# MISSISSIPPI BEND AREA EDUCATION AGENCY 9
Bettendorf, Iowa

## FINANCIAL STATEMENTS
June 30, 2013

## TABLE OF CONTENTS


| | Exhibit | PAGE |
|---|---|---|
| **OFFICIALS** | | 1 |
| **INDEPENDENT AUDITOR'S REPORT** | | 2 |
| **MANAGEMENT'S DISCUSSION AND ANALYSIS** | | 5 |
| **BASIC FINANCIAL STATEMENTS** | | 11 |
| Government-wide Financial Statements: | | |
| Statement of Net Position | A | 12 |
| Statement of Activities | B | 13 |
| Governmental Fund Financial Statements: | | |
| Balance Sheet | C | 14 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position | D | 15 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | E | 16 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities | F | 17 |
| Fiduciary Fund Financial Statement: | | |
| Statement of Fiduciary Assets and Liabilities - Agency Fund | G | 18 |
| Notes to Financial Statements | | 19 |
| **REQUIRED SUPPLEMENTARY INFORMATION** | | 34 |
| Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds | | 35 |
| Notes to Required Supplementary Information - Budgetary Reporting | | 36 |
| Schedule of Funding Progress for the Retiree Health Plan | | 37 |
| **SUPPLEMENTARY INFORMATION** | | 38 |
| | **Schedule** | |
| Nonmajor Governmental Funds: | | |
| Combining Balance Sheet | 1 | 39 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances | 2 | 40 |
| Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund | 3 | 41 |
| Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds | 4 | 42 |
| Schedule of Expenditures of Federal Awards | 5 | 43 |

**TABLE OF CONTENTS**

(Continued)

**PAGE**

**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** ..... 44

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133** ..... 46

Schedule of Findings and Questioned Costs ..... 48

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**OFFICIALS**

| Name | Title | Term Expires |
|---|---|---|
| | **Board of Directors** | |
| Robin Krueger | President | 2013 |
| Richard Kissack | Vice-President | 2015 |
| Jeanita Harris | Member | 2013 |
| David Swim | Member | 2013 |
| Joe Adam | Member | 2015 |
| William Koellner | Member | 2015 |
| Rex Masterson | Member | 2015 |
| Scott Saveraid | Member | 2015 |
| Dick Wold | Member | 2015 |
| | **Agency** | |
| Glenn Pelecky | Administrator | Indefinite |
| Cheryl Oake | Board Secretary | Indefinite |
| Edward Gronlund | Treasurer and Director of Strategic Management and Evaluation | Indefinite |

## Independent Auditor's Report

To the Board of Directors of
Mississippi Bend Area Education Agency 9

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mississippi Bend Area Education Agency 9 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mississippi Bend Area Education Agency 9, as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4-10 and 35-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mississippi Bend Area Education Agency's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the four years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the five years ended June 30, 2008, presented in Schedule 4 on page 42 of this report, were audited by other auditors whose reports expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, 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.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013, on our consideration of the Mississippi Bend Area Education Agency 9's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mississippi Bend Area Education Agency 9's internal control over financial reporting and compliance.

*Winkel, Parker & Foster, CPA PC*

Clinton, Iowa
October 9, 2013

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**June 30, 2013**

Mississippi Bend Area Education Agency 9 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, 2013. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

## 2013 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $32,128,067 in fiscal year 2012 (FY12) to $32,691,722 in fiscal year 2013 (FY13), while General Fund expenditures increased from $32,186,761 in FY12 to $34,761,296 in FY13. This resulted in a decrease of the Agency's General Fund balance from $9,124,769 in FY12 to $5,540,982 in FY13, a 39.3% decrease from the prior year.

- The increase in General fund revenues can be attributed to the 2% Allowable Growth on new money in FY12-13, as well as new contracts with local education agencies to provide additional services within the Hearing Interpreter program. The increase in General fund expenditures is a direct result of a 4% salary package increase to all AEA 9 employees as well as $1,703,179 in expenses spent on construction projects and repairs and maintenance at the Bettendorf office location.

- The Agency's self-insured medical insurance program continued to experience favorable claim costs. The Agency was able to maintain a minimum balance at $1,500,000. The claims reserve balance at June 30, 2013 was $1,841,783.

- The State of Iowa combined its Teacher Quality funding and Phase II Funding into Teacher Salary Supplement funding in FY09. AEA 9's portion in FY13 amounted to $1,275,304. The State of Iowa also provided $105,143 for professional development in FY13.

## USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.

- The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Mississippi Bend Area Education Agency 9 as a whole and present an overall view of the Agency's finances.

- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

## Reporting the Agency's Financial Activities

*Government-wide Financial Statements*

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Agency's assets 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 position and how it has changed. Net position - the difference between the Agency's assets and liabilities - is one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net position are an indicator 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 property tax base, enrollment served and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities are defined as governmental activities:

- *Governmental activities*: Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts and federal and state aid 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 federal grants.

The Agency has two kinds of funds:

1) Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include 1) the General Fund, 2) the Debt Service Fund 2) the Juvenile Home Fund and 4) the Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

*2)* Fiduciary funds are funds through which the Agency administers and accounts for certain federal and/or state grants as a fiscal agent. The Agency is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statement for fiduciary funds is a Statement of Fiduciary Assets and Liabilities.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Mississippi Bend Area Education Agency 9's net position at the end of fiscal year 2013 totaled approximately $6.51 million compared to approximately $8.69 million at the end of fiscal year 2012. The analysis that follows focuses on the net position and changes in net position.

| | Condensed Statement of Net Position Governmental Activities | |
|---|---|---|
| | June 30, 2013 | June 30, 2012 |
| Current and other assets | $ 9,244,853 | $ 12,685,534 |
| Capital assets | 7,252,471 | 5,979,609 |
| Total assets | 16,497,324 | 18,665,143 |
| Long-term obligations | 6,696,166 | 6,748,966 |
| Other liabilities | 3,287,308 | 3,221,964 |
| Total liabilities | 9,983,474 | 9,970,930 |
| Net position: | | |
| Net investment in capital assets | 3,701,717 | 2,288,140 |
| Restricted | 3,401,526 | 5,882,624 |
| Unrestricted | (589,393) | 523,449 |
| **Total net position** | $ 6,513,850 | $ 8,694,213 |

The Agency's total net position decreased by 25.1%, or approximately $2,180,000 from FY12.

