

Heartland Area Education Agency 11

Financial Report
Year Ended June 30, 2014

Table of Contents

INTRODUCTORY SECTION	
Table of contents	i
Officials	iii
Areas served	iv

FINANCIAL SECTION	
Independent auditor's report	1 – 3
Management's discussion and analysis	4 – 9
Basic financial statements:	
Agency-wide financial statements:	
Statement of net position	10
Statement of activities	11
Governmental fund financial statements:	
Balance sheet	12
Reconciliation of the balance sheet – governmental funds to the statement of net position	13
Statement of revenues, expenditures and changes in fund balances	14
Reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities	15
Proprietary fund financial statements:	
Statement of net position	16
Statement of revenues, expenses and changes in net position	17
Statement of cash flows	18
Notes to financial statements	19 – 29
Required supplementary information:	
Budgetary comparison schedule of revenues, expenditures/expenses and changes in balances – budget and actual – all governmental funds	30
Note to required supplementary information – budgetary reporting	31
Schedule of funding progress for the retiree health plan	32
Other supplementary information:	
Nonmajor governmental funds – combining balance sheet	33
Nonmajor governmental funds – combining schedule of revenues, expenditures and changes in fund balances	34
Schedule of revenues by source and expenditures by function – all governmental funds	35

Table of Contents

COMPLIANCE SECTION	
Schedule of expenditures of federal awards	36
Notes to the schedule of expenditures of federal awards	37
Summary schedule of prior audit findings	38
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	39 – 40
Independent auditor’s report on compliance for each major federal program and on internal control over compliance in accordance with OMB Circular A-133	41-42
Schedule of findings and questioned costs	43-44

Heartland Area Education Agency 11

Officials

Year Ended June 30, 2014

	Title	Term/Contract Expires
Board of Directors:		
Margaret Borgen	President	2015
Steve Rose	Vice President	2015
Nels Turnquist (deceased)	Board Member	2015
Jane Bell	Board Member	2015
Cal Halliburton	Board Member	2015
Ann Wilson	Board Member	2017
Bruce Christensen	Board Member	2017
Pete Evans	Board Member	2017
Earl Bridgewater	Board Member	2017

Agency:

Paula Vincent	Chief Administrator
Jenny Ugolini	Board Secretary
John Linch	Treasurer
Kurt Subra	Chief Financial Officer

Heartland Area Education Agency 11

Areas Served

Year Ended June 30, 2014

Audubon County:

Audubon School District
Exira School District

Boone County:

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

Carroll County:

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

Dallas County:

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

Guthrie County:

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

Jasper County:

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

Madison County:

Earlham School District
Interstate 35 School District
Winterset School District

Marion County:

Knoxville School District
Melcher-Dallas School District
Pella School District

Marion County (continued):

Pella Christian Grade School
Pella Christian High School
Peoria Christian School
Pleasantville School District
Twin Cedars School District

Polk County:

Ankeny School District
Ankeny Christian Academy
Bondurant-Farrar School District
Christ the King School
Des Moines School District
Des Moines Christian School
Bergman Academy
Dowling High School
Grandview Park Baptist School
Holy Family Schools
Holy Trinity School
Iowa Christian Academy
Johnson School District
Mt. Olive Lutheran School
North Polk School District
Sacred Heart School
St. Anthony School
St. Augustin School
St. Francis of Assisi School
St. Joseph Elementary School
St. Pius X School
St. Theresa School
Saydel School District
Southeast Polk School District
Urbandale School District
West Des Moines School District

Story County:

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

Warren County:

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



Independent Auditor's Report

To the Board of Directors
Heartland Area Education Agency 11
Johnston, Iowa

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 the Heartland Area Education Agency 11, as of and for the year ended June 30, 2014, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the Heartland Area Education Agency 11, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance 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, schedules of funding progress, and budgetary comparison information, on pages 4–9 and 30-32 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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.

The Agency's basic financial statements for the years ended June 30, 2013 through 2011, which are not presented herein, were audited by other auditors whose report thereon dated January 14, 2014,

expressed unmodified opinions on the basic financial statements. Their report on the Schedule of Revenues by Source and Expenditures by Function for the years ended June 30, 2013 through 2011 stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements as a whole for the years ended June 30, 2013 through 2011 taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014 on our consideration of the Entity'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 the Agency's internal control over financial reporting and compliance.

Bohnsack & Frommelt LLP

Taylor Ridge, Illinois
November 3, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Area Education Agency 11 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund Revenues were \$82,180,736 and General Fund Expenditures were \$81,318,213 in FY2014. General Fund Other Financing Sources and Uses for FY2014 were a net use of \$1,989,450. Revenues less Expenditures and Other Uses resulted in a net operating loss of \$1,126,927. The Agency's General Fund total fund balance decreased from \$10,486,975 in FY2013 to \$9,360,048 in FY2014.
- The Agency's special education support services state foundation aid revenue was reduced a total of \$5,130,412 as the result of a state-wide \$22.5 million cut to all area education agencies. For the previous two fiscal years the state-wide cut was \$27.5 million. Due to the decrease in the amount cut state-wide, the Agency's share of the cut was reduced by \$1,147,227.
- The Agency expended \$2,022,255 for the replacement of the HVAC system at the main building on the Johnston campus. The project was substantially completed in FY2014 and the remainder will be completed during FY2015. The FY2014 capital project expenditures were funded from the committed fund balance and current operations by approximately \$1 million each. FY2015 HVAC expenditures may be funded by the committed fund balance.
- The Agency moved to self-funded health insurance beginning July 1, 2013, causing the creation of an internal service fund in June 2013. The FY2014 financial statements were greatly affected by the creation of the new fund. The other funds of the Agency and payments from retirees generated \$7,680,702, claims, insurance, and other administration costs resulted in expenditures of \$6,265,651 which resulted in an increase to net position of \$1,415,051 for the self-insurance fund. The internal service fund records activity for the self-funded health and dental insurances and for health reimbursement accounts.

