**GRANT WOOD AREA EDUCATION AGENCY 10**

**CEDAR RAPIDS, IOWA**

**INDEPENDENT AUDITOR'S REPORTS**

**BASIC FINANCIAL STATEMENTS**
**AND SUPPLEMENTARY INFORMATION**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2015**

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## Officials

| Name | Title | Term Expires |
|---|---|---|
| | **Board of Directors** | |
| James C. Green | President | September 30, 2015 |
| Dr. Lynne Cannon | Vice President | September 30, 2015 |
| Sue Gates | Member | September 30, 2017 |
| Randy Bauer | Member | September 30, 2017 |
| Marlene L. Hill | Member | September 30, 2015 |
| Pamela Jacobs | Member | September 30, 2017 |
| Mary Meisterling | Member | September 30, 2015 |
| Robert Schneider | Member | September 30, 2015 |
| Marilyn Wirtz | Member | September 30, 2017 |
| | **Agency** | |
| Joe Crozier | Chief Administrator | Indefinite |
| Kim Martin | Board Secretary | Indefinite |
| Barbara Harms | Board Treasurer/Business Manager | Indefinite |

## Independent Auditor's Report

Board of Directors
Grant Wood Area Education Agency 10
Cedar Rapids, 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 Grant Wood Area Education Agency 10 as of and for the year ended June 30, 2015, 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 Agency'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 Agency'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.

**Opinion**

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 Grant Wood Area Education Agency 10 as of June 30, 2015, and the respective changes in financial position, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 13 to the financial statements, Grant Wood Area Education Agency 10 adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27.* Our opinions are not modified with respect to this matter.

**Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the schedule of proportionate share of the net pension liability, the schedule of contributions and the schedule of funding progress for the retiree health plan on pages 5 through 11 and 34 through 40 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 which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grant Wood Area Education Agency 10's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the four years ended June 30, 2014 (which are not presented herein) and expressed an unmodified opinion on those financial statements. The financial statements for the five years ended June 30, 2010 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the third paragraph of this report who expressed unmodified opinions on those financial statements. The supplementary information on pages 41 through 45, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 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 25, 2015 on our consideration of Grant Wood Area Education Agency 10's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grant Wood Area Education Agency 10's internal control over financial reporting and compliance.

Hogan - Hansen

HOGAN - HANSEN

Mason City, Iowa
November 25, 2015

## GRANT WOOD AREA EDUCATION AGENCY 10
## MANAGEMENT'S DISCUSSION AND ANALYSIS

Grant Wood Area Education Agency 10 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, 2015. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

### 2015 FINANCIAL HIGHLIGHTS

- General Fund revenue increased from $49,737,726 in fiscal year 2014 (FY14) to $52,769,509 in fiscal year 2015 (FY15), an increase of $3,031,783. General Fund expenditures increased from $50,665,065 in FY14 to $52,558,997 in FY15, an increase of $1,893,932 General Fund net decrease in fund balance increased from ($876,400) in FY14 to ($351,170) in FY15. This resulted in a decrease in the Agency's General Fund fund balance from $12,770,902 in FY14 to $12,419,732 in FY15.

- The increase in General Fund expenditures was primarily due to an increase in instructional staff support services expenditures of approximately $1.7 million which included upgrades in the science kit curriculum, increased staffing for literacy support and expansion of the mentoring consortium. Student support services expenditures also increased due to salary and benefit increases and additional staff. The additional expenditures were offset by increases in both state formula and categorical funding revenue of approximately $880,000 as well as increases in local property tax and sale of service revenue of approximately $1.1 million. Federal revenue increased approximately $950,000, which included increases in both the IDEA Part B and i3 mentoring programs funding.

### 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 Grant Wood Area Education Agency 10 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, the Agency's share of the net pension liability and related contributions, as well as presenting the schedule of funding progress for the retiree health plan.

- Supplementary Information provides detailed information about the nonmajor funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the Agency.

## Reporting the Agency’s Financial Activities

### *Government-Wide Financial Statements*

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Agency’s assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency’s net position and how it has changed. Net position is one way to measure the Agency’s financial health or financial position. Over time, increases or decreases in the Agency’s net position is an indicator of whether financial position is improving or deteriorating. To assess the Agency’s overall health, additional nonfinancial factors, such as changes in the Agency’s property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency’s activities are reported in the following category:

- *Governmental activities:* The Agency’s basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.

### *Fund Financial Statements*

The fund financial statements provide detailed information about the Agency’s funds, focusing on its most significant or “major” funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenue, such as federal grants.

The Agency has two kinds of funds:

1. Governmental funds account for the Agency’s basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency’s programs. The Agency’s governmental funds include: (a) the General Fund, (b) the Special Revenue Funds and (3) the Capital Projects Fund.

   The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

2. Fiduciary funds are funds through which the Agency administers and accounts for certain federal and/or state grants as a fiscal agent.

   The Agency is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

   The required financial statement for fiduciary funds is a statement of fiduciary assets and liabilities.

Reconciliations between the Government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Grant Wood Area Education Agency 10's net position as of the end of FY15 was a deficit of approximately ($2.7) million compared to approximately $18.1 million (not restated) as of the end of FY14. The analysis that follows focuses on the net position and changes in net position.

| | Condensed Statement of Net Position Governmental Activities June 30, | |
|---|---|---|
| | 2015 | 2014 (Not Restated) |
| **Assets** | | |
| Current and other assets | $ 18,127,746 | $ 17,328,607 |
| Capital assets | 6,276,657 | 5,907,829 |
| **Total Assets** | **24,404,403** | **23,236,436** |
| **Deferred Outflows of Resources** | **4,126,127** | **—** |
| **Total Assets and Deferred Outflows of Resources** | **$ 28,530,530** | **$ 23,236,436** |
| **Liabilities** | | |
| Long-term obligations | $ 18,773,032 | $ 767,440 |
| Other liabilities | 5,594,654 | 4,392,983 |
| **Total Liabilities** | **24,367,686** | **5,160,423** |
| **Deferred Inflows of Resources** | **6,826,982** | **—** |
| **Net Position** | | |
| Net investment in capital assets | 6,276,657 | 5,907,829 |
| Restricted | 412,571 | 457,451 |
| Unrestricted | (9,353,366) | 11,710,733 |
| **Total Net Position** | **(2,664,138)** | **18,076,013** |
| **Total Liabilities, Deferred Inflows of Resources and Net Position** | **$ 28,530,530** | **$ 23,236,436** |

