

HEARTLAND AREA EDUCATION AGENCY 11

Independent Auditor's Report
Basic Financial Statements
and Supplementary Information
Schedule of Findings and Questioned Costs
June 30, 2012

HEARTLAND AREA EDUCATION AGENCY 11

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HEARTLAND AREA EDUCATION AGENCY 11

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Directors:		
Nels Turnquist	President	2015
Margaret Borgen	Vice President	2015
Earl Bridgewater	Past President	2013
Ann Wilson	Member	2013
Bruce Christensen	Member	2013
Steve Rose	Member	2015
Jane Bell	Member	2015
Marcie Sparks	Member	2013
Cal Halliburton	Member	2015
Agency:		
Dr. Paula Vincent	Chief Administrator	
Jenny Ugolini	Board Secretary	
John Linch	Treasurer	
David King	Chief Financial Officer	

AREAS 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
Coon Rapids Bayard School District
Glidden-Ralston School District
Kuemper School

Dallas County:

Adel-DeSoto-Minburn School District
Assumption School
Dallas Center-Grimes 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

AREAS SERVED (CONTINUED)

Jasper County:

Baxter School District
Colfax-Mingo School District
Lynnville-Sully School District
Newton School District
Newton Christian 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
Ankeny Christian Academy
Bondurant-Farrar School District
Christ the King School
Des Moines School District
Des Moines Christian School
Bergman Academy
Dowling High School
Grandview Park Baptist School
Holy Family Schools
Holy Trinity School

Polk County (continued):

Iowa Christian Academy
Johnston School District
Mt. Olive Lutheran School
North Polk School District
Sacred Heart School
St. Anthony School
St. Augustin 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, 2012, 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, 2012, 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 December 7, 2012 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 or 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and pages 28 through 30 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The 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 States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of Heartland Area Education Agency 11's management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 7, 2012

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Heartland 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, 2012. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund Revenues were \$76,883,631 and General Fund Expenditures were \$76,520,276 in FY2012. General Fund Other Financing Sources and Uses for FY2012 were a net use of \$1,668,273. Revenues less Expenditures and Other Uses resulted in a net operating loss of \$1,304,918. The Agency's General Fund total fund balance decreased from \$12,064,049 in FY2011 to \$10,759,131 in FY2012.
- The Agency's special education support services state foundation aid revenue was reduced a total of \$6,277,638. This was the Agency's share of a \$27.5 million cut to all area education agencies. In FY2011, the Agency's state foundation aid revenue was reduced \$2,272,301 which was its share of a \$10 million cut to all area education agencies.
- In November the Agency terminated the remaining 31 months of a five-year agreement with Xerox for management services and equipment in the print shop. The cost of the buy out was approximately \$343,000. The Agency entered a three-year agreement with Laser Resources, LLC beginning November 1, 2011 for management of the print shop.
- The Agency paid off the two outstanding lease/purchase agreements with First National Bank of Ames. The Agency made final principal payments totaling \$1,305,000 and final interest payments of \$15,596 in June of 2012. The Agency does not currently have any long-term debt.

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 the Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the Agency's operations in more detail than the Government-Wide 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.

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis
For the Year Ended June 30, 2012

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.

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis

For the Year Ended June 30, 2012

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 FY2012 totaled approximately \$20.6 million. The analysis that follows provides a summary of the Agency's Net Assets at June 30, 2012 for the Governmental Activities as compared to Net Assets at June 30, 2011. The Agency does not have Business-Type Activities, therefore the total is only composed of the Governmental Funds.

Condensed Statement of Net Assets

	FY2012	FY2011	% Change
Current and other assets	\$ 19,564,915	\$ 22,995,333	(15%)
Capital assets	9,862,677	9,908,031	(0.5%)
Total Assets	\$ 29,427,592	\$ 32,903,364	(11%)
Long-term obligations	\$ 40,000	\$ 1,616,000	(98%)
Other liabilities	8,805,784	10,931,284	(19%)
Total Liabilities	\$ 8,845,784	\$ 12,547,284	(30%)
Net Assets:			
Invested in capital assets, net of related debt	\$ 9,862,677	\$ 8,343,031	18%
Restricted	2,270,241	2,093,935	8%
Unrestricted	8,448,890	9,919,114	(15%)
Total Net Assets	\$ 20,581,808	\$ 20,356,080	1%

The Agency's Total Net Assets increased by \$225,728 from FY2011. Current and other assets decreased \$3.4 million from FY 2011 due to a reduction of cash. Long-term obligations were reduced due to paying off the \$1.3 million of outstanding lease/purchase agreements. Other liabilities decreased \$2.1 million due to the elimination of the Part B deferred revenue in FY 2011. The pay off of the outstanding lease/purchase agreements also resulted in a large increase in Invested in capital assets, net of related debt. The combined impact of the above and the net operating loss resulted in a reduction of Unrestricted Net Assets of approximately \$1.5 million.