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

retiree health plan. Other Supplementary Information provides detailed information about expenditures by function and federal awards.

Reporting the Agency as a Whole

The Statement of Net Position and the Statement of Activities

The Government-Wide Statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Agency's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference reported as net position. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Government-Wide Statements report the Agency's net position and how they have changed. Net position is one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net position is 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 student population base and the condition of its facilities need to be considered.
- The Government-Wide Financial Statements include the Agency's basic services, such as regular and special education instruction, student and instructional staff support services and administration. Property taxes, state aid and federal grants finance most of these activities.

Fund Financial Statements

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

Governmental Funds

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

The Governmental Funds required financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. A summary reconciliation between the Government-Wide Financial Statements and the Fund Financial Statements follows the Fund Financial Statements.

Proprietary Funds

The Agency maintains one internal service fund to account for the premium and claim payments for the self-funded health and dental insurance plans and for health reimbursement accounts. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Agency's various functions. Because the service provided by the Agency benefits governmental, rather than

business-type functions, it has been included within governmental activities in the government-wide financial statements.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net position serve as a useful indicator of financial condition. Area Education Agency 11's net position at the end of FY2014 totaled approximately \$22.8 million compared to \$20.6 million at the end of FY2013. The Agency's internal service fund is included with the governmental activities in the government-wide financial statements. The Agency does not have any other Business-Type Activities, therefore the total is only composed of the Governmental Funds. The analysis that follows focuses on the net position and changes in net position.

Condensed Statement of Net Position

	FY2014	FY2013	% Change
Assets:			
Current and other assets	\$ 23,814,055	\$ 22,164,985	7%
Capital assets	10,980,605	9,471,412	16%
Total Assets	<u>\$ 34,794,660</u>	<u>\$ 31,636,397</u>	10%
Liabilities:			
Long-term obligations	\$ -	\$ -	
Other liabilities	12,032,716	11,019,126	9%
Total Liabilities	<u>\$ 12,032,716</u>	<u>\$ 11,019,126</u>	9%
Net Position:			
Net investment in capital asset	\$ 10,980,605	\$ 9,471,412	16%
Restricted	1,936,743	2,146,642	-10%
Unrestricted	9,844,596	8,999,217	9%
Total Net Position	<u><u>\$ 22,761,944</u></u>	<u><u>\$ 20,617,271</u></u>	10%

The Agency's total net position increased by \$2.1 million from FY2013. The Agency's internal service fund added \$1.4 million to the net position in FY2014. Capital Assets increased \$1.5 million from FY 2013 due to the HVAC construction project. Other post employment benefits (OPEB) moved from an asset of \$104,000 in FY2013 to an asset of \$451,356 at the end of FY2014. Other Liabilities increased \$1 million due to an increase in accounts payable. The combined impact of the above was an increase of Unrestricted Net Assets of approximately \$845,379.

The following analysis shows the changes in Net Position for the year ended June 30, 2014 as compared to June 30, 2013.

Changes in Net Position

	FY2014	FY2013	% Change
Revenues:			
Program Revenues:			
Charges for Services	\$3,536,486	\$3,906,279	-9%
Operating Grants and Contributions	29,750,232	29,077,617	2%
General Revenues:			
Property Tax	21,606,532	20,826,580	4%
State Aid	28,817,039	26,485,395	9%
Unrestricted Investment Earnings	34,307	33,039	4%
Total Revenues	\$83,744,596	\$80,328,910	4%
Program Expenses:			
Instruction	\$ 3,326,596	\$ 3,183,103	5%
Student Support Services	31,947,000	31,627,028	1%
Instructional Staff Support Services	23,767,240	22,279,259	7%
General Administration	3,494,282	3,259,361	7%
Regional Administration	3,988,551	4,265,232	-6%
Business Administration	1,522,234	1,494,684	2%
Central and Other Support Services	4,274,428	4,631,933	-8%
Printing, Delivery, and Coop Services	973,702	732,283	33%
Plant Operations and Maintenance	1,418,606	1,382,054	3%
Student Transportation	744	1,027	-28%
Management services	131,117	119,375	10%
Community Services Operations	169,784	161,834	5%
LEA Part B Flow-Through	6,380,761	6,948,573	-8%
Facilities Acquisition	-	0	
Long-Term Debt Interest	-	0	
Depreciation-Unallocated	204,878	207,701	-1%
Total Expenses	\$ 81,599,923	\$80,293,447	2%
Increase (Decrease) in Net Position	\$2,144,673	\$35,463	5948%
Net Position-Beginning	20,617,271	20,581,808	0%
Net Position-Ending	\$22,761,944	\$20,617,271	10%

Governmental Activities

Revenues for Governmental Activities were \$83,744,596 and expenses were \$81,599,923.

The Agency's overall revenue increase of 4% was primarily due to an increase in State Aid-Formula Grants of 9% and an increase in Property Tax of 4% offset by a decrease in Charges for Services of 9%.

The Agency's expenses primarily relate to instructional support services provided to local school districts, which account for 85% of the operating expenses. Instructional support services provided to schools are reported above in the areas of Instruction, Student Support Services, Instructional Staff Support Services, Printing and Delivery, LEA Part B Flow-Through and a large portion of the Central and Other Support Services.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

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

Governmental Fund

The Agency's Governmental Funds reported combined fund balances of \$9,360,048, which is approximately \$1.1 million less than last year's ending fund balances of \$10,486,975. The fund balance decrease is primarily due to the HVAC capital project expenditures. Governmental Fund revenues increased approximately \$3.9 million. The increased revenues are a result of a 2% increase to supplemental state aid, student enrollment increases and restoration of a portion of the state-aid funding reduction. Governmental Fund expenditures increased approximately \$4.8 million, or 6%. Approximately \$2 million of the increase was due to the HVAC capital project expenditures.