The Agency's total net position decreased 114.7%, or $20,740,151 from FY14. The decrease in total net position and unrestricted net position was primarily due to the implementation of GASB No. 68 and the restatement of the beginning balance for net pension liability of $21,870,708, offset by a current change in net position of $1,130,557.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27, was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by $21,870,708 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

The following analysis details the changes in net position resulting from the Agency's activities.

| | **Changes in Net Position** | |
|---|---|---|
| | **Governmental Activities** | |
| | **June 30,** | |
| | **2015** | **2014** |
| **Revenue** | | **(Not Restated)** |
| Program Revenue | | |
| Charges for service | $ 8,167,570 | $ 7,655,644 |
| Operating grants and contributions | 20,550,559 | 19,437,928 |
| General Revenue (Expense) | | |
| Property tax | 12,381,078 | 11,894,880 |
| State foundation aid | 13,865,062 | 13,046,087 |
| Unrestricted investment earnings | 20,060 | 19,304 |
| Loss on disposal of capital assets | (12,350) | (906) |
| **Total Revenue** | **54,971,979** | **52,052,937** |
| **Program Expenses** | | |
| Regular instruction | 2,604,351 | 3,205,892 |
| Student support services | 21,784,864 | 21,592,004 |
| Instructional staff support services | 18,361,836 | 17,272,910 |
| General administration | 1,970,319 | 1,994,715 |
| Building administration | 2,505,157 | 2,497,155 |
| Business and central administration | 3,631,808 | 3,767,819 |
| Purchasing, distributing, printing, publishing and duplicating | 1,071,276 | 1,114,349 |
| Plant operations and maintenance | 1,054,440 | 1,060,346 |
| Central and other support services | 6,923 | 4,921 |
| Noninstructional programs | 668,257 | 702,621 |
| Depreciation/amortization (unallocated) | 182,191 | 154,548 |
| **Total Expenses** | **53,841,422** | **53,367,280** |
| **Change in Net Position** | **1,130,557** | **(1,314,343)** |
| Net Position - Beginning of Year, as restated | (3,794,695) | 19,390,356 |
| **Net Position - End of Year** | **$ (2,664,138)** | **$ 18,076,013** |

Property tax and state foundation aid account for 47.7% of the total revenue while operating grants and contributions from local, state and federal sources account for 37.4% of the total revenue. The Agency's expenses primarily relate to student and instructional staff support services, which account for 72.8% of total expenses.

The increase in total revenue is due to an increase of over $1.3 million in state foundation aid and property tax revenue under the state funding formula, as well as increases in federal funding for the IDEA Part B program and the i3 mentoring program of over $1.1 million. Revenue related to local charges for service in programs such as the mentoring consortium, VAST science kit fees and the teacher leadership training cohorts accounted for an additional increase of over $500,000. The increase in total expenses of approximately $474,000 is primarily in instructional staff support services, which included expansion of mentoring consortium services as well as additional staff to support Agency literacy goals and upgrades to our science kit curriculum.

## INDIVIDUAL FUND ANALYSIS

As previously noted, Grant Wood Area Education Agency 10 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of $12,533,092, which is a decrease from last year's ending fund balances of $12,935,624.

The decrease was due to current expenditures levels exceeding revenue, which was an intentional plan by the Agency to reduce fund balance levels and maximize the service provided to local school districts.

### General Fund Highlights

The Agency's decreasing General Fund financial position is the product of many factors, including growth during the year in the number of students served and the expansion of services provided to local school districts. The increase in revenue was more than offset by the Agency's increase in General Fund expenditures, requiring the Agency to use carryover fund balance to meet its financial obligations during the year.

The General Fund balance decreased from $12,770,902 to $12,419,732 due, in part, to the additional services provided and the Agency's long-term fiscal plan.

The Special Revenue, Off-Site Programs Fund revenue and expenditures remained consistent when compared to the prior year. The ending fund balance decreased $28,822 from the prior year to $6,535.

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## BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its budget once to reflect increases in local sale of services and federal grant revenue and to adjust expenditures based on categorical program increases, increased staffing levels focused on goal areas and building renovation costs.

The Agency's total revenue was $209,738 more than total budgeted revenue, a variance of 0.4%. Total expenditures were $388,869 less than budgeted, a variance of 0.7%.

A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the Required Supplementary Information section of this report.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of June 30, 2015, the Agency had invested $6,276,657, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, computers, equipment, intangibles and an extensive library/media collection. This is a net increase of $368,828 from last year. The increase was primarily due to the remodeling of one of the Agency's locations and increased spending for new technology and vehicle replacements.

Grant Wood Area Education Agency 10 reported depreciation/amortization expense of $1,146,822 in FY15 and total accumulated depreciation/amortization of $11,889,710 as of June 30, 2015. More detailed information about capital assets is presented in Note 5 to the financial statements.

### Long-Term Liabilities

The Agency had no long-term debt outstanding as of June 30, 2015 or 2014.

As of June 30, 2015, the Agency had $18,773,032 of long-term liabilities outstanding compared to $25,275,722 (restated) as of June 30, 2014. The long-term liabilities are in the form of compensated absences, net pension liability and the OPEB liability. More detailed information about the Agency's long-term liabilities is available in Note 6 to the financial statements.

## ECONOMIC FACTORS BEARING ON THE AGENCY'S FUTURE

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

- Due to the impact of the national economy, state and federal funding levels continue to be an area of concern. Growth in state aid to schools and AEAs has been at historic lows. The Agency received allowable growth of 0% for FY12, 2% for FY13, 2% for FY14, 4% for FY15 and 1.25% for FY16. The legislature did not set the funding level for FY17 in the 2016 session, so that is a critical unknown heading into budget planning. The statewide AEA system also received a targeted $15 million reduction for FY14, FY15 and FY16, which equates to a funding cut of $1,943,069 for the Agency. Federal funding reductions are also possible pending action on deficit reduction. The Agency plans to utilize available fund balance and staff attrition to offset the impact of state and federal funding cuts.