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis

For the Year Ended June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The following analysis shows the changes in Net Assets for the year ended June 30, 2012 as compared to June 30, 2011. The Agency does not have Business-Type Activities, therefore the total is composed of the Governmental Funds.

Changes in Net Assets			
	FY2012	FY2011	% Change
Revenues:			
Program Revenues:			
Charges for services	\$ 2,819,457	\$ 2,012,575	40%
Operating grants and contributions	29,966,668	31,469,417	(5%)
General Revenues:			
Property tax	20,183,337	19,921,956	1%
State Aid	25,538,000	29,342,470	(13%)
Unrestricted investment earnings	35,471	43,434	(18%)
Total Revenues	<u>\$ 78,542,933</u>	<u>\$ 82,789,852</u>	<u>(5%)</u>
Program Expenses:			
Instruction	\$ 3,225,350	\$ 4,649,115	(31%)
Student support services	29,735,955	28,682,331	4%
Instructional staff support services	22,113,213	23,335,639	(5%)
General administration	3,770,310	4,504,586	(16%)
Regional administration	4,580,179	3,418,468	34%
Business administration	1,266,662	1,114,775	14%
Central and other support services	3,792,796	4,387,405	(14%)
Printing and delivery	1,203,711	1,150,726	5%
Plant operations and maintenance	1,188,607	1,413,923	(16%)
Student transportation	2,477	3,255	(24%)
Management services	195,410	-0-	-
Community services operations	191,774	209,131	(8%)
LEA Part B flow-through	6,711,880	6,814,588	(2%)
Depreciation-unallocated	204,164	173,366	18%
Long-term debt interest	73,108	32,778	123%
Facilities acquisition	61,609	175,380	(65%)
Total Expenses	<u>\$ 78,317,205</u>	<u>\$ 80,065,466</u>	<u>(2%)</u>
Increase in Net assets	\$ 225,728	\$ 2,724,386	(92%)
Net Assets-Beginning	20,356,080	17,631,694	15%
Net Assets-Ending	<u>\$ 20,581,808</u>	<u>\$ 20,356,080</u>	<u>1%</u>

HEARTLAND AREA EDUCATION AGENCY 11

Management's Discussion and Analysis
For the Year Ended June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The Agency's overall revenue decrease of 5% was primarily due to the reduction in Operating grants and contributions of 5% and the reduction in State Aid of 13%. Operating Grants and Contributions were lower in FY 2012 due to the loss of federal funding under the American Recovery and Reinvestment Act (ARRA). In FY 2011 the Agency received approximately \$5.3 million for ARRA funding. The last of the ARRA funding totaling \$67,846 was received by the Agency in FY 2012. The loss of ARRA funding was partially offset by an increase in Part B funding. Part B funding increased by approximately \$4.1 million in FY 2012. State Aid decreased due to the new \$17.5 million state-wide cut to AEA funding. The Agency's portion of this cut was approximately \$4 million.

The Agency's expenses primarily relate to instructional support services provided to local school districts, which account for 85% 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 and delivery, LEA Part B flow-through and a large portion of the Central and other support services.

Instruction expenses decreased due to the reduction of ARRA funds available in FY 2012 as well as decreased State Aid. The large percentage changes for General Administration, Regional Administration, and Business Administration were due to staff allocation changes and changes in how the Agency classified expenses for regional support to local districts. The changes in Central and other support services and Plant operations and maintenance were due to changes in costs associated with the Des Moines Public School contract for special education services. Cumulatively, expenses related to Administration, Central support, and Plant operations decreased by approximately \$240,000 or 2%.

Governmental Activities

Revenues for Governmental Activities were \$78,542,933 and expenses were \$78,317,205, resulting in an increase in Net Assets of \$225,728.