Proprietary Fund

The Agency started a self-funded insurance internal service fund at the end of FY2013. The fund's net position increased from \$554,884 at June 30, 2013 to \$1,969,935 at June 30, 2014. For FY2014 the fund had revenues of approximately \$7.7 million and expenditures of approximately \$6.3 million. The Agency will continue to monitor the fund's net position to ensure adequate funds are available.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect adjustments to revenue and expenditures associated with the services needed and provided to local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the Required Supplementary Information Section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the Agency had invested \$11 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, computers, equipment, software, and an extensive library/media collection.

Area Education Agency 11 had depreciation expense of \$1,069,955 in FY2014 and total accumulated depreciation of \$11,745,405 at June 30, 2014. More detailed information about capital assets is available in Note 3 to the financial statements.

Debt Administration

At June 30, 2014 the Agency had no long-term outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Iowa economy has shown improvement over the past 12 months. The Iowa legislature enacted a 4% supplemental state aid increase (allowable growth) for FY2015. With the student enrollment increases added in, the Agency will have a 6.25% increase in supplemental state aid in FY2015. Sequestration of federal funds will not occur in FY2015. Currently, the Agency does not know whether sequestration will affect future federal funding.

The HVAC system project at the main Johnston facility was substantially completed in FY2014. A small portion will be expended in FY2015. The Agency has approximately \$345,000 committed for additional renovation costs. Several projects to update and maintain Agency facilities are being considered, and these projects would occur in the next few years

Area Education Agency 11 is currently the fiscal agent for the state-wide on-line professional development system. Revenues and expenditures for this activity are included in the Agency's general fund. The state-wide system is currently in transition and the Agency may not be the fiscal agent in future years. If this happens, a reduction of revenue and associated expenditures will occur. Because this activity is self-supporting, the loss of revenue and associated expenditures will not affect the Net Position of the Agency.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer of Area Education Agency 11, 6500 Corporate Drive, Johnston, Iowa 50131.

Heartland Area Education Agency 11
Statement of Net Position
June 30, 2014

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 20,890,804
Due from Other Governments	2,404,233
Accounts Receivable	3,147
Prepaid Expenses	64,515
Capital Assets:	
Nondepreciable	3,159,240
Depreciable, net of accumulated depreciation	7,821,365
Other Post Employment Benefits	451,356
Total Assets	\$ 34,794,660
 LIABILITIES	
Accounts Payable and Other Current Liabilities	\$ 11,092,563
Excess of Warrants Issued Over Bank Balance	10,792
Unearned Revenue	929,361
Total Liabilities	\$ 12,032,716
 NET POSITION	
Net Investment in Capital Assets	\$ 10,980,605
Restricted for:	
Materials Resource	1,544,628
State Teacher Categorical	392,115
Unrestricted	9,844,596
Total Net Position	22,761,944

See accompanying notes to the financial statements

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Heartland Area Education Agency 11
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributio	
Governmental Activities:					
Instruction	\$ 3,326,596	\$ 10,920	\$ 2,809,912	-	\$ (505,764)
Student support services	31,947,000	4,782	11,461,283	-	(20,480,935)
Instructional staff support services	23,767,240	2,699,288	8,008,994	-	(13,058,958)
General administration	3,494,282	17,089	230,950	-	(3,246,243)
Regional administration	3,988,551	317	-	-	(3,988,234)
Business administration	1,522,234	37,747	662,115	-	(822,372)
Central & other support services	4,274,428	300,538	2,745	-	(3,971,145)
Printing, delivery services & coop service	973,702	380,889	-	-	(592,813)
Plant operations and maintenance	1,418,606	6,317	23,213	-	(1,389,076)
Student transportation	744	-	744	-	-
Management services	131,117	76,975	-	-	(54,142)
Community services	169,784	1,624	169,515	-	1,355
LEA Part B Flowthrough	6,380,761	-	6,380,761	-	-
Facilities acquisition	-	-	-	-	-
Debt service	-	-	-	-	-
Depreciation-unallocated	204,878	-	-	-	(204,878)
Total Primary Government	<u>\$ 81,599,923</u>	<u>\$ 3,536,486</u>	<u>\$ 29,750,232</u>	<u>-</u>	<u>\$ (48,313,205)</u>
General Revenues					
Property Taxes, Levied for General Purposes					\$ 21,606,532
State Aid-Formula Grants					28,817,039
Unrestricted Investment Earnings					34,307
Total General Revenues					<u>\$ 50,457,878</u>
Change in Net Position					2,144,673
Net Position-Beginning					20,617,271
Net Position-Ending					<u>\$ 22,761,944</u>

See accompanying notes to the financial statements

Heartland Area Education Agency 11
Balance Sheet
Governmental Funds
June 30, 2014

	General	Non-Major Funds	Total
ASSETS			
Cash and Cash Equivalents	\$ 17,733,961	\$ 465,533	\$ 18,199,494
Due from Other Governments	2,303,128	101,105	2,404,233
Prepaid Items	63,186	1,329	64,515
Total Assets	\$ 20,100,275	\$ 567,967	\$ 20,668,242
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable and Other Current Liabilities	9,861,553	\$ 557,175	\$ 10,418,728
Excess of Warrants Issued over Bank Balance	-	10,792	10,792
Unearned Revenue	878,674	-	878,674
Total Liabilities	\$ 10,740,227	\$ 567,967	\$ 11,308,194
FUND BALANCES			
Non-Spendable			
Prepaid Items	63,186	1,329	64,515
Restricted			
Materials Resource	1,544,628	-	1,544,628
State Teacher Categorical	392,115	-	392,115
Committed			
Unemployment	33,150	-	33,150
Johnston HVAC replacement	110,415	-	110,415
Facility Construction	344,532	-	344,532
Assigned			
Encumbrances	88,661	-	88,661
Unassigned/uncommitted	6,783,361	(1,329)	6,782,032
Total Fund Balances	\$ 9,360,048	\$ -	\$ 9,360,048
Total Liabilities and Fund Balances	\$ 20,100,275	\$ 567,967	\$ 20,668,242

See accompanying notes to the financial statements

**Heartland Area Education Agency 11
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2014**

Total Fund Balances-Governmental Funds \$ 9,360,048

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

Asset for Other Post-Employment Benefits 451,356

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported as assets in Governmental Funds. The cost of the assets is \$22,726,010 less the accumulated depreciation of \$11,745,405 10,980,605

Internal Service Funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of net position

Other current assets	\$	2,694,457	
Other current liabilities		(724,522)	1,969,935

Total Net Position-Governmental Activities \$22,761,944

See accompanying notes to financial statements.