The following analysis details the changes in net position for the year ended June 30, 2013.

| | Changes in Net Position Governmental Activities | |
|---|---|---|
| | June 30, 2013 | June 30, 2012 |
| Revenues: | | |
| Program revenues: | | |
| Charges for service | $ 2,082,055 | $ 1,774,137 |
| Operating grants and contributions | 13,723,210 | 13,749,681 |
| Total program revenues | 15,805,265 | 15,523,818 |
| General revenues: | | |
| Property taxes | 8,404,029 | 6,851,173 |
| State foundation aid | 8,427,264 | 9,680,646 |
| Juvenile home | 504,048 | 486,867 |
| Local donations | 44,223 | 62,394 |
| Unrestricted investment earnings | 10,978 | 11,351 |
| Total general revenues | 17,390,542 | 17,092,431 |
| Total revenues | 33,195,807 | 32,616,249 |
| Program expenses: | | |
| Instruction | 1,275,209 | 1,332,316 |
| Student support services | 19,530,253 | 18,287,312 |
| Instructional staff support services | 8,721,832 | 7,750,222 |
| General administration | 2,354,459 | 1,738,862 |
| Business administration | 955,290 | 1,091,858 |
| Plant operations and maintenance | 1,413,529 | 977,212 |
| Central and other support services | 971,088 | 2,009,492 |
| Debt service | 154,510 | 162,551 |
| Total program expenses | 35,376,170 | 33,349,825 |
| Decrease in net position | (2,180,363) | (733,576) |
| Net position beginning of year | 8,694,213 | 9,427,789 |
| **Net position end of year** | $ 6,513,850 | $ 8,694,213 |

Operating grants and contributions from local, state and federal sources account for 41.3% of the total revenue. The Agency's expenses primarily relate to student and instructional support services, which account for 79.9% of the total expenses.

## GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were $33,195,807 and expenses were $35,376,170.

## INDIVIDUAL FUND ANALYSIS

As previously noted, Mississippi Bend Area Education Agency 9 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of $5,982,603. This is $3,508,060 below last year's ending fund balances of $9,490,663. The major reason for the decrease is due to the continued $20 million State Cut to all AEA's in FY13. AEA 9's portion of this cut was $2,031,506. AEA 9 also had a 4% salary package increase to all agency employees in FY13 as well as the completion of construction projects and repairs and maintenance at the Bettendorf office location at a total cost of $1,703,179.

### Governmental Fund Highlights

- The General Fund balance decreased from $9,124,769 to $5,540,982. Nonspendable fund balances increased by $92,659, restricted fund balances decreased by $4,616,764, assigned fund balances decreased by $47,199 and unassigned fund balances increased by $987,517.

- The Debt Service Fund balance remained relatively constant in FY13. The fund ended FY13 with a balance of $462,203.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its annual operating budget one time. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2013, the Agency had invested $7,252,471 net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net increase of approximately $1,272,862 from last year. This increase was primarily due to construction projects and repairs and maintenance completed at the Bettendorf office location in the amount of $1,703,179.

Mississippi Bend Area Education Agency 9 had depreciation/amortization expense of $663,185 in FY13 and total accumulated depreciation of $4,642,670 at June 30, 2013. Detailed information about capital assets is presented in Note 3 to the financial statements.

### Long-Term Debt

At June 30, 2013, the Agency had $6,696,166 of long-term debt outstanding compared to $6,748,966 at June 30, 2012. More detailed information about the Agency's long-term liabilities is presented in Note 5 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

- The Agency has experienced a decrease in the number of students being served by its programs for many years. A slight decrease in enrollment is expected to continue in the foreseeable future. Enrollment history and projections are as follows:

| Year | Number | Difference |
|---|---|---|
| 2001 | 53,577 | -734 |
| 2002 | 53,247 | -330 |
| 2003 | 52,866 | -381 |
| 2004 | 52,353 | -513 |
| 2005 | 52,152 | -201 |
| 2006 | 51,861 | -291 |
| 2007 | 51,324 | -537 |
| 2008 | 50,968 | -356 |
| 2009 | 50,584 | -384 |
| 2010 | 50,456 | -128 |
| 2011 | 50,440 | -16 |

- The State of Iowa made permanent the 7.5% reduction in AEA controlled funding that was imposed in the year ended 6/30/02. This is a permanent reduction of $767,782 from the funds generated by the controlled funding formula.

- In the spring of 2008 the State of Iowa passed Senate File 277 which enhanced the Teacher Quality Program. The State of Iowa combined its Teacher Quality Program funding and Phase II Program funding into Teacher Salary Supplement funding in FY13. AEA 9 received $1,275,304 additional teacher compensation and $105,143 for additional staff development in FY13.

- Due to the favorable balance in the self-funded insurance claims fund, no increase in health and dental premiums will be made for FY13.

## 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 Edward Gronlund, Director of Strategic Management and Evaluation, Mississippi Bend Area Education Agency 9, 729 21st Street, Bettendorf, Iowa 52722.

## BASIC FINANCIAL STATEMENTS

EXHIBIT A

# MISSISSIPPI BEND AREA EDUCATION AGENCY 9
## STATEMENT OF NET POSITION
## June 30, 2013

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash, cash equivalents and pooled investments | $ 7,439,114 |
| Receivables: | |
| Accounts | 637,901 |
| Due from other governments | 995,824 |
| Inventories | 82,833 |
| Prepaid expenses | 89,181 |
| Capital assets, net of accumulated depreciation/amortization | 7,252,471 |
| Total assets | 16,497,324 |
| **LIABILITIES** | |
| Accounts payable | 1,330,820 |
| Accrued interest payable | 25,058 |
| Salaries and benefits payable | 647,755 |
| Deferred revenue: | |
| Federal | 38,110 |
| Miscellaneous | 904,696 |
| Insurance claims incurred but not reported | 340,869 |
| Long-term liabilities: | |
| Portion due or payable within one year: | |
| Certificates of participation | 170,000 |
| Capital leases | 4,948 |
| Compensated absences | 384,381 |
| Portion due or payable after one year: | |
| Certificates of participation | 3,360,000 |
| Capital leases | 15,806 |
| Compensated absences | 2,393,031 |
| Net OPEB liability | 368,000 |
| Total liabilities | 9,983,474 |
| **NET POSITION** | |
| Net investment in capital assets | 3,701,717 |
| Restricted for: | |
| Debt service | 437,145 |
| Categorical funding | 1,099,238 |
| Media materials | 364,182 |
| Other | 1,500,961 |
| Unrestricted | (589,393) |
| Total net position | $ 6,513,850 |

See notes to financial statements.