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 \$10,759,131, which is approximately \$1.3 million less than last year's ending fund balances of \$12,064,049. Governmental Fund revenues decreased approximately \$4.3 million. The reduced revenues are a result of the decrease in American Recovery and Reinvestment Act income and the state reduction of special education support services funding. Governmental Fund expenditures decreased approximately \$1.1 million largely as a result of the elimination of ARRA funds. The Agency also paid off the remaining outstanding debt at year-end.

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
For the Year Ended June 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the Agency had invested \$9.9 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, computers, equipment, software, and an extensive library/media collection.

The Agency had depreciation expense of \$1,064,594 in FY2012 and total accumulated depreciation of \$10,684,808 at June 30, 2012. More detailed information about capital assets is available in Note 3 to the financial statements.

Debt Administration

At June 30, 2012 the Agency had no outstanding long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Iowa and US economies continue a slow recovery. For FY 2013 the Iowa legislature continued the State Aid \$27.5 million cut to the AEA system. As a result, the Agency's share of this cut, \$6.3 million, will extend to FY 2013. In addition to the State Aid funding cuts, the federal government has funding cuts scheduled for implementation in January of 2013 if Congress fails to pass a balanced deficit reduction plan. The federal cuts are referred to as sequestration. Although current information indicates the potential sequestration will not affect FY 2013 funding, the cuts to future years could be substantial. At this time, the Agency has been advised by the Department of Education that federal funds could decrease by as much as 15%.

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 Chief Financial Officer of Area Education Agency 11, 6500 Corporate Drive, Johnston, Iowa 50131.

HEARTLAND AREA EDUCATION AGENCY 11

Statement of Net Assets

June 30, 2012

ASSETS

Cash and cash equivalents	\$ 15,526,190
Due from other governments	3,966,268
Prepaid expenses	72,457
Capital assets, net of depreciation	<u>9,862,677</u>

Total Assets**\$ 29,427,592****LIABILITIES**

Accounts payable and other current liabilities	\$ 7,756,626
Deferred revenues	
Federal	49,634
Miscellaneous	999,524
Non-current liabilities	
OPEB liability	<u>40,000</u>

Total Liabilities**\$ 8,845,784****NET ASSETS**

Invested in fixed assets	\$ 9,862,677
Restricted for:	
Prepaid expenses	71,128
Materials resource	1,930,365
State teacher categorical	268,748
Unrestricted	<u>8,448,890</u>

Total Net Assets**\$ 20,581,808**

See accompanying notes to the financial statements.

HEARTLAND AREA EDUCATION AGENCY 11

Exhibit B

Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 3,225,350	\$ 11,392	\$ 3,003,867	-	\$ (210,091)
Student support services	29,735,955	9,915	12,272,669	-	(17,453,371)
Instructional staff support services	22,113,213	2,018,072	6,909,645	-	(13,185,496)
General administration	3,770,310	30,990	250,722	-	(3,488,598)
Regional administration	4,580,179	250	-	-	(4,579,929)
Business administration	1,266,662	27,934	520,894	-	(717,834)
Central and other support services	3,792,796	294,498	79,543	-	(3,418,755)
Printing and delivery	1,203,711	329,863	-	-	(873,848)
Plant operations and maintenance	1,188,607	5,217	23,828	-	(1,159,562)
Student transportation	2,477	-	2,477	-	-
Management services	195,410	91,046	-	-	(104,364)
Community services	191,774	280	191,143	-	(351)
LEA Part B flowthrough	6,711,880	-	6,711,880	-	-
Facilities acquisition	61,609	-	-	-	(61,609)
Debt service	73,108	-	-	-	(73,108)
Depreciation - unallocated	204,164	-	-	-	(204,164)
Total Primary Government	\$ 78,317,205	\$ 2,819,457	\$ 29,966,668	\$ -	(45,531,080)
General Revenues					
Property taxes, levied for general purposes					20,183,337
State Aid					25,538,000
Unrestricted investment earnings					35,471
Total General Revenues					45,756,808
Change in Net Assets					\$ 225,728
Net Assets - Beginning of Year					20,356,080
Net Assets - End of Year					\$ 20,581,808

See accompanying notes to the financial statements.