Heartland Area Education Agency 11
Statement of Revenues, Expenditures and
Changes in Fund Balances-Governmental Funds
For the Year Ended June 30, 2014

	General	Non-Major Funds	Total
Revenues			
Local Sources	\$ 25,135,199	\$ 10,792	\$ 25,145,991
State Sources	29,416,334	1,414,395	30,830,729
Federal Sources	27,629,203	90,313	27,719,516
Total Revenues	<u>\$ 82,180,736</u>	<u>\$ 1,515,500</u>	<u>\$ 83,696,236</u>
Expenditures			
Current:			
Instruction	\$ 2,069,931	\$ 1,285,411	\$ 3,355,342
Student Support Services	32,719,004	-	32,719,004
Instructional Staff Support Services	23,916,793	71,522	23,988,315
General Administration	3,423,885	133,249	3,557,134
Regional Administration	4,156,030	-	4,156,030
Business Administration	1,592,811	-	1,592,811
Central and Other Support Services	4,415,564	2,745	4,418,309
Printing & Delivery	938,652	-	938,652
Plant Operations and Maintenance	1,402,604	22,300	1,424,904
Student Transportation	471	273	744
Management Services	131,923	-	131,923
Community Services Operations	169,784	-	169,784
LEA Part B Flowthrough	6,380,761	-	6,380,761
Facilities Acquisition	-	2,022,255	2,022,255
Debt Service	-	-	-
Total Expenditures	<u>\$ 81,318,213</u>	<u>\$ 3,537,755</u>	<u>\$ 84,855,968</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 862,523	\$ (2,022,255)	\$ (1,159,732)
Other Financing Sources (uses)			
Other	18,215	-	18,215
Sale of Equipment	14,590	-	14,590
Proceeds from Lease Purchase	-	-	-
Transfers In	-	2,022,255	2,022,255
Transfers Out	(2,022,255)	-	(2,022,255)
Total Financing Sources (Uses)	<u>\$ (1,989,450)</u>	<u>\$ 2,022,255</u>	<u>\$ 32,805</u>
Net Change in Fund Balances	\$ (1,126,927)	\$ -	\$ (1,126,927)
Fund Balances--Beginning	<u>\$ 10,486,975</u>	<u>\$ -</u>	<u>\$ 10,486,975</u>
Fund Balances--Ending	<u>\$ 9,360,048</u>	<u>\$ -</u>	<u>\$ 9,360,048</u>

See accompanying notes to the financial statements

Heartland Area Education Agency 11
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year ended June 30, 2014

Total Net Change in Fund Balances-Government Funds \$ (1,126,927)

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

Capital outlays are reported in Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful life as depreciation expense. This is the amount by which capital outlay (\$2,563,801) and donation revenue (\$15,347) for free materials exceeded depreciation (\$1,069,955). 1,509,193

Change for the recognition of Other Post Employment Benefits 347,356

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the Internal Service Fund is reported with governmental activities. 1,415,051

Change in Net Position of Governmental Activities \$ 2,144,673

See accompanying notes to financial statements.

Heartland Area Education Agency 11
Statement of Net Position
Proprietary Fund
June 30, 2014

	<u>Governmental Activities</u>
	<u>Internal Service</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,691,310
Accounts Receivable	3,147
Total Assets	<u>\$ 2,694,457</u>
LIABILITIES	
Accounts Payable	\$ 158,835
Claims Payable	515,000
Unearned Revenue	50,687
Total Liabilities	<u>\$ 724,522</u>
NET POSITION	
Unrestricted	1,969,935
Total Net Position	<u>\$ 1,969,935</u>

See accompanying notes to the financial statements

Heartland Area Education Agency 11
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2014

	Governmental Activities
	Internal Service
Operating revenues,	
Charges for Services	\$ 7,680,702
Operating expenses:	
Purchased Services	468,801
Claims and Administration	5,796,850
Total Operating expenses	6,265,651
Operating income	\$ 1,415,051
Net position, beginning of year	554,884
Net position, end of year	\$ 1,969,935

See accompanying notes to the financial statements

Heartland Area Education Agency 11
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

	Governmental Activities
	Internal Service
Cash Flows from financing activities	
Receipts from customers and users	\$ 7,677,509
Payments to suppliers	(309,966)
Claims and administrative costs paid	(5,281,850)
Net cash provided by operating activities	\$ 2,085,693
Net increase in cash and cash equivalents	\$ 2,085,693
Cash and cash equivalents, beginning of year	605,617
Cash and cash equivalents, end of year	\$ 2,691,310
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,415,051
Adjustments to reconcile operating income to net cash provided by operating activities	
Changes in assets and liabilities:	
Accounts receivable	(3,147)
Accounts payable	158,835
Claims payable	515,000
Unearned revenue	(46)
Net cash provided by operating activities	\$ 2,085,693

See accompanying notes to the financial statements

Heartland Area Education Agency 11

Notes to Basic Financial Statements Year Ended June 30, 2014

Note 1. Summary of Significant Accounting Policies

Heartland Area Education Agency 11 is an intermediate school corporation between the State Department of Education and the local school districts in its area as provided by Chapter 273 of the Code of Iowa. The Agency provides programs and support services necessary to meet the identified educational needs in the local school districts to enable them to operate efficiently and effectively. The Agency serves 53 school districts and 29 accredited non-public schools in an eleven-county area. The Agency is governed by a Board of Directors, whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Heartland Area Education Agency 11 has included all funds, organizations, agencies, boards, commissions, and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. Heartland Area Education Agency 11 has no component units that meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Agency does not have business-type activities.