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**STATEMENT OF ACTIVITIES**
**Year Ended June 30, 2013**

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| | Expenses | Charges for Service | Operating Grants and Contributions | Governmental Activities |
| **FUNCTIONS/PROGRAMS** | | | | |
| Governmental activities: | | | | |
| Instruction | | | | |
| Regular instruction | $ 1,275,209 | $ 739,150 | $ 124,638 | $ (411,421) |
| Student support services | 19,530,253 | 657,471 | 11,299,728 | (7,573,054) |
| Instructional staff support services | 8,721,832 | 291,325 | 2,084,660 | (6,345,847) |
| General administration | 2,354,459 | 790 | 71,748 | (2,281,921) |
| Business administration | 955,290 | 176,204 | - | (779,086) |
| Plant operations and maintenance | 1,413,529 | 97,340 | - | (1,316,189) |
| Central and other support services | 971,088 | 119,775 | 142,436 | (708,877) |
| Interest on long-term debt | 154,510 | - | - | (154,510) |
| Total governmental activities | $ 35,376,170 | $ 2,082,055 | $ 13,723,210 | (19,570,905) |
| General revenues: | | | | |
| Property tax levied for general purposes | | | | 8,404,029 |
| State foundation aid | | | | 8,427,264 |
| Juvenile home | | | | 504,048 |
| Local donations | | | | 44,223 |
| Unrestricted investment earnings | | | | 10,978 |
| Total general revenues | | | | 17,390,542 |
| **CHANGE IN NET POSITION** | | | | (2,180,363) |
| **NET POSITION BEGINNING OF YEAR** | | | | 8,694,213 |
| **NET POSITION END OF YEAR** | | | | $ 6,513,850 |

See notes to financial statements.

# MISSISSIPPI BEND AREA EDUCATION AGENCY 9
## BALANCE SHEET
## GOVERNMENTAL FUNDS
## June 30, 2013

| | General | Debt Service | Nonmajor | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash, cash equivalents and pooled investments | $ 7,073,237 | $ 365,877 | $ - | $ 7,439,114 |
| Receivables | | | | |
| Accounts | 637,901 | - | - | 637,901 |
| Due from other governments | 995,824 | - | - | 995,824 |
| Due from other funds | 11,250 | 96,326 | - | 107,576 |
| Inventories | 82,833 | - | - | 82,833 |
| Prepaid expenditures | 89,181 | - | - | 89,181 |
| **TOTAL ASSETS** | $ 8,890,226 | $ 462,203 | $ - | $ 9,352,429 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **LIABILITIES** | | | | |
| Accounts payable | $ 1,330,820 | $ - | $ - | $ 1,330,820 |
| Salaries and benefits payable | 638,423 | - | 9,332 | 647,755 |
| Due to other funds | 96,326 | - | 11,250 | 107,576 |
| Deferred revenue | | | | |
| Federal | 38,110 | - | - | 38,110 |
| Miscellaneous | 904,696 | - | - | 904,696 |
| Insurance claims incurred but not reported | 340,869 | - | - | 340,869 |
| Total liabilities | 3,349,244 | - | 20,582 | 3,369,826 |
| **FUND BALANCES** | | | | |
| Nonspendable: | | | | |
| Inventories | 82,833 | - | - | 82,833 |
| Prepaid expenditures | 89,181 | - | - | 89,181 |
| Restricted for: | | | | |
| Debt service | - | 462,203 | - | 462,203 |
| Categorical funding | 1,856,024 | - | - | 1,856,024 |
| Media materials | 364,182 | - | - | 364,182 |
| Other | 1,500,961 | - | - | 1,500,961 |
| Assigned | 1,326,268 | - | - | 1,326,268 |
| Unassigned | 321,533 | - | (20,582) | 300,951 |
| Total fund balances | 5,540,982 | 462,203 | (20,582) | 5,982,603 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ 8,890,226 | $ 462,203 | $ - | $ 9,352,429 |

See notes to financial statements.

# MISSISSIPPI BEND AREA EDUCATION AGENCY 9
## RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
### June 30, 2013

| | |
|---|---|
| **Total governmental fund balances (page 14)** | $ 5,982,603 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is $11,895,141 and the accumulated depreciation/amortization is $4,642,670. | 7,252,471 |
| Long-term liabilities, including certificates of participation, capital leases, compensated absences, accrued interest payable, and other post employment benefits, are not due and payable in the current year and therefore, are not reported in the governmental funds. | (6,721,224) |
| **Net position of governmental activities (page 12)** | $ 6,513,850 |

See notes to financial statements.

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**STATEMENT OF REVENUES, EXPENDITURES AND**
**CHANGES IN FUND BALANCES**
**GOVERNMENTAL FUNDS**
**Year Ended June 30, 2013**

| | General | Debt Service | Nonmajor | Total |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Local sources | $ 10,581,867 | $ 37 | $ - | $ 10,581,904 |
| State sources | 10,257,089 | - | 504,048 | 10,761,137 |
| Federal sources | 11,852,766 | - | - | 11,852,766 |
| Total revenues | 32,691,722 | 37 | 504,048 | 33,195,807 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Instruction | 880,601 | - | 391,260 | 1,271,861 |
| Student support services | 19,523,383 | - | - | 19,523,383 |
| Instructional staff support services | 8,320,414 | - | - | 8,320,414 |
| General administration | 2,312,013 | - | 37,098 | 2,349,111 |
| Business administration | 971,430 | - | - | 971,430 |
| Plant operations and maintenance | 1,281,388 | - | - | 1,281,388 |
| Central and other support services | 1,472,067 | - | - | 1,472,067 |
| Facilities acquisition and construction | - | - | 1,218,422 | 1,218,422 |
| Debt service | - | 316,545 | - | 316,545 |
| Total expenditures | 34,761,296 | 316,545 | 1,646,780 | 36,724,621 |
| **DEFICIENCY OF REVENUES UNDER EXPENDITURES** | (2,069,574) | (316,508) | (1,142,732) | (3,528,814) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Capital lease | 20,754 | - | - | 20,754 |
| Operating transfers in | - | 316,545 | 1,218,422 | 1,534,967 |
| Operating transfers out | (1,534,967) | - | - | (1,534,967) |
| Total other financing sources (uses) | (1,514,213) | 316,545 | 1,218,422 | 20,754 |
| **CHANGE IN FUND BALANCES** | (3,583,787) | 37 | 75,690 | (3,508,060) |
| **FUND BALANCES BEGINNING OF YEAR** | 9,124,769 | 462,166 | (96,272) | 9,490,663 |
| **FUND BALANCES END OF YEAR** | $ 5,540,982 | $ 462,203 | $ (20,582) | $ 5,982,603 |

See notes to financial statements.