HEARTLAND AREA EDUCATION AGENCY 11
 Balance Sheet - Governmental Funds
 June 30, 2012

Exhibit C

	Non-Major Governmental Funds						Total
	General	Special Revenue		Capital Projects	Debt Service	Non-Major Funds Sub-Total	
		Spec Ed Instructional	Shelter Care				
ASSETS							
Cash and cash equivalents	\$ 15,282,637	\$ -	\$ 256,223	\$ -	\$ -	\$ 256,223	\$ 15,538,860
Due from other governments	3,854,720	12,670	98,878	-	-	111,548	3,966,268
Prepaid expenses	71,128	-	1,329	-	-	1,329	72,457
Total Assets	\$ 19,208,485	\$ 12,670	\$ 356,430	\$ -	\$ -	\$ 369,100	\$ 19,577,585
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable and other current liabilities	\$ 7,628,302	\$ -	\$ 128,324	\$ -	\$ -	\$ 128,324	\$ 7,756,626
Excess of warrants issued over bank balance	-	12,670	-	-	-	12,670	12,670
Deferred revenues							
Federal	49,634	-	-	-	-	-	49,634
Miscellaneous	771,418	-	228,106	-	-	228,106	999,524
Total Liabilities	8,449,354	12,670	356,430	-	-	369,100	8,818,454
FUND BALANCE							
Non-spendable							
Prepaid expenses	71,128	-	-	-	-	-	71,128
Restricted							
Materials resource	1,930,365	-	-	-	-	-	1,930,365
State teacher categorical	268,748	-	-	-	-	-	268,748
Assigned							
Encumbrances	177,017	-	-	-	-	-	177,017
Committed							
Unemployment	33,150	-	-	-	-	-	33,150
Capital needs and repairs	144,532	-	-	-	-	-	144,532
Johnston facility construction	834,345	-	-	-	-	-	834,345
Unassigned/uncommitted	7,299,846	-	-	-	-	-	7,299,846
Total Fund Balance	10,759,131	-	-	-	-	-	10,759,131
Total Liabilities and Fund Balances	\$ 19,208,485	\$ 12,670	\$ 356,430	\$ -	\$ -	\$ 369,100	\$ 19,577,585

See accompanying notes to the financial statements.

HEARTLAND AREA EDUCATION AGENCY 11
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2012

Total Fund Balances - Governmental Funds \$ 10,759,131

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

Liability for Other Post-Employment Benefits (40,000)

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 \$20,547,485 less the accumulated depreciation of \$10,684,808.

9,862,677

Total Net Assets - Governmental Activities \$ 20,581,808

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, 2012

Exhibit E

	Non-Major Governmental Funds						Non-Major Funds Sub-Total	Total
	General	Special Revenue		Capital Projects	Debt Service			
		Spec Ed Instructional	Shelter Care					
REVENUES								
Local sources	\$ 22,983,732	\$ 11,206	\$ 7,278	\$ -	\$ -	\$ 18,484	\$ 23,002,216	
State sources	26,092,539	-	1,489,132	-	-	1,489,132	27,581,671	
Federal sources	27,807,360	-	107,290	-	-	107,290	27,914,650	
Total Revenues	<u>76,883,631</u>	<u>11,206</u>	<u>1,603,700</u>	<u>-</u>	<u>-</u>	<u>1,614,906</u>	<u>78,498,537</u>	
EXPENDITURES								
Instruction	1,882,318	11,206	1,324,579	-	-	1,335,785	3,218,103	
Student support services	29,703,122	-	7,278	-	-	7,278	29,710,400	
Instructional staff support services	21,903,342	-	117,794	-	-	117,794	22,021,136	
General administration	3,642,935	-	131,172	-	-	131,172	3,774,107	
Regional administration	4,591,301	-	-	-	-	-	4,591,301	
Business administration	1,264,830	-	-	-	-	-	1,264,830	
Central and other support services	3,854,829	-	311	-	-	311	3,855,140	
Printing and delivery	1,411,097	-	-	-	-	-	1,411,097	
Plant operations and maintenance	1,166,568	-	21,144	-	-	21,144	1,187,712	
Student transportation	870	-	1,607	-	-	1,607	2,477	
Management services	195,410	-	-	-	-	-	195,410	
Community services operations	191,774	-	-	-	-	-	191,774	
LEA Part B flowthrough	6,711,880	-	-	-	-	-	6,711,880	
Facilities acquisition	-	-	-	62,699	-	62,699	62,699	
Debt service	-	-	-	-	1,638,108	1,638,108	1,638,108	
Total Expenditures	<u>76,520,276</u>	<u>11,206</u>	<u>1,603,885</u>	<u>62,699</u>	<u>1,638,108</u>	<u>3,315,898</u>	<u>79,836,174</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	363,355	-	(185)	(62,699)	(1,638,108)	(1,700,992)	(1,337,637)	
OTHER FINANCING SOURCES (USES)								
Prior year expenditures and revenue	25,513	-	185	-	-	185	25,698	
Sale of equipment	7,021	-	-	-	-	-	7,021	
Proceeds from lease purchase	-	-	-	-	-	-	-	
Transfers in	-	-	-	62,699	1,638,108	1,700,807	1,700,807	
Transfers out	(1,700,807)	-	-	-	-	-	(1,700,807)	
Total Financing Sources (Uses)	<u>(1,668,273)</u>	<u>-</u>	<u>185</u>	<u>62,699</u>	<u>1,638,108</u>	<u>1,700,992</u>	<u>32,719</u>	
Net Change in Fund Balances	(1,304,918)	-	-	-	-	-	(1,304,918)	
Fund Balances--Beginning	12,064,049	-	-	-	-	-	12,064,049	
Fund Balances--Ending	<u>\$ 10,759,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,759,131</u>	