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 and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or 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 that are imposed by management, which can be removed or modified.

Heartland Area Education Agency 11

Notes to Basic Financial Statements

Year Ended June 30, 2014

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

Fund Financial Statements – Separate financial statements are provided for the governmental funds and proprietary fund. 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 fund:

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

The Agency reports the following non-major governmental funds:

Special Revenue funds are used to account for the revenue sources that are legally restricted to expenditures for specific purposes. The Agency reports the following special revenue funds:

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

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

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

Proprietary fund types are used to account for the Agency's ongoing activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows. The Agency reports the following proprietary fund:

The Internal Service Fund is used to account for goods or services provided by one department to other departments of the Agency on a cost reimbursement basis. The Internal Service Fund is used to account for the self-funded health and dental insurance programs. The Agency began self-funded health insurance July 1, 2013.

C. Use of Estimates

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

Heartland Area Education Agency 11

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

D. Measurement Focus and Basis of Accounting

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

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

Intergovernmental revenues (state aid, property tax, shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Revenue-exchange and nonexchange: Nonexchange transactions, in which the Agency receives value without directly giving equal value in return include property tax, state aid, grants, entitlements and donations. Revenue from nonexchange transactions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Agency must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Agency on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

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 recorded as other financing sources.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is 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 that can be paid using either restricted or unrestricted resources, the Agency's policy is generally to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned, and then unassigned fund balance.

Heartland Area Education Agency 11

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's Internal Service Fund is charges for services. Operating expenses for Internal Service Fund include the cost of claims, administrative expenses and stop-loss re-insurance expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. As allowed by Governmental Accounting Standards Board Statement No. 41, Budgetary Comparison Schedules-Perspective Differences, the Agency presents budgetary comparison schedules based on the program structure of function areas as required by state statute for its legally adopted budget. The legal level of control is at the total expenditure/expense level.

F. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - Cash includes amounts in demand deposits, money market funds and certificate of deposits. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

All short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Capital Assets - Capital assets, which include property, furniture and equipment, and intangibles are reported in the governmental column in the government-wide Statement of Net 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 \$3,000 and estimated useful lives in excess of two years.

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

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

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

Heartland Area Education Agency 11

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

Unearned revenue: Proprietary funds defer revenue recognition in connection with resources that have been received, but not earned. Unearned revenue in governmental funds arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue. Unearned revenue in the governmental funds consists of advances from grantors which have been received by the Area Education Agency of \$10,101 and class and registration fees of \$868,573 collected for programs and services that will be provided in the next fiscal year.

Compensated Absences - Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. 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, 2014. The compensated absences liability attributable to the governmental activities will be paid by the General and Special Revenue Funds.

Long-term Liabilities - In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the Governmental Activities column in the Statement of Net 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, state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

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

Assigned – Amounts intended to be used for a specific purpose but do not meet the criteria to be classified as restricted or committed. The authority to assign fund balances has been delegated to the Chief Financial Officer through the Board approved budget by the Agency.

Unassigned – All amounts not included in other spendable classifications as well as any deficit fund balance of any other governmental fund is reported as unassigned.

The Agency's flow of funds assumption prescribes that the funds with the highest level of constraint are expended first. If restricted or unrestricted funds are available for spending, the restricted funds are spent first. Additionally, if different levels of unrestricted funds are available for spending, the Agency considers committed funds to be expended first followed by assigned funds and then unassigned.

Deferred outflows/inflows of resources- In addition to assets, the balance sheet and/or statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance or net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Agency does not have deferred outflows of resources as of June 30, 2014.

Heartland Area Education Agency 11

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

In addition to liabilities, the balance sheet and/or statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance or net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency does not have deferred inflows of resources as of June 30, 2014.

Note 2. Cash, Pooled Investments and Cash Equivalents

The Agency's deposits in banks at June 30, 2014 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency's investments at June 30, 2014 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
Iowa Schools Joint Investment Trust	\$ <u>108,753</u>	\$ <u>108,753</u>

The Agency had investments in the Iowa Schools Joint Investment Trust Direct Government Obligation Portfolio, which are valued at an amortized cost of \$108,753 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services. The Agency does not have a separate credit risk policy from state statutes.

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

Heartland Area Education Agency 11

Notes to Basic Financial Statements Year Ended June 30, 2014

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,136,985	\$ -	\$ -	\$ 1,136,985
Construction-in-progress	-	2,022,255	-	2,022,255
Total capital assets, not being depreciated	1,136,985	2,022,255	-	3,159,240
Capital assets, being depreciated:				
Buildings	6,113,419	-	-	6,113,419
Improvements other than buildings	2,892,504	-	-	2,892,504
Furniture and equipment	4,166,240	242,970	94,694	4,314,516
Intangibles	2,549,265	144,226	-	2,693,491
Library/media collection	3,941,420	169,697	558,277	3,552,840
Total capital assets, being depreciated	19,662,848	556,893	652,971	19,566,770
Accumulated depreciation:				
Buildings	1,658,567	122,268	-	1,780,835
Improvements other than buildings	1,629,209	82,609	-	1,711,818
Furniture and equipment	3,496,048	293,616	94,694	3,694,970
Intangibles	1,484,742	216,178	-	1,700,920
Library/media collection	3,059,855	355,284	558,277	2,856,862
Total accumulated depreciation	11,328,421	1,069,955	652,971	11,745,405
Total capital assets, being depreciated, net	8,334,427	(513,062)	-	7,821,365
Governmental activities capital assets, net	\$ 9,471,412	\$ 1,509,193	\$ -	\$ 10,980,605

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

Governmental Activities:	
Instruction	\$ 3,393
Student support services	41,089
Instructional staff support services	422,579
General administration	1,913
Regional administration	13,441
Business services	379,098
Plant operations and maintenance	3,564
Unallocated	204,878
Total Governmental Activities Depreciation Expense	\$ 1,069,955

Heartland Area Education Agency 11

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note 4. Operating Leases

Agency has leased various facilities within the area to house staff of the Agency. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2014 and June 30, 2015. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2014.