# MISSISSIPPI BEND AREA EDUCATION AGENCY 9
## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
### Year Ended June 30, 2013

| | | |
|---|---|---|
| **Change in fund balances - Total governmental funds (page 16)** | | $ (3,508,060) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay expenditures exceeded the loss on disposals and depreciation/amortization expense in the current year, as follows: | | |
| Expenditures for capital assets | $ 2,508,599 | |
| Loss on disposals | (572,552) | |
| Depreciation/amortization expense | (663,185) | 1,272,862 |
| Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. | | |
| Certificates of participation | 160,000 | |
| Capital leases | (19,285) | 140,715 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows: | | |
| Compensated absences | (12,915) | |
| Other postemployment benefits | (75,000) | |
| Interest on long-term debt | 2,035 | (85,880) |
| **Change in net position of governmental activities (page 13)** | | $ (2,180,363) |

See notes to financial statements.

# MISSISSIPPI BEND AREA EDUCATION AGENCY 9
## STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
## AGENCY FUND
## June 30, 2013

| | Agency Fund |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 49,891 |
| Due from others | 357 |
| Total assets | 50,248 |
| **LIABILITIES** | |
| Deferred revenue | 15,975 |
| Due to others | 34,273 |
| Total liabilities | 50,248 |
| **NET POSITION** | $ - |

See notes to financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mississippi Bend Area Education Agency 9 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 22 school Agencys and private schools in a six-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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

### A. Reporting Entity

For financial reporting purposes, Mississippi Bend Area Education Agency 9 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

### B. Basis of Presentation

Government-wide financial statements - The Statement of Net Position (previously referred to as 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.

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

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

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

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (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 clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The Agency reports the following major governmental funds:

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

The Debt Service Fund is used to account for the accumulation of resources for payment of principal and interest on certificates of participation.

The Agency also reports the following fiduciary fund:

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

**C. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

Intergovernmental revenues (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 judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

**D. Assets, Liabilities and Fund Equity**

**Cash, Cash Equivalents and Pooled Investments -** Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in 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 stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Capital Assets** - Capital assets, which include property and furniture and equipment, are reported in the governmental activities column in the government-wide Statement of Net Position. 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 the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|---|---|
| Land | $ 2,500 |
| Buildings | 2,500 |
| Furniture and equipment | 2,500 |
| Library books, videos, and DVD's | 1 |

Capital assets of the Agency are depreciated/amoritzed using the straight-line method of depreciation/amortization and library books are depreciated using the composite method over the following estimated useful lives:

| Asset Class | Estimated Useful Lives (In Years) |
|---|---|
| Buildings | 50 |
| Furniture and equipment | 5 |
| Library books, videos, and DVD's | 3 |

**Impairment of Long-Lived Assets** - The Agency reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

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

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**Compensated Absences** - Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Position representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Fund.

**Long-Term Liabilities** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

**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 constrained by the government's intent to be used for a specific purpose, but not restricted or committed.

Unassigned - All amounts not included in the preceding classifications.

## E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, total expenditures exceeded the amended certified budget amounts in the instruction, student support services, and central and other support services functions.

## F. Subsequent Events

Management has evaluated subsequent events through October 9, 2013, the date the financial statements were available to be issued.

## NOTE 2 - CASH, CASH EQUIVALENTS AND POOLED INVESTMENTS

The Agency's deposits in banks at June 30, 2013 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 Agency.

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust Direct Government Obligation Portfolio which are valued at an amortized cost of $316,362 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAm by Standard & Poor's Financial Services.

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

## NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 is as follows:

| | Balance, Beginning of Year | Additions | Deletions | Balance, End of Year |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| Capital assets not being depreciated/amortized: | | | | |
| Land | $ 38,600 | $ - | $ - | $ 38,600 |
| Capital assets being depreciated/amortized: | | | | |
| Buildings | 6,455,012 | 1,218,422 | - | 7,673,434 |
| Furniture and equipment | 3,590,010 | 718,573 | 1,580,020 | 2,728,563 |
| Library books, videos, and DVD's | 1,595,009 | 571,604 | 712,069 | 1,454,544 |
| Total assets being depreciated/amortized | 11,640,031 | 2,508,599 | 2,292,089 | 11,856,541 |
| Less accumulated depreciation/ amortization for: | | | | |
| Buildings | 2,101,327 | 130,871 | - | 2,232,198 |
| Furniture and equipment | 3,347,615 | 161,562 | 1,577,124 | 1,932,053 |
| Library books, videos, and DVD's | 250,080 | 370,752 | 142,413 | 478,419 |
| Total accumulated depreciation/amortization | 5,699,022 | 663,185 | 1,719,537 | 4,642,670 |
| Total capital assets, being depreciated, net | 5,941,009 | 1,845,414 | 572,552 | 7,213,871 |
| **Governmental activities capital assets, net** | $ 5,979,609 | $ 1,845,414 | $ 572,552 | $ 7,252,471 |

Depreciation/amortization expense was charged to the following functions:

| | |
|---|---|
| Governmental activities: | |
| Student support services | $ 55,070 |
| Instructional staff support services | 379,097 |
| Business administration | 1,048 |
| Plant operations and maintenance | 130,871 |
| Central and other support services | 97,098 |
| **Total depreciation/amortization expense - governmental activities** | $ 663,185 |

Furniture and equipment within governmental activities includes $20,754 of equipment acquired under a capital lease.