- Future enrollment stability is a critical element in maintaining a sound financial foundation. The Agency has been fortunate to have overall increasing enrollment in our service area, unlike many other AEAs in Iowa. Enrollment counts for 2011 through 2015 reflect modest increases (0.11%, 0.67%, 1.4%, 0.61% and 0.87%, respectively).

- In past years, growth in employee wages related to salary schedule movement and increased benefit costs have outpaced the increase in state-controlled funding. This relationship has profound effects on the General Fund budget as approximately 70% of all expenditures are related to staff salaries and benefits.

- For three consecutive years (FY09-FY11), the Agency had no increases in health insurance premiums. Medical claims expenses have been trending upward though, and despite adjustments in plan design, premiums increased by 2.4% for FY13, 3.5% for FY14, 7.4% for FY15 and 1.5% for FY16. Preliminary rates for FY17 are not yet known, but are anticipated to increase between 9% and 14%. The federal Affordable Care Act will continue to have a significant impact on overall health insurance costs and compliance requirements.

- The Agency has been reviewing facility needs for several years and has approved a Lease Agreement with Kirkwood Community College to be a partner in the Kirkwood Regional Center at the University of Iowa in Johnson County. As of June 30, 2015, the Agency committed $2,500,000 of General Fund balance for the estimated cost of our portion of the building and an additional $199,899 for furnishings and equipment. Construction has been completed and we received occupancy in August, 2015. The actual lump-sum lease payment of $2,000,500 was made in November, 2015 and the cost of furnishings to date is $209,920. This project and other building maintenance issues require careful planning and forecasting since AEAs have no funding sources outside of the General Fund for capital expenditures.

**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 Business Office of Grant Wood Area Education Agency 10, 4401 - 6th Street, SW, Cedar Rapids, Iowa 52404.

## Basic Financial Statements

## Statement of Net Position

As of June 30, 2015

| | |
|---|---|
| **Assets and Deferred Outflows of Resources** | |
| **Assets** | |
| Cash | $ 12,609,724 |
| Accounts receivable | 166,351 |
| Due from other governments | 5,273,676 |
| Inventories | 52,111 |
| Prepaid expenses | 25,884 |
| Capital assets, net of accumulated depreciation/amortization | 6,276,657 |
| **Total Assets** | **24,404,403** |
| **Deferred Outflows of Resources** | |
| Pension-related deferred outflows | **4,126,127** |
| **Total Assets and Deferred Outflows of Resources** | **$ 28,530,530** |
| **Liabilities, Deferred Inflows of Resources and Net Position** | |
| **Liabilities** | |
| Accounts payable | $ 1,464,353 |
| Salaries and benefits payable | 3,830,325 |
| Accrued liabilities | 280,618 |
| Unearned revenue | 19,358 |
| Long-Term Liabilities | |
| Portion Due Within One Year | |
| Compensated absences | 82,881 |
| Portion Due After One Year | |
| Net pension liability | 17,901,148 |
| Net OPEB liability | 789,003 |
| **Total Liabilities** | **24,367,686** |
| **Deferred Inflows of Resources** | |
| Pension-related deferred inflows | **6,826,982** |
| **Net Position** | |
| Net investment in capital assets | 6,276,657 |
| Restricted for | |
| Categorical funding | 299,211 |
| Off-site programs | 6,535 |
| Special education transportation | 106,825 |
| Unrestricted | (9,353,366) |
| **Total Net Position** | **(2,664,138)** |
| **Total Liabilities, Deferred Inflows of Resources and Net Position** | **$ 28,530,530** |

See accompanying notes to the financial statements.

## Statement of Activities

Year Ended June 30, 2015

| Functions/Programs | Expenses | Program Revenue: Charges for Service | Program Revenue: Operating Grants and Contributions | Net Revenue (Expense) and Changes in Net Position: Governmental Activities |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Regular instruction | $ 2,604,351 | $ 1,803,001 | $ 2,407,103 | $ 1,605,753 |
| Student support services | 21,784,864 | 75,926 | 14,913,903 | (6,795,035) |
| Instructional staff support services | 18,361,836 | 3,590,715 | 2,634,292 | (12,136,829) |
| General administration | 1,970,319 | 38,423 | — | (1,931,896) |
| Building administration | 2,505,157 | — | — | (2,505,157) |
| Business and central administration | 3,631,808 | 1,999,307 | 435,872 | (1,196,629) |
| Purchasing, distributing, printing, publishing and duplicating | 1,071,276 | 536,328 | — | (534,948) |
| Plant operations and maintenance | 1,054,440 | 8,145 | — | (1,046,295) |
| Central and other support services | 6,923 | 2,361 | — | (4,562) |
| Noninstructional programs | 668,257 | 113,364 | 159,389 | (395,504) |
| Depreciation/amortization (unallocated)* | 182,191 | — | — | (182,191) |
| **Total Governmental Activities** | **$ 53,841,422** | **$ 8,167,570** | **$ 20,550,559** | **(25,123,293)** |
| **General Revenue (Expense)** | | | | |
| Property tax levied for general purposes | | | | 12,381,078 |
| State foundation aid | | | | 13,865,062 |
| Unrestricted investment earnings | | | | 20,060 |
| Loss on disposal of capital assets | | | | (12,350) |
| **Total General Revenue (Expense)** | | | | **26,253,850** |
| **Change in Net Position** | | | | **1,130,557** |
| Net Position - Beginning of Year, as restated (Note 13) | | | | (3,794,695) |
| **Net Position - End of Year** | | | | **$ (2,664,138)** |

* This amount excludes depreciation/amortization included in the direct expenses of the various programs.