See accompanying notes to the financial statements.

HEARTLAND AREA EDUCATION AGENCY 11
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances - Governmental Funds - to the Statement of Activities
 For the Year Ended June 30, 2012

Total Net Change in Fund Balances - Government Funds \$ (1,304,918)

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 depreciation (\$1,064,594) exceeded capital
 outlay (\$1,015,468) and donation revenue (\$8,133) for free materials.
 Additionally, there was an adjustment to the beginning balance to correct
 a prior year error (\$4,361). (45,354)

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. 1,565,000

Change for the recognition of other post employment benefits 11,000

Total Change in Net Assets of Governmental Activities \$ 225,728

See accompanying notes to the financial statements.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to the Financial Statements

For the Year Ended June 30, 2012

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 also 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 53 school districts and 28 accredited 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 inter fund 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 the following 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 which can be removed or modified.

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

HEARTLAND AREA EDUCATION AGENCY 11

Notes to the Financial Statements
For the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (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 revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Agency reports the following non-major Governmental Funds:

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

The Special Revenue, Shelter Care Fund is used to account for instructional programs where the 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 and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current 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 the Financial Statements
For the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies (continued)

D. Measurement Focus and Basis of Accounting (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 revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and 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.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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

E. Budgets and Budgetary Accounting

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

F. Assets, Liabilities and Fund Equity

Cash, Pooled Investments 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, and intangibles 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 the Financial Statements
For the Year Ended June 30, 2012

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
Intangibles	5-10
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 and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid by the General and Special Revenue Funds.

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

Fund Balances - In the Governmental Fund financial statements, fund balances are classified as follows:

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

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

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

Assigned - Amounts intended to use for a specific purpose. Intent can be expressed by the governing body or by an official to which the governing body delegates the authority.

Unassigned - All amounts not included in other spendable classifications.

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

HEARTLAND AREA EDUCATION AGENCY 11

Notes to the Financial Statements
For the Year Ended June 30, 2012

2. **Cash, Pooled Investments and Cash Equivalents**

The Agency's deposits in banks at June 30, 2012 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure 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.

The Agency's investments at June 30, 2012 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
Iowa Schools Joint Investment Trust	\$ <u>108,741</u>	\$ <u>108,741</u>

The Agency had investments in the Iowa Schools Joint Investment Trust Direct Government Obligation Portfolio which are valued at an amortized cost of \$108,741 pursuant to Rule 2a-7 under Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

Interest rate risk - The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Agency.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to the Financial Statements

For the Year Ended June 30, 2012

3. Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,136,985	\$ -0-	\$ -0-	\$ 1,136,985
Capital Assets Being Depreciated:				
Buildings	6,113,419	-0-	-0-	6,113,419
Improvements other than buildings	2,886,645	1,090	-0-	2,887,735
Furniture and equipment	3,908,883	351,380	199,238	4,061,025
Intangibles	2,140,685	346,171	-0-	2,486,856
Library/media collection	<u>3,654,006</u>	<u>331,720</u>	<u>124,261</u>	<u>3,861,465</u>
Total Capital Assets Being Depreciated	18,703,638	1,030,361	323,499	19,410,500
Less Accumulated Depreciation for:				
Buildings	1,413,710	122,182	-0-	1,535,892
Improvements other than buildings	1,462,200	81,983	-0-	1,544,183
Furniture and equipment	3,284,309	275,724	188,116	3,371,917
Intangibles	1,084,418	198,558	-0-	1,282,976
Library/media collection	<u>2,687,954</u>	<u>386,147</u>	<u>124,261</u>	<u>2,949,840</u>
Total Accumulated Depreciation	<u>9,932,591</u>	<u>1,064,594</u>	<u>312,377</u>	<u>10,684,808</u>
Total Capital Assets Being Depreciated, Net	<u>8,771,047</u>	<u>(34,233)</u>	<u>11,122</u>	<u>8,725,692</u>
Governmental Activities Capital Assets, Net	\$ <u>9,908,032</u>	\$ <u>(34,233)</u>	\$ <u>11,122</u>	\$ <u>9,862,677</u>