## NOTE 4 - DUE FROM AND DUE TO OTHER FUNDS

The detail of interfund receivables and payables at June 30, 2013 is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Juvenile Home | $ 11,250 |
| Debt Service | General | 96,326 |
| **Total** | | $ 107,576 |

## NOTE 5 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|---|---|---|---|---|---|
| Certificates of participation | $ 3,690,000 | $ - | $ 160,000 | $ 3,530,000 | $ 170,000 |
| Capital leases | 1,469 | 20,754 | 1,469 | 20,754 | 4,948 |
| Compensated absences | 2,764,497 | 397,296 | 384,381 | 2,777,412 | 384,381 |
| Net OPEB liability | 293,000 | 75,000 | - | 368,000 | - |
| **Total** | $ 6,748,966 | $ 493,050 | $ 545,850 | $ 6,696,166 | $ 559,329 |

Certificates of Participation

On May 1, 2005, the Agency issued $4,660,000 of Refunding Certificates of Participation, Series 2005A, with interest rates ranging from 3.60% to 4.45% for various project costs. Annual debt service requirements to maturity of the refunding certificates of participation are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 170,000 | $ 150,345 | $ 320,345 |
| 2015 | 220,000 | 143,758 | 363,758 |
| 2016 | 230,000 | 135,068 | 365,068 |
| 2017 | 240,000 | 125,868 | 365,868 |
| 2018 | 245,000 | 116,028 | 361,028 |
| 2019-2023 | 1,405,000 | 414,500 | 1,819,500 |
| 2024-2025 | 1,020,000 | 76,540 | 1,096,540 |
| **Total** | $ 3,530,000 | $ 1,162,105 | $ 4,692,105 |

Payments on the certificates of participation for the year ended June 30, 2013, including interest, totaled $316,545.

**NOTE 5 - LONG-TERM LIABILITIES** (CONTINUED)

Capital Leases

The Agency has entered into agreements to lease equipment. The agreements are for periods of three to four years at interest rates ranging from 3% to 24% per annum. The leases expire between June 2013 and June 2017 and also require the payment of normal maintenance charges. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized (or depreciated) over the lower of their related lease terms or their estimated productive lives. Amortization (or depreciation) of assets under capital leases is included in depreciation expense. The following is a schedule by year of future minimum lease payments required:

| Year Ending June 30, | Amount |
|---|---|
| 2014 | $ 5,520 |
| 2015 | 5,520 |
| 2016 | 5,520 |
| 2017 | 5,520 |
| Total minimum lease payments | 22,080 |
| Less amount representing interest | (1,326) |
| Present value of net minimum lease payments | $ 20,754 |

Payments under these agreements for the year ended June 30, 2013, including interest, totaled $1,650.

## NOTE 6 - OPERATING LEASES

The Agency has leased a satellite facility. This lease has been classified as an operating lease and accordingly, all rent is charged to expenditure as incurred. The lease is renewed on an annual basis and requires the payment of normal maintenance on the property. Management expects the lease will be renewed.

The Agency also has several operating leases for equipment. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The leases expire in 2013 and 2015. All of the leases require the payment of normal maintenance. 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, 2013.

| Year Ending June 30, | Amount |
|---|---|
| 2014 | $ 2,340 |
| 2015 | 1,755 |
| **Total** | $ 4,095 |

Total rental expenditures for the year ended June 30, 2013 for all operating leases was $68,413.

## NOTE 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 state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual salary and the Agency is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were $1,854,676, $1,563,703, and $1,516,067, respectively, equal to the required contributions for each year.

## NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The Agency operates a self-funded insurance plan which provides medical/prescription drug benefits for retirees and their families. There are 318 active and 16 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical and prescription drug benefits are provided through the Agency's plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits 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.

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 cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

| | |
|---|---|
| Annual required contribution | $ 104,000 |
| Interest on net OPEB obligation | 13,000 |
| Adjustment to annual required contribution | (11,000) |
| Annual OPEB cost | 106,000 |
| Contributions made | (31,000) |
| Increase in net OPEB obligation | 75,000 |
| Net OPEB obligation beginning of year | 293,000 |
| Net OPEB obligation end of year | $ 368,000 |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of 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, 2013.

For the year ended June 30, 2013, the Agency contributed $31,000 to the medical plan. Plan members eligible for benefits contributed 100% of the premium costs.

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)** (CONTINUED)

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

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| June 30, 2011 | $ 215,000 | 65.58% | $ 259,000 |
| June 30, 2012 | 224,000 | 84.82% | 293,000 |
| June 30, 2013 | 106,000 | 29.24% | 368,000 |

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was $941,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $941,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately $19,036,297 and the ratio of the UAAL to covered payroll was 4.9%. As of June 30, 2013, 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 assumptions about the probability of occurrence of events far into the future. Examples include assumption 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 expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections 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 effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 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 10%. 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, 2012 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2012.

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 30 years.

## NOTE 9 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Self-funded insurance plans

The Agency has self-funded health and dental insurance plans. The Agency purchases commercial insurance to provide for aggregate stop-loss health coverage for 125% of the excess of estimated claims for the plan year that exceed $2,668,142, and specific stop-loss health insurance coverage for claims in excess of $70,000 for any one covered individual during the plan year.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophe losses. That reserve was $1,500,961 at June 30, 2013. Changes in the aggregate claims liability for the current year are as follows:

| | |
|---|---|
| Balance, beginning of year | $ 1,862,665 |
| Employee paid premiums | 2,660,335 |
| Claims paid | (2,670,048) |
| Fees | (11,122) |
| Balance, end of year | 1,841,830 |
| Claims incurred but not reported | (340,869) |
| **Insurance claims reserve** | $ 1,500,961 |

## NOTE 10 - EARLY CHILDHOOD IOWA AREA BOARD

The Agency is the fiscal agent for the Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. The Area Board receives state grants to administer early childhood and school ready programs. Financial transactions of the Area Board are included in the Agency's financial statements as an Agency Fund because of the Agency's fiduciary relationship with the organization. The Area Board's financial data for the year ended June 30, 2013 is as follows:

| | Early Childhood | School Ready | Total |
|---|---|---|---|
| Revenues: | | | |
| State grants: | | | |
| Early childhood | $ 108,119 | $ - | $ 108,119 |
| Family support and parent education | - | 194,893 | 194,893 |
| Preschool support for low-income families | - | 88,694 | 88,694 |
| Quality improvement | - | 44,367 | 44,367 |
| Other grant programs | - | 32,541 | 32,541 |
| Total state grants | 108,119 | 360,495 | 468,614 |
| Other | - | 137 | 137 |
| Total revenues | 108,119 | 360,632 | 468,751 |
| Expenditures: | | | |
| Program services: | | | |
| Early childhood | 105,297 | - | 105,297 |
| Family support and parent education | - | 193,365 | 193,365 |
| Preschool support for low-income families | - | 96,058 | 96,058 |
| Quality improvement | - | 45,055 | 45,055 |
| Other program services | - | 16,735 | 16,735 |
| Total program services | 105,297 | 351,213 | 456,510 |
| Administration | 2,822 | 9,282 | 12,104 |
| Total expenditures | 108,119 | 360,495 | 468,614 |
| Change in fund balance | - | 137 | 137 |
| Fund balance beginning of year | 20,711 | 13,425 | 34,136 |
| Fund balance end of year | $ 20,711 | $ 13,562 | $ 34,273 |

## NOTE 11 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

| Transfer To | Transfer From | Amount |
|---|---|---|
| Debt Service | General | $ 316,545 |
| Capital Projects | General | 1,218,422 |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

## NOTE 12 - DEFICIT FUND BALANCE

At June 30, 2013 the Juvenile Home Fund had a deficit fund balance of $20,582 resulting from less than expected revenues. It is expected that revenues for the next year will provide a positive fund balance.