# Balance Sheet - Governmental Funds

As of June 30, 2015

| | General | Special Revenue<br>Off-Site Programs | Nonmajor | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ 12,470,704 | $ — | $ 139,020 | $ 12,609,724 |
| Accounts receivable | 120,273 | — | 46,078 | 166,351 |
| Due from other governments | 4,389,551 | 884,125 | — | 5,273,676 |
| Due from other funds | 764,485 | — | 25,480 | 789,965 |
| Inventories | 52,111 | — | — | 52,111 |
| Prepaid expenditures | 25,884 | — | — | 25,884 |
| **Total Assets** | **$ 17,823,008** | **$ 884,125** | **$ 210,578** | **$ 18,917,711** |
| **Liabilities and Fund Balances** | | | | |
| **Liabilities** | | | | |
| Accounts payable | $ 1,418,724 | $ 19,238 | $ 26,391 | $ 1,464,353 |
| Salaries and benefits payable | 3,659,096 | 93,867 | 77,362 | 3,830,325 |
| Accrued liabilities | 280,618 | — | — | 280,618 |
| Unearned revenue | 19,358 | — | — | 19,358 |
| Due to other funds | 25,480 | 764,485 | — | 789,965 |
| **Total Liabilities** | **5,403,276** | **877,590** | **103,753** | **6,384,619** |
| **Fund Balances** | | | | |
| Nonspendable | | | | |
| Inventories | 52,111 | — | — | 52,111 |
| Prepaid expenditures | 25,884 | — | — | 25,884 |
| Restricted for | | | | |
| Categorical funding | 299,211 | — | — | 299,211 |
| Off-site programs | — | 6,535 | — | 6,535 |
| Special education transportation | — | — | 106,825 | 106,825 |
| Committed for | | | | |
| New facility | 2,500,000 | — | — | 2,500,000 |
| Equipment replacement | 986,325 | — | — | 986,325 |
| Assigned to | | | | |
| Professional leave | 240,710 | — | — | 240,710 |
| Local projects | 451,934 | — | — | 451,934 |
| Other | 298,331 | — | — | 298,331 |
| Unassigned | 7,565,226 | — | — | 7,565,226 |
| **Total Fund Balances** | **12,419,732** | **6,535** | **106,825** | **12,533,092** |
| **Total Liabilities and Fund Balances** | **$ 17,823,008** | **$ 884,125** | **$ 210,578** | **$ 18,917,711** |

# Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position

As of June 30, 2015

| | | |
|---|---|---|
| **Total Fund Balances for Governmental Funds (Page 14)**.... | | **$ 12,533,092** |
| ***Amounts reported for governmental activities in the statement of net position are different because:*** | | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is $18,166,367 and the accumulated depreciation/amortization is $11,889,710 ........ | | 6,276,657 |
| Pension-related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows: | | |
| Deferred outflows of resources ........ | $ 4,126,127 | |
| Deferred inflows of resources ........ | (6,826,982) | (2,700,855) |
| Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the governmental funds | | |
| Compensated absences ........ | $ (82,881) | |
| Net pension liability ........ | (17,901,148) | |
| Net OPEB liability ........ | (789,003) | (18,773,032) |
| **Net Position of Governmental Activities (Page 12)** ........ | | **$ (2,664,138)** |

## Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2015

| | General | Special Revenue Off-Site Programs | Nonmajor | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| Local sources | $ 19,020,666 | $ 1,481,539 | $ 451 | $ 20,502,656 |
| State sources | 17,540,462 | 108,853 | 623,977 | 18,273,292 |
| Federal sources | 16,208,381 | — | — | 16,208,381 |
| **Total Revenue** | **52,769,509** | **1,590,392** | **624,428** | **54,984,329** |
| **Expenditures** | | | | |
| Current | | | | |
| Instruction | 645,421 | 1,448,489 | 567,968 | 2,661,878 |
| Student support services | 22,279,615 | — | — | 22,279,615 |
| Instructional staff support services | 18,852,524 | 80 | — | 18,852,604 |
| General administration | 1,946,906 | 2,168 | — | 1,949,074 |
| Building administration | 2,461,916 | 64,835 | 56,460 | 2,583,211 |
| Business and central administration | 3,614,121 | — | — | 3,614,121 |
| Purchasing, distributing, printing, publishing and duplicating | 1,081,557 | — | — | 1,081,557 |
| Plant operations and maintenance | 982,105 | 103,642 | 22,540 | 1,108,287 |
| Central and other support services | 6,923 | — | — | 6,923 |
| Noninstructional programs | 687,909 | — | — | 687,909 |
| Facilities acquisition and construction | — | — | 561,682 | 561,682 |
| **Total Expenditures** | **52,558,997** | **1,619,214** | **1,208,650** | **55,386,861** |
| **Revenue Over (Under) Expenditures** | **210,512** | **(28,822)** | **(584,222)** | **(402,532)** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | — | — | 561,682 | 561,682 |
| Transfers out | (561,682) | — | — | (561,682) |
| **Total Other Financing Sources (Uses)** | **(561,682)** | **—** | **561,682** | **—** |
| **Change in Fund Balances** | **(351,170)** | **(28,822)** | **(22,540)** | **(402,532)** |
| Fund Balances - Beginning of Year | 12,770,902 | 35,357 | 129,365 | 12,935,624 |
| **Fund Balances - End of Year** | **$ 12,419,732** | **$ 6,535** | **$ 106,825** | **$ 12,533,092** |

# Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities

Year Ended June 30, 2015

| | | |
|---|---|---|
| **Change in Fund Balances - Total Governmental Funds (Page 16)** | | **$ (402,532)** |
| ***Amounts reported for governmental activities in the statement of activities are different because:*** | | |
| Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are not reported in the statement of activities and are allocated over their estimated useful lives as depreciation/amortization expense in the statement of activities. The amounts of capital outlays and depreciation/ amortization expense for the year are as follows: | | |
| Expenditures for capital outlays | $ 1,528,000 | |
| Depreciation/amortization expense | (1,146,822) | 381,178 |
| The net book value of capital assets disposed of during the year | | (12,350) |
| Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows: | | |
| Compensated absences | $ 3,345 | |
| Pension expense | (1,440,802) | |
| Net OPEB liability | (107,789) | (1,545,246) |
| The current year Agency employer share of IPERS contributions is reported as expenditures in the governmental funds, but is reported as a deferred outflow of resources in the statement of net position. | | 2,709,507 |
| **Change in Net Position of Governmental Activities (Page 15)** | | **$ 1,130,557** |

## Statement of Fiduciary Assets and Liabilities - Fiduciary Fund - Agency Fund

As of June 30, 2015

| | |
|---|---|
| **Assets** | |
| Cash | $ 581,360 |
| Accounts receivable | 1,001,512 |
| **Total Assets** | **$ 1,582,872** |
| **Liabilities** | |
| Accounts payable | $ 586,175 |
| Due to other governments | 127,993 |
| Deposits held in custody of others | 868,704 |
| **Total Liabilities** | **$ 1,582,872** |

See accompanying notes to the financial statements.