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

Governmental Activities:	
Instruction	\$ 3,393
Student support services	39,593
Instructional staff support services	428,774
General administration	4,712
Regional administration	28,479
Business services	354,502
Plant operations and maintenance	977
Unallocated	<u>204,164</u>
Total Governmental Activities Depreciation Expense	\$ <u>1,064,594</u>

HEARTLAND AREA EDUCATION AGENCY 11

Notes to the Financial Statements
For the Year Ended June 30, 2012

4. Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance Ending of Year
Capital leases	\$1,565,000	\$ -0-	\$ 1,565,000	\$ -0-
Net OPEB liabilities	51,000	-0-	11,000	40,000
Total	<u>\$1,616,000</u>	<u>\$ -0-</u>	<u>\$ 1,576,000</u>	<u>\$ 40,000</u>

Capital Leases

The Agency entered into a 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 into an administrative center. During FY2009, the Agency made an additional payment of \$555,000 on this lease purchase agreement. In FY2012, the Agency paid off the remaining principal balance of \$565,000.

During FY2011 the Agency entered into another lease purchase agreement with First National Bank of Ames for \$1,000,000 to remodel a building at the Johnston campus into a teaching and learning center. In FY 2012, the Agency paid off the remaining principal balance of \$1,000,000.

Payments under these lease agreements for the year ended June 30, 2012, including interest, totaled \$1,638,108.

5. Operating Leases

The Agency has leased various facilities within the area to house staff 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, 2012 and June 30, 2015. 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, 2012:

<u>Year Ending June 30,</u>	
2013	\$84,896
2014	32,234
2015	11,370

Total rental expenditures for the year ended June 30, 2012 for all operating leases, except those with terms of a month or less that were not renewed, were \$128,338.

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.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to the Financial Statements
For the Year Ended June 30, 2012

6. Pension and Retirement Benefits (continued)

Plan members are required to contribute 5.38% of their annual covered salary and the Agency is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The Agency's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 was \$3,069,652, \$2,660,576, and \$2,518,494, respectively, equal to the required contributions for each year.

7. Other Postemployment Benefits (OPEB)

Plan Description – The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for retirees and their spouses. There are 574 active and 76 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.

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

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

Annual OPEB Cost and Net OPEB Obligation – The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding, which, 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, 2012, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 690,000
Contributions made	(701,000)
Increase in net OPEB obligation	\$ (11,000)
Net OPEB Obligation – Beginning of Year	51,000
Net OPEB Obligation – End of Year	<u>\$ 40,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. 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, 2012.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to the Financial Statements
For the Year Ended June 30, 2012

7. Other Postemployment Benefits (OPEB) (continued)

For the year ended June 30, 2012, the Agency contributed \$701,000 to the medical plan. Plan members eligible for benefits contributed \$628,000, or 47% 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, 2012 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, 2012	\$690,000	101.6%	\$40,000

Funding Status and Funding Progress – As of July 1, 2010, the most recent actuarial valuation data for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$6,860,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,860,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$38,100,525 and the ratio of the UAAL to covered payroll was 18%. As of June 30, 2012, 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 Supplementary Information in the section following the Notes to Financial Statements, presents 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.

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

As of the July 1, 2010 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. An inflation rate of 0% is assumed for the purpose of this computation.

Actuarial Methods and Assumptions (continued) - 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, 2010 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2010.

Projected claim costs of the medical plan are \$582 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.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to the Financial Statements
For the Year Ended June 30, 2012

8. 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. The Agency assumes liability for any deductibles and claims in excess of coverage limitations.

9. Subsequent Events

The Iowa legislature cut \$27.5 million from the AEA system statewide for fiscal year 2013. As a result, the Agency will have a state funding cut of approximately \$6.3 million in FY 2013.