## REQUIRED SUPPLEMENTARY INFORMATION

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**
**IN BALANCES - BUDGET AND ACTUAL**
**ALL GOVERNMENTAL FUNDS**
**REQUIRED SUPPLEMENTARY INFORMATION**
**Year Ended June 30, 2013**

| | | Budgeted Amounts | | Final to Actual |
|---|---|---|---|---|
| | Actual | Original | Final | Variance |
| **REVENUES** | | | | |
| Local sources | $ 10,581,904 | $ 10,038,078 | $ 11,327,164 | $ (745,260) |
| State sources | 10,761,137 | 11,651,412 | 11,045,414 | (284,277) |
| Federal sources | 11,852,766 | 11,850,540 | 11,939,273 | (86,507) |
| Total revenues | 33,195,807 | 33,540,030 | 34,311,851 | (1,116,044) |
| **EXPENDITURES/EXPENSES** | | | | |
| Current: | | | | |
| Instruction | 1,271,861 | 1,694,645 | 1,068,034 | (203,827) |
| Student support services | 19,523,383 | 16,675,415 | 16,988,313 | (2,535,070) |
| Instructional staff support services | 8,320,414 | 8,649,783 | 9,227,512 | 907,098 |
| General administration | 2,349,111 | 1,539,750 | 3,094,235 | 745,124 |
| Business administration | 971,430 | 1,873,016 | 2,526,630 | 1,555,200 |
| Plant operations and maintenance | 1,281,388 | 956,426 | 1,296,776 | 15,388 |
| Central and other support services | 1,472,067 | 2,256,422 | 269,855 | (1,202,212) |
| Facilities acquisition and construction | 1,218,422 | - | 1,675,000 | 456,578 |
| Debt service | 316,545 | 316,545 | 316,545 | - |
| Total expenditures | 36,724,621 | 33,962,002 | 36,462,900 | (261,721) |
| **DEFICIENCY OF REVENUES UNDER EXPENDITURES** | (3,528,814) | (421,972) | (2,151,049) | (1,377,765) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Capital lease | 20,754 | - | - | 20,754 |
| Operating transfers in | 1,534,967 | 316,545 | 1,991,545 | (456,578) |
| Operating transfers out | (1,534,967) | (2,644,905) | (4,671,569) | 3,136,602 |
| Total other financing sources (uses) | 20,754 | (2,328,360) | (2,680,024) | 2,700,778 |
| **EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES** | (3,508,060) | (2,750,332) | (4,831,073) | 1,323,013 |
| **BALANCE BEGINNING OF YEAR** | 9,490,663 | 4,715,537 | 7,041,741 | 2,448,922 |
| **BALANCE END OF YEAR** | $ 5,982,603 | $ 1,965,205 | $ 2,210,668 | $ 3,771,935 |

See accompanying independent auditor's report.

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -**
**BUDGETARY REPORTING**
**June 30, 2013**

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 accounting principles generally accepted in the United States of America for all funds except Agency Funds. Although the budget document presents function expenditures/expenses by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2013, the Agency's expenditures exceeded the amended certified budget amounts in the instruction, student support services, and central and other support services functions.

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**SCHEDULE OF FUNDING PROGRESS FOR THE**
**RETIREE HEALTH PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2013**

| 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) |
|---|---|---|---|---|---|---|---|
| 2011 | July 1, 2010 | - | $2,295,000 | $2,295,000 | 0.00% | $20,339,289 | 11.3% |
| 2012 | July 1, 2010 | - | 2,376,000 | 2,376,000 | 0.00% | 18,529,453 | 12.8% |
| 2013 | July 1, 2012 | - | 941,000 | 941,000 | 0.00% | 19,036,297 | 4.9% |

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

## SUPPLEMENTARY INFORMATION

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS**
**June 30, 2013**

| | Special Revenue Juvenile Home | Capital Projects | Total |
|---|---|---|---|
| **ASSETS** | | | |
| None | $ - | $ - | $ - |
| **LIABILITIES AND FUND BALANCES** | | | |
| **LIABILITIES** | | | |
| Salaries and benefits payable | $ 9,332 | $ - | $ 9,332 |
| Due to other funds | 11,250 | - | 11,250 |
| Total liabilities | 20,582 | - | 20,582 |
| **FUND BALANCES** | | | |
| Unassigned | (20,582) | - | (20,582) |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ - | $ - | $ - |

See accompanying independent auditor's report.

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**
**Year Ended June 30, 2013**

| | Special Revenue Juvenile Home | Capital Projects | Total |
|---|---|---|---|
| **REVENUES** | | | |
| State sources | $ 504,048 | $ - | $ 504,048 |
| **EXPENDITURES** | | | |
| Current: | | | |
| Instruction | 391,260 | - | 391,260 |
| General administration | 37,098 | - | 37,098 |
| Facilities acquisition and construction | - | 1,218,422 | 1,218,422 |
| Total expenditures | 428,358 | 1,218,422 | 1,646,780 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | 75,690 | (1,218,422) | (1,142,732) |
| **OTHER FINANCING SOURCES** | | | |
| Tranfers in | - | 1,218,422 | 1,218,422 |
| **EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES** | 75,690 | - | 75,690 |
| **FUND BALANCES BEGINNING OF YEAR** | (96,272) | - | (96,272) |
| **FUND BALANCES END OF YEAR** | $ (20,582) | $ - | $ (20,582) |

See accompanying independent auditor's report.