## (1) Summary of Significant Accounting Policies and Other Matters

### Organization and Function

Grant Wood Area Education Agency 10 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 56 school districts and private schools in a seven-county area. The Agency is governed by a Board of Directors whose members are elected on a nonpartisan basis.

The Agency’s financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

### Reporting Entity

For financial reporting purposes, Grant Wood Area Education Agency 10 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

### Basis of Presentation

#### *Government-Wide Financial Statements*

The statement of net position and the statement of activities report information on all activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by intergovernmental revenue.

The statement of net position presents the Agency's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

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

*Restricted net position* results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position that does not meet the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

## (1) Summary of Significant Accounting Policies and Other Matters

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 and contributions restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenue are reported as general revenue.

***Fund Financial Statements***

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

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenue and other revenue 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 Special Revenue - Off-Site Programs Fund is used to account for special education instruction classes held off-site. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

The Agency also reports the following fiduciary fund:

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

**Measurement Focus and Basis of Accounting**

The Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenue to be available if it is collected within 60 days after year end.

Intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

## (1) Summary of Significant Accounting Policies and Other Matters

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

### Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

***Cash***
Cash includes amounts in demand deposits and money market funds.

***Due From Other Governments***
Due from other governments represents amounts due from the State of Iowa, various shared revenue, grants and reimbursements from other governments.

***Inventories***
Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

***Prepaid Expenses/Expenditures***
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures in both the government-wide and fund financial statements on the consumption method.

***Capital Assets***
Capital assets, which include property, furniture and equipment and intangibles, are reported in the Government-wide statement of net position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|---|---|
| Land | $ 1,000 |
| Buildings | 1,000 |
| Improvements other than buildings | 1,000 |
| Furniture and equipment | 400 or 1,000 |
| Library books and other media materials | Cost |
| Intangibles | 200,000 |

## (1) Summary of Significant Accounting Policies and Other Matters

All capital assets of the Agency except library books and other media materials are depreciated/amortized using the straight-line method of depreciation/amortization and library books and other media materials are depreciated using the composite method over the following estimated useful lives:

| **Asset Class** | **Estimated Useful Lives** |
|---|---|
| Buildings | 50 Years |
| Improvements other than buildings | 20 Years |
| Furniture and equipment | 5 Years |
| Library books and other media materials | 10 Years |
| Intangibles | 15 Years |

***Deferred Outflows of Resources***

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

***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.

***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 noncurrent compensated absences. This liability has been computed based on rates of pay in effect as of June 30, 2015. The compensated absences liability attributable to the governmental activities will be paid primarily 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 statement of net position.

***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## (1) Summary of Significant Accounting Policies and Other Matters

***Deferred Inflows of Resources***
Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the statement of net position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

***Fund Balances***
In the governmental fund financial statements, fund balances are classified as follows:

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

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

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

**Assigned** - Amounts the Board of Directors intends to use for specific purposes.

**Unassigned** - All amounts not included in the preceding classifications.

**Budgets and Budgetary Accounting**
The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2015, expenditures did not exceed the amount budgeted.

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

## (2) Cash and Investments

The Agency's deposits in banks as of June 30, 2015 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 that there will be no loss of public funds.

**(2) Cash and Investments**

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 had no investments as of June 30, 2015.

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

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables as of June 30, 2015 is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Capital Projects | General | $ 25,480 |
| General | Special Revenue - Off-Site Programs | 764,485 |
| | | $ 789,965 |

The General Fund is repaying the Capital Projects Fund for construction expenses that were not reimbursed prior to the end of the current year.

The Special Revenue - Off-site Programs Fund is repaying the General Fund for special education billings not received prior to the end of current year. The balances are expected to be paid by September 30, 2015.

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

| Transfer to | Transfer From | Amount |
|---|---|---|
| Capital Projects | General | $ 561,682 |

Transfers generally move revenue from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfer in the current year pertained to building renovations and layout design services for the new leased facility.

### (5) Capital Assets

Capital assets activity for the year ended June 30, 2015 is as follows:

| | Balance - Beginning of Year | Increases | Decreases | Balance - End of Year |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital Assets Not Being Depreciated/Amortized | | | | |
| Land | $ 383,058 | $ — | $ — | $ 383,058 |
| Capital Assets Being Depreciated/Amortized | | | | |
| Buildings | 5,944,794 | — | — | 5,944,794 |
| Improvements other than buildings | 614,299 | 577,602 | — | 1,191,901 |
| Furniture and equipment | 6,387,869 | 752,202 | 180,959 | 6,959,112 |
| Library books and other media materials | 2,829,039 | 198,196 | 413,130 | 2,614,105 |
| Intangibles | 1,073,397 | — | — | 1,073,397 |
| Total Capital Assets Being Depreciated/Amortized | 16,849,398 | 1,528,000 | 594,089 | 17,783,309 |
| Less Accumulated Depreciation/Amortization For | | | | |
| Buildings | 3,550,928 | 118,896 | — | 3,669,824 |
| Improvements other than buildings | 355,237 | 59,595 | — | 414,832 |
| Furniture and equipment | 4,658,981 | 635,360 | 168,609 | 5,125,732 |
| Library books and other medial materials | 2,544,345 | 261,411 | 413,130 | 2,392,626 |
| Intangibles | 215,136 | 71,560 | — | 286,696 |
| Total Accumulated Depreciation/Amortization | 11,324,627 | 1,146,822 | 581,739 | 11,889,710 |
| Total Capital Assets Being Depreciated/Amortized, Net | 5,524,771 | 381,178 | 12,350 | 5,893,599 |
| **Governmental Activities Capital Assets, Net** | **$ 5,907,829** | **$ 381,178** | **$ 12,350** | **$ 6,276,657** |