Management has reviewed and evaluated material subsequent events from the balance sheet date of June 30, 2012 through the financial statements issue date of December 7, 2012. All appropriate subsequent event disclosures 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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 22,000,269	\$ 23,557,196	\$ 23,002,216	\$ (554,980)
State sources	33,132,667	27,798,206	27,581,671	(216,535)
Federal sources	28,203,632	30,477,815	27,914,650	(2,563,165)
Total Revenues	<u>83,336,568</u>	<u>81,833,217</u>	<u>78,498,537</u>	<u>(3,334,680)</u>
EXPENDITURES				
Instruction	4,351,302	3,482,054	3,218,103	263,951
Student support services	28,897,419	29,571,338	29,710,400	(139,062)
Instructional staff support services	25,670,426	24,503,319	22,021,136	2,482,183
General administration	4,409,216	3,738,823	3,774,107	(35,284)
Regional administration	3,711,455	4,802,712	4,591,301	211,411
Business administration	1,209,646	1,256,835	1,264,830	(7,995)
Central and other support services	4,526,395	3,978,869	3,855,140	123,729
Printing and delivery	1,540,372	1,606,402	1,411,097	195,305
Plant operations and maintenance	1,717,926	1,566,387	1,187,712	378,675
Student transportation	4,000	5,160	2,477	2,683
Management services	2,873	111,238	195,410	(84,172)
Community services operations	212,585	227,771	191,774	35,997
LEA Part B flow-through	6,758,314	6,420,567	6,711,880	(291,313)
Facilities acquisition	10,000	89,710	62,699	27,011
Debt service	317,512	1,636,012	1,638,108	(2,096)
Total Expenditures	<u>83,339,441</u>	<u>82,997,197</u>	<u>79,836,174</u>	<u>3,161,023</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,873)	(1,163,980)	(1,337,637)	(173,657)
OTHER FINANCING SOURCES (USES)				
Lease purchase proceeds	-	-	-	-
Prior year expenditures and revenue	2,873	-	25,513	25,513
Sale of equipment	-	6,949	7,206	257
Excess (Deficiency) of Revenues Over Expenditures and Other Financing (Uses)	<u>\$ -</u>	<u>\$ (1,157,031)</u>	<u>\$ (1,304,918)</u>	<u>\$ (147,887)</u>

See accompanying independent auditor's report.

HEARTLAND AREA EDUCATION AGENCY 11
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2012

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, 2012, 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, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	July 1, 2008	-	\$ 7,517,000	\$ 7,517,000	0%	\$ 37,788,581	19.89%
2010	July 1, 2008	-	\$ 7,517,000	\$ 7,517,000	0%	\$ 37,788,581	19.89%
2011	July 1, 2010	-	\$ 6,860,000	\$ 6,860,000	0%	\$ 38,100,525	18.01%
2012	July 1, 2010	-	\$ 6,860,000	\$ 6,860,000	0%	\$ 38,100,525	18.01%

See Note 7 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			
	For the Years Ending June 30,			
	2012	2011	2010	2009
REVENUES				
Local sources	\$23,002,216	\$21,953,833	\$21,080,848	\$20,319,913
State	27,581,671	31,817,948	27,830,039	30,070,175
Federal	27,914,650	28,993,941	49,603,135	30,605,834
Total Revenues	\$78,498,537	\$82,765,722	\$98,514,022	\$80,995,922
EXPENDITURES				
Instruction	\$ 3,218,103	\$ 4,649,204	\$ 6,211,744	\$ 3,795,764
Student support services	29,710,400	28,673,320	28,162,295	27,261,580
Instructional staff support services	22,021,136	23,191,381	22,024,423	22,199,026
General administration	3,774,107	4,500,149	4,328,141	4,515,569
Regional administration	4,591,301	3,396,634	3,622,193	3,594,192
Business administration	1,264,830	1,114,775	1,012,083	984,004
Central and other support services	3,855,140	4,303,754	4,111,558	3,828,268
Printing, delivery and coop services	1,411,097	1,150,726	1,389,549	993,437
Coop purchasing cost of goods sold	-	-	-	108,639
Plant operations and maintenance	1,187,712	1,412,664	1,558,287	1,792,551
Student transportation	2,477	3,255	2,656	1,836
Management services	195,410	-	-	-
Community services operations	191,774	209,149	221,987	194,700
LEA Part B flow-through	6,711,880	6,814,588	21,364,943	10,323,433
Facilities acquisition and construction	62,699	1,364,503	228,354	1,833,899
Debt service	1,638,108	192,778	1,439,819	836,584
Total Expenditures	\$79,836,174	\$80,976,880	\$95,678,032	\$82,263,482

See accompanying independent auditor's report.