# MISSISSIPPI BEND AREA EDUCATION AGENCY 9
## SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
### Year Ended June 30, 2013

| | Balance, June 30, 2012 | Additions | Deductions | Balance, June 30, 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 33,816 | $ 468,751 | $ 452,676 | $ 49,891 |
| Due from others | 8,195 | - | 7,838 | 357 |
| Total assets | $ 42,011 | $ 468,751 | $ 460,514 | $ 50,248 |
| **LIABILITIES** | | | | |
| Accounts payable | $ 7,875 | $ 452,639 | $ 460,514 | $ - |
| Deferred revenue | - | 15,975 | - | 15,975 |
| Due to others | 34,136 | 137 | - | 34,273 |
| Total liabilities | $ 42,011 | $ 468,751 | $ 460,514 | $ 50,248 |

See accompanying independent auditor's report.

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -**
**ALL GOVERNMENTAL FUNDS**
**For the Last Ten Years**

| | Modified Accrual Basis Years Ended June 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| **REVENUES** | | | | | | | | | | |
| Local sources | $ 10,581,904 | $ 8,762,310 | $ 11,960,729 | $ 9,765,957 | $ 10,312,994 | $ 9,936,373 | $ 10,203,859 | $ 9,562,624 | $ 8,943,963 | $ 8,784,708 |
| State sources | 10,761,137 | 11,877,725 | 10,250,168 | 11,331,310 | 11,783,728 | 10,666,415 | 9,192,876 | 8,304,075 | 8,062,739 | 7,943,264 |
| Federal sources | 11,852,766 | 11,976,214 | 14,271,769 | 20,564,478 | 13,462,657 | 11,984,494 | 12,508,305 | 14,865,468 | 15,059,591 | 12,457,130 |
| **TOTAL** | $ 33,195,807 | $ 32,616,249 | $ 36,482,666 | $ 41,661,745 | $ 35,559,379 | $ 32,587,282 | $ 31,905,040 | $ 32,732,167 | $ 32,066,293 | $ 29,185,102 |
| **EXPENDITURES** | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Instruction | $ 1,271,861 | $ 1,328,582 | $ 1,324,736 | $ 1,388,010 | $ 2,394,377 | $ 2,115,309 | $ 2,207,853 | $ 1,867,586 | $ 2,013,323 | $ 2,554,533 |
| Student support services | 19,523,383 | 18,206,385 | 19,091,151 | 23,355,003 | 17,732,688 | 15,941,364 | 16,246,964 | 16,804,484 | 15,193,130 | 13,646,068 |
| Instructional staff support services | 8,320,414 | 7,417,043 | 8,283,772 | 8,916,428 | 8,343,906 | 7,243,142 | 7,074,119 | 7,592,516 | 7,555,648 | 7,173,801 |
| General administration | 2,349,111 | 1,734,464 | 1,915,510 | 1,817,021 | 1,640,378 | 1,572,659 | 1,569,033 | 1,762,107 | 1,920,696 | 2,422,493 |
| Business administration | 971,430 | 1,090,145 | 1,294,254 | 1,303,602 | 1,506,199 | 1,515,757 | 1,671,336 | 1,638,475 | 1,716,110 | 997,908 |
| Plant operations and maintenance | 1,281,388 | 869,144 | 724,073 | 710,611 | 771,041 | 808,444 | 831,913 | 1,939,328 | 768,273 | 532,223 |
| Central and other support services | 1,472,067 | 2,051,119 | 1,594,904 | 1,844,957 | 2,142,375 | 1,959,145 | 2,209,058 | 1,645,111 | 1,710,960 | 1,632,323 |
| Facilities acquisition and construction | 1,218,422 | - | - | - | - | - | - | - | - | - |
| Debt service | 316,545 | 317,551 | 318,364 | 318,801 | 319,051 | 319,114 | 3,230,840 | 614,696 | 384,238 | 261,423 |
| **TOTAL** | $ 36,724,621 | $ 33,014,433 | $ 34,546,764 | $ 39,654,433 | $ 34,850,015 | $ 31,474,934 | $ 35,041,116 | $ 33,864,303 | $ 31,262,378 | $ 29,220,772 |

See accompanying independent auditor's report.

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**Year Ended June 30, 2013**

| Project Title | CFDA Number | Pass-through Grantor's Number | Expenditures |
|---|---|---|---|
| Indirect: | | | |
| U.S. Department of Education: | | | |
| Passed through Iowa Department of Education: | | | |
| Special Education Cluster (IDEA): | | | |
| Special Education_Grants to States: | | | |
| Part B - Section 611 LEA Flow through | 84.027 | 9KB2-10 | $ 2,680,024 |
| Part B - Section 611 Service to Handicapped | 84.027 | 101109 | 7,893,082 |
| Part B - Section 611 Parent Educator | 84.027 | 7409 | 123,002 |
| Framework for Effective Instruction | 84.027 | 001713 | 15,661 |
| LETRS | 84.027 | 003713 | 4,090 |
| Child Find Committee | 84.027 | 057712 | 179 |
| | | | 10,716,038 |
| Special Education_Preschool Grants | 84.173 | 1011619-09 | 265,245 |
| **Total Special Education Cluster (IDEA)** | | | 10,981,283 |
| Career and Technical Education -- Basic Grants to States | | | |
| Title II C - Andrew Consortium | 84.048 | G30124 | 27,298 |
| Title II C - Bettendorf Consortium | 84.048 | G30125 | 76,618 |
| Title II C - Camanche Consortium | 84.048 | G30126 | 23,415 |
| Title II C - Western Consortium | 84.048 | G30131 | 40,018 |
| | | | 167,349 |
| Special Education - Grants for Infants and Families | 84.181 | C12-09 | 282,094 |
| Safe and Drug-Free Schools and Communitites_National Programs | 84.184 | 4113 | 97,472 |
| English Language Acquisition Grants: | 84.294 | 13ELA-04 | 54,368 |
| Educational Technology State Grants | 84.318 | G20720 | 6,072 |
| Special Education - State Personnel Development | 84.323 | 25413 | 35,348 |
| Improving Teacher Quality State Grants | 84.367 | N/A | 10,953 |
| **TOTAL** | | | $ 11,634,939 |

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Mississippi Bend Area Education Agency 9 and is presented on the modified accrual basis. The information in 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
Mississippi Bend Area Education Agency 9

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mississippi Bend Area Education Agency 9, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Mississippi Bend Area Education Agency 9's basic financial statements and have issued our report thereon dated October 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Mississippi Bend Area Education Agency 9's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mississippi Bend Area Education Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Mississippi Bend Area Education Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item II-A-13 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mississippi Bend Area Education Agency 9's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as items II-B-13 and II-C-13.