<u>Year Ending June 30,</u> 2015	\$51,870
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Total rental expenditures for the year ended June 30, 2014 for all operating leases, except those with terms of a month or less that were not renewed, were \$130,433.

Note 5. Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual covered salary and the Agency is required to contribute 8.93% of annual covered salary. Contribution requirements are established by state statute. The Agency's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 was \$3,527,327, \$3,296,387 and \$3,069,652 respectively, equal to the required contributions for each year.

Note 6. Other Postemployment Benefits (OPEB)

Plan Description – The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for retirees and their spouses. There are 559 active and 89 retired members in the plan. Participants must be age 55 years of age or older at retirement and have attained a minimum of 15 years of service.

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

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

Annual OPEB Cost and Net OPEB Obligation – The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding, which if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Heartland Area Education Agency 11

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note 6. Other Postemployment Benefits (OPEB) (continued)

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution, ARC	\$ 687,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>687,000</u>
Contributions made	<u>1,034,356</u>
Increase in net OPEB obligation	(347,356)
Net OPEB obligation (asset) beginning of year	<u>(104,000)</u>
Net OPEB obligation end of year	<u>\$ (451,356)</u>

For calculation of the net OPEB obligation, the actuary set the transition day as July 1, 2008. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the Agency contributed \$1,034,356 to the medical plan. Plan members eligible for benefits contributed \$232,595, or 33% of the premium costs.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

Funding Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation data for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$7,451,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,451,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$38,309,806 and the ratio of the UAAL to covered payroll was 19%. As of June 30, 2014, there were no trust fund assets.

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

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

Heartland Area Education Agency 11

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note 6. Other Postemployment Benefits (OPEB) (continued)

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.

Actuarial Methods and Assumptions (continued) – Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2012 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2012.

Projected claim costs of the medical plan are \$642 per month for retirees of age 60. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 7. Risk Management

As of July 1, 2013, the Agency has a self-funded health and dental insurance plan. The Agency purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125 percent of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$35,000 in insured claims for any one covered individual. Settled claims have not exceeded the aggregate stop-loss coverage in the current year or commercial insurance in the previous three years.

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 incurred but unpaid claims. Changes in the claims liability amounts for the years ended June 30, 2014 was as follows:

	<u>Self-Insurance Fund</u>	
	<u>2014</u>	<u>2013</u>
Claims payable, beginning of year	\$ -	\$ -
Incurred claims (including IBNR and changes in estimates)	5,406,607	-
Claim payments	4,891,607	-
Claims payable, end of year	<u>\$ 515,000</u>	<u>\$ -</u>

Heartland Area Education Agency 11 is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. New Governmental Accounting Standards Board (GASB) Statements

The Agency adopted the following statements during the year ended June 30, 2014:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources.

Heartland Area Education Agency 11

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note 8. New Governmental Accounting Standards Board (GASB) Statements (continued)

GASB Statement No. 66, *Technical Corrections – 2012*. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement revises existing guidance for the financial reports of most pension plans. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The implementation of the above statements did not have a material impact to the Agency's financial statements. As of June 30, 2014, GASB had issued several statements not yet required to be implemented by the Agency. The Statements which might impact the Agency are as follows:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the Agency beginning with its year ending June 30, 2015. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, are effective for the Agency beginning with its year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*, issued November 2013, will be effective upon the implementation of GASB Statement No. 68. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The Agency's management has not yet determined the effect these GASB Statements will have on the Agency's financial statements. However, GASB Statement No. 68 is expected to include a liability for the Agency's proportionate share of the employee pension plan.

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**Heartland Area Education Agency
Required Supplementary Information
Budgetary Comparison Schedule-All Governmental Funds
For the Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final		Final budget- Positive (Negative)
REVENUES				
Local Sources	\$ 24,502,332	\$ 25,041,417	\$ 25,145,991	\$ 104,574
State Sources	33,685,155	30,955,180	30,830,729	(124,451)
Federal Sources	29,913,274	29,092,579	27,719,516	(1,373,063)
Total Revenues	<u>\$ 88,100,761</u>	<u>\$ 85,089,176</u>	<u>\$ 83,696,236</u>	<u>\$ (1,392,940)</u>
EXPENDITURES				
Current:				
Instruction	\$ 3,550,050	\$ 3,513,187	\$ 3,355,342	\$ 157,845
Student Support Services	35,542,175	33,249,995	32,719,004	530,991
Instructional Staff Support Services	24,987,348	25,214,850	23,988,315	1,226,535
General Administration	3,335,562	3,687,028	3,557,134	129,894
Regional Administration	4,612,304	4,183,867	4,156,030	27,837
Business Administration	1,738,725	1,575,298	1,592,811	(17,513)
Central and Other Support Services	4,694,121	4,367,515	4,418,309	(50,794)
Printing and Delivery	884,804	903,348	938,652	(35,304)
Plant Operations and Maintenance	1,450,055	1,708,691	1,424,904	283,787
Student Transportation	3,660	4,616	744	3,872
Management Services	122,333	132,089	131,923	166
Community Services Operations	229,533	229,180	169,784	59,396
LEA Part B Flowthrough	6,950,091	6,380,761	6,380,761	-
Facilities Acquisition	-	2,200,000	2,022,255	177,745
Debt Service	-	-	-	-
Total Expenditures	<u>\$ 88,100,761</u>	<u>\$ 87,350,425</u>	<u>\$ 84,855,968</u>	<u>\$ 2,494,457</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (2,261,249)	\$ (1,159,732)	\$ 1,101,517
OTHER FINANCING SOURCES (USES)				
Other	-	(1,728)	18,215	19,943
Transfers In	-	2,200,000	2,022,255	(177,745)
Transfers Out	-	(2,200,000)	(2,022,255)	177,745
Sales of Equipment	-	-	14,590	14,590
Excess (Deficiency) of Revenues Over Expenditures and Other Financing (Uses)	<u>\$ -</u>	<u>\$ (2,262,977)</u>	<u>\$ (1,126,927)</u>	<u>\$ 1,136,050</u>

See Note to Required Supplementary Information.