Depreciation/amortization expense was charged to the following functions:

| | |
|---|---|
| Governmental Activities | |
| Regular instruction | $ 2,925 |
| Student support services | 33,880 |
| Instructional staff support services | 636,830 |
| General administration | 58,606 |
| Business and central administration | 183,337 |
| Purchasing, distributing, printing, publishing and duplicating | 3,969 |
| Plant operations and maintenance | 45,084 |
| Unallocated | 182,191 |
| **Total Depreciation/Amortization Expense - Governmental Activities** | **$ 1,146,822** |

## (6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

| | Balance - Beginning of Year (Restated) | Additions | Reductions | Balance - End of Year | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| Compensated absences | $ 86,226 | $ 82,881 | $ 86,226 | $ 82,881 | $ 82,881 |
| Net pension liability..... | 24,508,282 | — | 6,607,134 | 17,901,148 | — |
| Net OPEB liability ....... | 681,214 | 194,977 | 87,188 | 789,003 | — |
| | **$ 25,275,722** | **$ 277,858** | **$ 6,780,548** | **$ 18,773,032** | **$ 82,881** |

**Separation Plan Benefits Payable**

The Agency may provide a Separation Plan for Agency staff, and that decision is made each year by the Board as part of a fiscal management plan. There was no Separation Plan provided for the year ended June 30, 2015. For employees who separated prior to July 1, 2009, the Agency will continue to provide health and life insurance benefits until they reach the age of 65. Actual expenditures for health and life insurance benefits for the year ended June 30, 2015 totaled $2,547, and the amount of remaining benefits payable is immaterial.

## (7) Operating Leases

The Agency leases office equipment and various facilities within the area to house the different programs of the Agency. These leases have been classified as operating leases and, accordingly, all rents are recorded as expenditures as incurred. The leases expire between March, 2016 and March, 2019. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties and equipment. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by years of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2015.

| **Year Ending June 30,** | |
|---|---|
| 2016 | $ 132,978 |
| 2017 | 27,093 |
| 2018 | 27,093 |
| 2019 | 18,868 |
| **Total** | **$ 206,032** |

Total rental expenditures for the year ended June 30, 2015 for all operating leases, except those with terms of a month or less that were not renewed, were $302,112.

## (8) Pension and Retirement Benefits

### Plan Description

IPERS membership is mandatory for employees of the Agency, except for those covered by another retirement system. Employees of the Agency are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at *www.ipers.org*.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

### Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member’s first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member’s monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member’s highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member’s earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July, 1990 receive a guaranteed dividend with their regular November benefit payments.

### Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

### (8) Pension and Retirement Benefits

**Contributions**

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to one percentage point. IPERS' Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, regular members contributed 5.95% of pay and the Agency contributed 8.93% for a total rate of 14.88%.

The Agency's contributions to IPERS for the year ended June 30, 2015 were $2,709,507.

**Net Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

As of June 30, 2015, the Agency reported a liability of $17,901,148 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. As of June 30, 2014, the Agency's proportion was 0.442322% which was an increase of 0.009467% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Agency recognized pension expense of $1,440,802. As of June 30, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 194,551 | $ — |
| Changes of assumptions | 790,018 | — |
| Net difference between projected and actual earnings on pension plan investments | — | 6,826,982 |
| Changes in proportion and differences between Agency contributions and proportionate share of contributions | 432,051 | — |
| Agency contributions subsequent to the measurement date | 2,709,507 | — |
| **Total** | **$ 4,126,127** | **$ 6,826,982** |

**(8) Pension and Retirement Benefits**

$2,709,507 reported as deferred outflows of resources related to pensions resulting from the Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| **Year Ending June 30,** | |
|---|---|
| 2016 | $ (1,375,760) |
| 2017 | (1,375,760) |
| 2018 | (1,375,760) |
| 2019 | (1,375,760) |
| 2020 | 92,678 |
| **Total** | **$ (5,410,362)** |

**Actuarial Assumptions**

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Rate of inflation (effective June 30, 2014) | 3% |
| Salary increases (effective June 30, 2014) | 4%, average, including inflation |
| Investment rate of return (effective June 30, 1996) | 7.5% per annum, compounded annually, net of pension plan investment expense, including inflation |

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| **Asset Class** | **Asset Allocation** | **Long-Term Expected Real Rate of Return** |
|---|---|---|
| US Equity | 23% | 6.31% |
| Non-US Equity | 15 | 6.76 |
| Private Equity | 13 | 11.34 |
| Real Estate | 8 | 3.52 |
| Core Plus Fixed Income | 28 | 2.06 |
| Credit Opportunities | 5 | 3.67 |
| TIPS | 5 | 1.92 |
| Other Real Assets | 2 | 6.27 |
| Cash | 1 | (0.69) |
| **Total** | **100%** | |

## (8) Pension and Retirement Benefits

### Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate.

| | 1% Decrease (6.5%) | Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Agency's proportionate share of the net pension liability | $ 33,823,716 | $ 17,901,148 | $ 4,460,851 |

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at *www.ipers.org*.

### Payables to the Pension Plan

As of June 30, 2015, the Agency reported payables to the defined benefit pension plan of $287,891 for legally required employer contributions and there were no material amounts payable for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

## (9) Other Postemployment Benefits (OPEB)

### Plan Description

The Agency participates in an agent multiple employer defined benefit health care plan called the Metro Interagency Insurance Program (MIIP). This plan provides medical and prescription drug benefits for employees, retirees and their spouses. There are 404 active and 58 retired members in the plan. Retired participant s must be age 55 or older at retirement.

The medical and prescription benefits are provided through a self-insured 28E organization plan with MIIP. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit subsidy of an OPEB liability. The plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by contacting MIIP, 4401 - 6th Street, SW, Cedar Rapids, Iowa 52404.