Comments involving statutory and other legal matters about Mississippi Bend Area Education Agency 9's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Mississippi Bend Area Education Agency 9. 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.

**Mississippi Bend Area Education Agency 9's Response to Findings**

Mississippi Bend Area Education Agency 9's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mississippi Bend Area Education Agency 9's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

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

*Winkel, Parker & Foster, CPA PC*

Clinton, Iowa
October 9, 2013

**Independent Auditor's Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

To the Board of Directors of
Mississippi Bend Area Education Agency 9

**Report on Compliance for Each Major Federal Program**

We have audited Mississippi Bend Area Education Agency 9's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mississippi Bend Area Education Agency 9's major federal programs for the year ended June 30, 2013. Mississippi Bend Area Education Agency 9's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Mississippi Bend Area Education Agency 9's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 noncompliance 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 Mississippi Bend Area Education Agency 9's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mississippi Bend Area Education Agency 9's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Mississippi Bend Area Education Agency 9 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Report on Internal Control Over Compliance**

The management of Mississippi Bend Area Education Agency 9 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mississippi Bend Area Education Agency 9's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB

Circular A-133, 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 Mississippi Bend Area Education Agency's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB A-133. Accordingly, this report is not suitable for any other purpose.

**Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of Mississippi Bend Area Education Agency as of and for the year ended June 30, 2013, and have issued our report thereon dated October 9, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 accounting principles generally accepted in the United States of America. In our opinion, the Schedule of Federal Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Winkel, Parker & Foster, CPA PC*

Clinton, Iowa
October 9, 2013

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**Year Ended June 30, 2013**

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

**Financial Statements**

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

| | | | | |
|---|---|---|---|---|
| • Material weakness(es) identified? | ____ | yes | x | no |
| • Significant deficiencies identified that are not considered to be material weaknesses? | x | yes | ____ | none reported |
| Noncompliance material to financial statements noted? | x | yes | ____ | no |

**Federal Awards**

Internal control over major programs:

| | | | | |
|---|---|---|---|---|
| • Material weakness(es) identified? | ____ | yes | x | no |
| • Significant deficiencies identified that are not considered to be material weakness(es)? | ____ | yes | x | none reported |

Type of auditor's report issued on compliance for major programs:
Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? ____ yes x no

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| Cluster: | |
| 84.027 | Special Education Grants to States |
| 84.173 | Special Education Preschool Grants |

Dollar threshold used to distinguish between type A and type B programs: $ 349,048

Auditee qualified as low-risk auditee? ____ yes x no

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**Year Ended June 30, 2013**

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-13 Financial Statement Preparation

Criteria - The Agency engages Winkel, Parker & Foster, CPA PC to assist in preparing its financial statements and accompanying disclosures. Although the Agency has designated an individual with adequate knowledge, skills, or experience to oversee the services performed, the Board of Directors and management share the ultimate responsibility for the Agency's financial statements. This responsibility cannot be outsourced.

Condition - While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. The Agency is essentially relying to a large degree on Winkel, Parker & Foster, CPA PC to ensure the accuracy and completeness of the Agency's financial statements.

Effect - As a result of this condition, there is a higher risk that financial statement omissions or other errors could occur and not be detected and corrected.

Cause - The Agency has relied on independent auditors to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated.

Recommendation - We recommend that management designate an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the Agency's activities and operations to review the financial statements and accompanying disclosures.

Response - Management will ensure that a comprehensive review of the financial statements is performed to ensure that the financial statements, including disclosures, are complete and accurate.

Conclusion - Response accepted.

**Part II: Findings Related to the Financial Statements:** (continued)

**INSTANCES OF NON-COMPLIANCE:**

II-B-13 Deficit Balances

Criteria - The fundamental purpose of fund accounting is to properly account for all resources received and used. Each fund has its own revenues, expenditures, transfers, assets, liabilities, and fund balance. A change in fund balance represents the difference between fund additions (revenues and transfers in) and deductions (expenditures and transfers out). A fund balance is identified as the net difference between a fund's assets and liabilities. A fund is in a deficit status if the expenditures and transfers out exceed revenues and transfers in.

Condition - The Juvenile Home Fund had a deficit fund balance at June 30, 2013.

Effect - The fund balance deficit could continue to increase if spending levels are not adjusted to correspond with the amount of revenue received.

Cause - Expenditures paid out of the Juvenile Home Fund exceeded the revenues received.

Recommendation - The Agency should investigate alternatives to eliminate the deficit balance and return the fund to a sound financial condition.

Response - It is expected that revenues for the next year will provide a positive fund balance.

Conclusion - Response accepted.

II-C-13 Certified Budget

Criteria - By statute, the Agency is required to certify its budget each year for the subsequent fiscal year. Due to changing circumstances, the budget made need to be amended to incorporate changes in the operating environment.

Condition - Expenditures for the year ended June 30, 2013 exceeded the amended certified budget amounts in the instruction, student support services, and central and other support services functions. This caused total budgeted expenditures to exceed the amount budgeted.

Effect - The Agency is not in compliance with statutory requirements.

Cause - The budget was amended to account for additional expenditures. Other financing uses was increased to account for these expenditures, however, the expenditures were paid out of other functions. This caused expenditures to exceed the amended budget amount since other financing uses are not a function level disbursement and are not taken into consideration when comparing budgeted expenditures to total expenditures. It should be noted that the Agency's total spending authority was not exceeded.

Recommendation - The certified budget should have been amended to increase expenditures in the function for which the related expenditures were to be paid.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**Year Ended June 30, 2013**

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

**Instances of Non-compliance:**

No matters were noted.

**Internal Control Deficiencies:**

No matters were noted.

**MISSISSIPPI BEND AREA EDUCATION AGENCY 9**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**Year Ended June 30, 2013**

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

IV-A-13 Certified Budget - By statute, the Agency is required to certify its budget each year for the subsequent fiscal year. Due to changing circumstances, the budget made need to be amended to incorporate changes in the operating environment.

Recommendation - The certified budget should have been amended to increase expenditures in the function for which the related expenditures were to be paid.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

IV-B-13 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-13 Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-13 Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.

IV-E-13 Bond Coverage - Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-13 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-G-13 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-H-13 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-I-13 Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.

IV-J-13 Early Childhood Iowa Area Board - The Agency is the fiscal agent for the Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. Financial transactions of the Area Board are included in the AEA's financial statements as an Agency Fund because of the Agency's fiduciary relationship with the organization.

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