Heartland Area Education Agency 11

Note to Required Supplementary Information Budgetary Reporting Year Ended June 30, 2014

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles for all funds except the internal service fund. Although the budget document presents function expenditures by fund, the legal level of control is at the total expenditure 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.

The budget was amended once during the year to decrease revenues \$3,011,585 and decrease expenditures \$750,336 to adjust for capital projects and to update funding sources and expenditures by function.

**Heartland Area Education Agency
Required Supplementary Information
Schedule of Funding Progress for the Retiree Health Plan
For the Year Ended June 30, 2014**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	July 1, 2008	-	\$ 7,517,000	\$ 7,517,000	0%	\$ 37,788,581	19.89%
2010	July 1, 2008	-	\$ 7,517,000	\$ 7,517,000	0%	\$ 37,788,581	19.89%
2011	July 1, 2010	-	\$ 6,860,000	\$ 6,860,000	0%	\$ 38,100,525	18.01%
2012	July 1, 2010	-	\$ 6,860,000	\$ 6,860,000	0%	\$ 38,100,525	18.01%
2013	July 1, 2012	-	\$ 7,451,000	\$ 7,451,000	0%	\$ 38,309,806	19.45%
2014	July 1, 2012	-	\$ 7,451,000	\$ 7,451,000	0%	\$ 38,309,806	19.45%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

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Heartland Area Education Agency 11
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue		Capital Projects	Total
	Correctional Facilities	Shelter Care		
ASSETS				
Cash and Cash Equivalents	\$ -	\$ 178,941	\$ 286,592	\$ 465,533
Due from Other Governments	10,792	90,313	-	101,105
Prepaid Items	-	1,329	-	1,329
Total Assets	\$ 10,792	\$ 270,583	\$ 286,592	\$ 567,967
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable and Other Current Liabilities	\$ -	\$ 270,583	\$ 286,592	\$ 557,175
Excess of Warrants Issued over Bank Balance	10,792	-	-	10,792
Advances from Grantors	-	-	-	-
Total Liabilities	\$ 10,792	\$ 270,583	\$ 286,592	\$ 567,967
FUND BALANCES				
Non-Spendable				
Prepaid Items	-	1,329	-	1,329
Restricted				
Materials Resource	-	-	-	-
State Teacher Categorical	-	-	-	-
Assigned				
Encumbrances	-	-	-	-
Committed				
Unemployment	-	-	-	-
Johnston HVAC replacement	-	-	-	-
Facility Construction	-	-	-	-
Unassigned/uncommitted	-	(1,329)	-	(1,329)
Total Fund Balances	\$ -	\$ -	\$ -	\$ -
Total Liabilities and Fund Balances	\$ 10,792	\$ 270,583	\$ 286,592	\$ 567,967

Heartland Area Education Agency 11
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances-Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	Special Revenue		Capital Projects	Total
	Correctional Facilities	Shelter Care		
Revenues				
Local Sources	\$ 10,792	\$ -	\$ -	\$ 10,792
State Sources	-	1,414,395	-	1,414,395
Federal Sources	-	90,313	-	90,313
Total Revenues	<u>\$ 10,792</u>	<u>\$ 1,504,708</u>	<u>\$ -</u>	<u>\$ 1,515,500</u>
Expenditures				
Instruction	\$ 10,792	\$ 1,274,619	\$ -	\$ 1,285,411
Student Support Services	-	-	-	-
Instructional Staff Support Services	-	71,522	-	71,522
General Administration	-	133,249	-	133,249
Regional Administration	-	-	-	-
Business Administration	-	-	-	-
Central and Other Support Services	-	2,745	-	2,745
Printing & Delivery	-	-	-	-
Plant Operations and Maintenance	-	22,300	-	22,300
Student Transportation	-	273	-	273
Management Services	-	-	-	-
Community Services Operations	-	-	-	-
LEA Part B Flowthrough	-	-	-	-
Facilities Acquisition	-	-	2,022,255	2,022,255
Debt Service	-	-	-	-
Total Expenditures	<u>\$ 10,792</u>	<u>\$ 1,504,708</u>	<u>\$ 2,022,255</u>	<u>\$ 3,537,755</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (2,022,255)	\$ (2,022,255)
Other Financing Sources (uses)				
Prior year expenditures and revenue	-	-	-	-
Sale of Equipment	-	-	-	-
Proceeds from Lease Purchase	-	-	-	-
Transfers In	-	-	2,022,255	2,022,255
Transfers Out	-	-	-	-
Total Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,022,255</u>	<u>\$ 2,022,255</u>
Net Change in Fund Balances	\$ -	\$ -	-	\$ -
Fund Balances--Beginning	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances--Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Heartland Area Education Agency 11
Schedule of Revenues by Source and Expenditures by Function -
All Governmental Fund Types
For the Last Four Years