## (9) Other Postemployment Benefits (OPEB)

### Funding Policy

The contribution requirements of plan members and the Agency are established and may be amended by the MIIP Board of Trustees. MIIP members receiving benefits contribute a monthly amount that varies depending on the health plan selected and coverage of the employee at the time of requirement. The Agency currently finances the retiree benefits on a pay-as-you go basis.

### Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

| | |
|---|---|
| Annual required contribution | $ 256,059 |
| Interest on net OPEB obligation | 17,030 |
| Adjustment to annual required contribution | (78,112) |
| Annual OPEB Cost | 194,977 |
| Contributions made | (87,188) |
| Increase in Net OPEB Obligation | 107,789 |
| Net OPEB Obligation - Beginning of Year | 681,214 |
| Net OPEB Obligation - End of Year | $ 789,003 |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

For the year ended June 30, 2015, the Agency contributed $87,188 to the medical plan. Plan members eligible for benefits contributed $106,134, or 54.9%, 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 are summarized as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| June 30, 2013 | $ 263,824 | 49.6% | $ 532,333 |
| June 30, 2014 | 241,016 | 35.4 | 681,214 |
| June 30, 2015 | 194,977 | 44.7 | 789,003 |

## (9) Other Postemployment Benefits (OPEB)

### Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date for the period of July 1, 2014 through June 30, 2015, the actuarial accrued liability was $1,284,375 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $1,284,375. The covered payroll (annual payroll of active employees covered by the plan) was approximately $30,600,000, and the ratio of the UAAL to the covered payroll was 4.2%. As of June 30, 2015, there were no trust fund assets.

### Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress for the retiree health plan, presented as required supplementary information in the section following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2014 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions included a 2.5% discount rate based on the Agency’s funding policy. The projected annual medical trend rate is 6%. An inflation rate of 0% is assumed for the purpose of this calculation.

Mortality rates are from the 94 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 Valuation Report as of June 30, 2009 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are $234 per month for active employees. Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a 2/3 female to 1/3 male basis. Annual retirement probabilities were developed from the 2006 Society of Actuaries Study. The UAAL is being amortized as a level dollar cost over service of the group on a closed basis over 30 years.

## (10) Risk Management

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

### (11) Commitments and Contingencies

**Employee Benefits**
Employees accumulate sick pay based upon years of service. Unused sick days may be carried forward until needed by the employee, up to a maximum amount established for each employee group. Upon termination, retirement or death, unused days are forfeited; therefore, no accrual is required.

### (12) Subsequent Events

Management has evaluated subsequent events through November 25, 2015, the date which the financial statements were available to be issued.

To meet Agency facility needs, the Iowa Department of Education has approved the Agency entering into a long-term lease with Kirkwood Community College as a tenant in a building they are constructing. The Agency's Board of Directors had committed $2,500,000 toward the expected cost of the building project and $199,899 toward equipment and furniture as of June 30, 2015. The construction began in October, 2013, and occupancy occurred in August, 2015. The lump-sum lease payment of $2,000,500 to Kirkwood Community College was made in November, 2015.

### (13) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*, was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and for changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for governmental activities was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

| | Governmental Activities |
|---|---|
| Net position - June 30, 2014, as previously reported | $ 18,076,013 |
| Net pension liability as of June 30, 2014 | (24,508,282) |
| Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date | 2,637,574 |
| **Net Position - July 1, 2014, as Restated** | **$ (3,794,695)** |

# Required Supplementary Information

## Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds

Year Ended June 30, 2015

| | Actual Governmental Funds | Budgeted Amounts Original | Budgeted Amounts Final | Over (Under) Budget |
|---|---|---|---|---|
| **Revenue** | | | | |
| Local sources | $ 20,502,656 | $ 18,776,465 | $ 20,003,612 | $ 499,044 |
| State sources | 18,273,292 | 20,066,544 | 18,290,909 | (17,617) |
| Federal sources | 16,208,381 | 15,441,000 | 16,480,070 | (271,689) |
| **Total Revenue** | **54,984,329** | **54,284,009** | **54,774,591** | **209,738** |
| **Expenditures** | | | | |
| Current | | | | |
| Instruction | 2,661,878 | 3,366,659 | 4,367,315 | (1,705,437) |
| Student support services | 22,279,615 | 22,057,814 | 21,176,522 | 1,103,093 |
| Instructional staff support services | 18,852,604 | 17,261,161 | 18,706,931 | 145,673 |
| General administration | 1,949,074 | 1,894,019 | 1,976,196 | (27,122) |
| Building administration | 2,583,211 | 2,517,359 | 2,506,787 | 76,424 |
| Business and central administration | 3,614,121 | 3,755,096 | 3,636,250 | (22,129) |
| Purchasing, distributing, printing, publishing and duplicating | 1,081,557 | 869,493 | 1,089,430 | (7,873) |
| Plant operations and maintenance | 1,108,287 | 993,266 | 1,101,419 | 6,868 |
| Central and other support services | 6,923 | 5,000 | 7,000 | (77) |
| Noninstructional programs | 687,909 | 728,513 | 660,577 | 27,332 |
| Facilities acquisition and construction | 561,682 | — | 547,303 | 14,379 |
| **Total Expenditures** | **55,386,861** | **53,448,380** | **55,775,730** | **(388,869)** |
| **Revenue Over (Under) Expenditures** | **(402,532)** | **835,629** | **(1,001,139)** | **598,607** |
| Balance - Beginning of Year | 12,935,624 | 13,079,057 | 12,935,624 | — |
| **Balance - End of Year** | **$ 12,533,092** | **$ 13,914,686** | **$ 11,934,485** | **$ 598,607** |

## Notes to Required Supplementary Information - Budgetary Reporting

Year Ended June 30, 2015

This budgetary comparison is presented as required supplementary information in accordance with *Governmental Accounting Standards Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America for all funds except Agency Funds. Although the budget document presents function expenditures 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.

For the year ended June 30, 2015, the Agency's expenditures did not exceed the approved budget.

## Schedule of Proportionate Share of the Net Pension Liability
## Iowa Public Employees' Retirement System

Last Fiscal Year*

| | 2015 |
|---|---|
| Agency's proportion of the net pension liability | 0.442327% |
| Agency's proportionate share of the net pension liability | $17,901,148 |
| Agency's covered-employee payroll | $29,536,000 |
| Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 60.61% |
| Plan fiduciary net position as a percentage of the total pension liability | 87.61% |

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the Agency will present information for those years for which information is available.