HEARTLAND AREA EDUCATION AGENCY 11
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

<u>Project Title</u>	<u>Number</u>	<u>Pass Through CFDA Number</u>	<u>Grantor's Expenditures</u>
U.S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education - Part B			
Education for the Handicapped	84.027	091012	\$ 25,593,116
Parent Educator Model 2011-2012	84.027	97412	197,640
LTTRS	84.027		10,000
EER Review	84.027		<u>2,480</u>
		*	25,803,236
Special Education - Basic 619			
Preschool 3 thru 5 P.L. 99-457	84.173		527,724
iPad Purchase	84.173		<u>1,408</u>
		*	529,132
Special Education - Part C			
Education of Handicapped Act, Part C	84.181		669,235
Title II			
E2T2, Part D	84.318		36,742
E2T2, Part D	84.318		<u>66,033</u>
			102,775
Title III			
ELL-LEP	84.365		262,816
Career Ladder			
Professional Development	84.323		34,583
Federal Teacher Quality	84.367		4,763
Title II, Part A	84.367		3,970
Title II, Part A	84.367		<u>20,762</u>
			29,495
Safe and Drug-Free Schools and Communities			
National Programs	84.184		104,595
ARRA – Special Education Grants to States,			
Recovery Act	84.391		67,846
ARRA – Ed Tech Grant	84.391		<u>26,553</u>
		*	94,399
ARRA – Teacher Quality Partnerships,			
Recovery Act	84.405		<u>115,334</u>
		*	115,334
Total Passed-Through Iowa Department of Education			27,745,600

See accompanying independent auditor's report.

HEARTLAND AREA EDUCATION AGENCY 11
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

<u>Project Title</u>	<u>Number</u>	Pass Through CFDA <u>Number</u>	<u>Grantor's Expenditures</u>
U.S. Department of Education (continued):			
Passed-through Ames Community Schools:			
Title I Neglected and Delinquent 2010-2011	84.010		\$ 9,382
Passed-through Des Moines Independent Schools:			
Title I Neglected and Delinquent 2010-2011	84.010		87,658
ARRA –Title I Neglected and Delinquent 2010-2011, Recovery Act	84.389		11,083
Des Moines Science Agreement	84.367		<u>55,964</u>
Total Passed-through Des Moines Independent Schools			154,705
Passed-through Indianola Community Schools:			
Title I Neglected and Delinquent 2010-2011	84.010		<u>1,842</u>
Total U.S. Department of Education			\$ <u>27,911,529</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 basic 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, 2012, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated December 7, 2012. 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

The management of Heartland Area Education Agency 11 is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis. We noted no matters involving the internal control over financial reporting and its operations to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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, 2012 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, and 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.

December 7, 2012

A handwritten signature in black ink that reads "PricewaterhouseCoopers, LLP". The signature is written in a cursive, flowing style with some loops and flourishes.



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

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, 2012. 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 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, 2012.

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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in the Agency's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected and corrected on a timely basis. We noted no matters involving the internal control over compliance to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

December 7, 2012

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were 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 – Part B
 - CFDA Number 84.173 – Special Education – Basic 619
 - CFDA Number 84.391 – ARRA – Special Education Grants to States, Recovery Act
 - CFDA Number 84.405 – ARRA – Teacher Quality Partnerships, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$837,346.
- (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 - continued
For the Year Ended June 30, 2012

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

- IV-A-12 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, 2012.
- IV-B-12 Certified Budget - Expenditures during the year ended June 30, 2012 did not exceed the amount budgeted.
- IV-C-12 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-12 Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-E-12 Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.
- IV-F-12 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-12 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- IV-H-12 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-12 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-J-12 Categorical Funding – No instances were noted of categorical funding used to supplant rather than supplement other funds.

HEARTLAND AREA EDUCATION AGENCY 11
Summary Schedule of Prior Federal Audit Findings
For the Year Ended June 30, 2012

<u>Comment Title</u>	<u>Status</u>	<u>If not corrected, provide planned corrective action or other explanation</u>
None noted	N/A	N/A

HEARTLAND AREA EDUCATION AGENCY 11

STAFF

This audit was performed by:

John Pittman, CPA, Partner
Emily Hager, CPA, Manager
Travis Schneckloth, CPA, Staff