-09 Budget - Expenditures during the year ended June 30, 2009 did not exceed the amount budgeted.
- IV-C-09 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-09 Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-E-09 Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.
- IV-F-09 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-09 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- IV-H-09 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-09 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-J-09 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

HEARTLAND AREA EDUCATION AGENCY 11

Staff

This audit was performed by:

John Pittman, CPA, Partner
Emily Burgers, CPA, Staff Auditor