	Modified Accrual Basis			
	For the years Ending June 30,			
	2014	2013	2012	2011
REVENUES				
Local sources	\$25,145,991	\$24,751,850	\$23,002,216	\$21,953,833
State	30,830,729	28,562,433	27,581,671	31,817,948
Federal	27,719,516	27,006,838	27,914,650	28,993,941
Total Revenues	\$83,696,236	\$80,321,121	\$78,498,537	\$82,765,722
EXPENDITURES				
Instruction	\$ 3,355,342	\$ 3,185,974	\$ 3,218,103	\$ 4,649,204
Student support services	32,719,004	31,696,083	29,710,400	28,673,320
Instructional staff support services	23,988,315	22,282,575	22,021,136	23,191,381
General administration	3,557,134	3,258,346	3,774,107	4,500,149
Regional administration	4,156,030	4,261,680	4,591,301	3,396,634
Business administration	1,592,811	1,500,034	1,264,830	1,114,775
Central & other support services	4,418,309	4,516,177	3,855,140	4,303,754
Printing and delivery services	938,652	705,596	1,411,097	1,150,726
Plant operations and maintenance	1,424,904	1,397,194	1,187,712	1,412,664
Student transportation	744	1,027	2,477	3,255
Management services	131,923	119,688	195,410	-
Community services	169,784	161,834	191,774	209,149
LEA Part B Flowthrough	6,380,761	6,948,573	6,711,880	6,814,588
Facilities acquisition	2,022,255	-	62,699	1,364,503
Debt service	-	-	1,638,108	192,778
Total Expenditures	\$84,855,968	\$80,034,781	\$79,836,174	\$80,976,880

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Heartland Area Education Agency 11

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Number	Federal Expenditures
U.S. Department of Education:			
Indirect:			
Iowa Department of Education:			
Special Education Cluster:			
Special Education Grants to States, I.D.E.A. Part B	84.027	FY14 4521	26,163,277
Special Education-Preschool Grants	84.173	FY14 4522	<u>424,342</u>
Special Education Cluster			<u>26,587,619</u>
Special Education-Grants for Infants & Families	84.181	FY14 4523	659,137
Safe & Drug-Free Schools and Communities National Programs	84.184	FY14 4647	78,352
English Language Acquisition State Grants	84.365	FY14 4644	240,921
Local Education Agencies:			
Title IIA Improving Teacher Quality State Grants	84.367	FY14 4643	46,268
Ames Community School District:			
Title 1 Grants to Local Education Agencies	84.010	FY14 4714	9,941
Des Moines Independent Public Schools:			
Title 1 Grants to Local Education Agencies	84.010	FY14 4714	83,235
Total U.S. Department of Education Programs			<u>27,705,473</u>
Total Expenditures of Federal Awards			<u><u>\$ 27,705,473</u></u>

See Notes to the Schedule of Expenditures of Federal Awards.

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Heartland Area Education Agency 11

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (schedule) includes the federal grant activity of the Agency under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Because the schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net position or cash flows of the entity.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue from federal awards is recognized when the Agency has done everything necessary to establish its right to the revenue. Pass-through entity identifying numbers are presented where available.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, the Agency provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount
Special Education, I.D.E.A Part B:		
LEA Part B Flow Through	84.027	\$ 6,380,761
LETRS	84.027	1,825
Parent Educator Model	84.027	20,772
Special Education - Preschool Grants	84.173	170,572
English Language Acquisition State Grants	84.365	31,250
Special Education-Grants for Infants & Families	84.181	186,156

Heartland Area Education Agency 11

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014**

	Findings	Status	Corrective Action Plan or Other Explanation
No Prior Audit Findings			

**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
Heartland Area Education Agency 11
Johnston, Iowa

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 Heartland Area Education Agency 11, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Heartland Area Education Agency 11's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Heartland Area Education Agency 11's internal control. Accordingly, we do not express an opinion on the effectiveness of Heartland Area Education Agency 11'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 weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heartland Area Education Agency 11'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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 Heartland Area Education Agency 11'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 Heartland Area Education Agency 11's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bohnsack & Frommelt LLP

Taylor Ridge, Illinois
November 3, 2014

**Independent Auditor's Report on Compliance For
Each Major Federal Program and On Internal Control
Over Compliance in Accordance with OMB Circular A-133**

To the Board of Directors
Heartland Area Education Agency 11
Johnston, Iowa

Report on Compliance for Each Major Federal Program

We have audited Heartland Area Education Agency 11'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 Heartland Area Education Agency 11's major federal programs for the year ended June 30, 2014. Heartland Area Education Agency 11'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 Heartland Area Education Agency 11'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 Heartland Area Education Agency 11'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 Heartland Area Education Agency 11's compliance.

Opinion on Each Major Federal Program

In our opinion, Heartland Area Education Agency 11 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, 2014.

Report on Internal Control Over Compliance

Management of Heartland Area Education Agency 11 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 Heartland Area Education Agency 11'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 Heartland Area Education Agency 11'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 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 Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bohnsack & Frommelt LLP

Taylor Ridge, Illinois
November 3, 2014

Heartland Area Education Agency 11

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Part I: Summary of the Independent Auditor's Results

- a) Unmodified opinions were issued on the financial statements.
- b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any noncompliance which is material to the financial statements.
- d) There were no significant deficiencies in internal control over major programs.
- e) Unmodified opinions were issued on compliance with requirements applicable to each major program.
- f) There were no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) Major programs were as follows:

CFDA Number	Name of Federal Program or Cluster
Special Education Cluster:	
84.027	Special Education Grants to States, I.D.E.A. Part B
84.173	Special Education-Preschool Grants

- h) The dollar threshold used to distinguish between Type A and Type B programs was \$831,164.
- i) Heartland Area Education Agency 11 qualified as a low-risk auditee.

(Continued)

Heartland Area Education Agency 11

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

II. Findings Relating to the Basic Financial Statements

A. Internal Control

No matters reported.

B. Instances of Noncompliance

No matters reported.

III. Findings and Questioned Costs for Federal Awards

A. Internal Control for Federal Awards

No matters reported.

B. Instances of Noncompliance

No matters reported

IV. Other Findings Related to the Required Statutory Reporting

IV-A-14

Certified Budget – Expenditures for the year ended June 30, 2014, did not exceed the amounts budgeted at year-end.

IV-B-14

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

IV-C-14

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

IV-D-14

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

IV-E-14

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 insure that the coverage is adequate for current operations.

IV-F-14

Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-14

Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Agency's investment policy were noted.

IV-H-14

Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-I-14

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