## Schedule of Contributions
## Iowa Public Employees' Retirement System

Last Ten Fiscal Years

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Statutorily required contribution | $ 2,709,507 | $ 2,637,574 | $ 2,427,217 | $ 2,127,521 | $ 1,990,569 | $ 1,906,023 | $ 1,753,848 | $ 1,573,362 | $ 1,375,203 | $ 1,344,916 |
| Contributions in relation to the statutorily required contributions | (2,709,507) | (2,637,574) | (2,427,217) | (2,127,521) | (1,990,569) | (1,906,023) | (1,753,848) | (1,573,362) | (1,375,203) | (1,344,916) |
| Contribution Deficiency (Excess) | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Agency's covered-employee payroll | $ 30,342,000 | $ 29,536,000 | $ 27,996,000 | $ 26,421,000 | $ 28,641,000 | $ 28,662,000 | $ 27,620,000 | $ 26,006,000 | $ 23,917,000 | $ 23,390,000 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.67% | 8.06% | 6.95% | 6.65% | 6.35% | 6.05% | 5.75% | 5.75% |

**Changes of Benefit Terms**

Legislation passed in 2010 modified benefit terms for current regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

**Changes of Assumptions**

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

## Schedule of Funding Progress for the Retiree Health Plan

Year Ended June 30, 2015

| 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 | 7-1-08 | $ — | $ 2,139,000 | $ 2,139,000 | 0.0% | $ 26,737,000 | 8.0% |
| 2010 | 7-1-08 | — | 2,139,000 | 2,139,000 | 0.0 | 28,024,000 | 7.6 |
| 2011 | 7-1-10 | — | 1,642,382 | 1,642,382 | 0.0 | 28,904,000 | 5.7 |
| 2012 | 7-1-10 | — | 1,642,382 | 1,642,382 | 0.0 | 26,700,000 | 6.2 |
| 2013 | 7-1-12 | — | 1,549,038 | 1,549,038 | 0.0 | 28,200,000 | 5.5 |
| 2014 | 7-1-12 | — | 1,549,038 | 1,549,038 | 0.0 | 29,600,000 | 5.2 |
| 2015 | 7-1-14 | — | 1,284,375 | 1,284,375 | 0.0 | 30,600,000 | 4.2 |

See Note 9 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

## Supplementary Information

## Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2015

| | Special Revenue | | | |
|---|---|---|---|---|
| | Juvenile Home | Special Education Transportation | Capital Projects | Total |
| **Assets** | | | | |
| Cash | $ 32,195 | $ 106,825 | $ — | $ 139,020 |
| Accounts receivable | 46,078 | — | — | 46,078 |
| Due from other funds | — | — | 25,480 | 25,480 |
| **Total Assets** | **$ 78,273** | **$ 106,825** | **$ 25,480** | **$ 210,578** |
| **Liabilities and Fund Balances** | | | | |
| **Liabilities** | | | | |
| Accounts payable | $ 911 | $ — | $ 25,480 | $ 26,391 |
| Salaries and benefits payable | 77,362 | — | — | 77,362 |
| **Total Liabilities** | **78,273** | **—** | **25,480** | **103,753** |
| **Fund Balances** | | | | |
| Restricted for | | | | |
| Special education transportation | **—** | **106,825** | **—** | **106,825** |
| **Total Liabilities and Fund Balances** | **$ 78,273** | **$ 106,825** | **$ 25,480** | **$ 210,578** |

## Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2015

| | Special Revenue | | | |
|---|---|---|---|---|
| | Juvenile Home | Special Education Transportation | Capital Projects | Total |
| **Revenue** | | | | |
| Local sources | $ 451 | $ — | $ — | $ 451 |
| State sources | 623,977 | — | — | 623,977 |
| **Total Revenue** | **624,428** | **—** | **—** | **624,428** |
| **Expenditures** | | | | |
| Current | | | | |
| Instruction | 567,968 | — | — | 567,968 |
| Building administration | 56,460 | — | — | 56,460 |
| Plant operations and maintenance | — | 22,540 | — | 22,540 |
| Facilities acquisition and construction | — | — | 561,682 | 561,682 |
| **Total Expenditures** | **624,428** | **22,540** | **561,682** | **1,208,650** |
| **Revenue Under Expenditures** | **—** | **(22,540)** | **(561,682)** | **(584,222)** |
| **Other Financing Sources** | | | | |
| Transfer in | **—** | **—** | **561,682** | **561,682** |
| **Change in Fund Balances** | **—** | **(22,540)** | **—** | **(22,540)** |
| Fund Balances - Beginning of Year | — | 129,365 | — | 129,365 |
| **Fund Balances - End of Year** | **$ —** | **$ 106,825** | **$ —** | **$ 106,825** |

## Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund

Year Ended June 30, 2015

| | Balance - Beginning of Year | Additions | Deductions | Balance - End of Year |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ 231,059 | $ 581,360 | $ 231,059 | $ 581,360 |
| Accounts receivable | 182,666 | 1,001,512 | 182,666 | 1,001,512 |
| Due from other governments | 1,843 | — | 1,843 | — |
| **Total Assets** | **$ 415,568** | **$ 1,582,872** | **$ 415,568** | **$ 1,582,872** |
| **Liabilities** | | | | |
| Accounts payable | $ 46,773 | $ 586,175 | $ 46,773 | $ 586,175 |
| Due to other governments | 123,791 | 127,993 | 123,791 | 127,993 |
| Deposits held in custody of others | 245,004 | 868,704 | 245,004 | 868,704 |
| **Total Liabilities** | **$ 415,568** | **$ 1,582,872** | **$ 415,568** | **$ 1,582,872** |

See accompanying notes to the financial statements.

## Schedule of Revenue by Source and Expenditures by Function - All Governmental Fund Types (Modified Accrual Basis)

For the Last Ten Years

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | |
| Local sources | $ 20,502,656 | $ 19,577,281 | $ 18,214,955 | $ 18,076,352 | $ 17,938,412 | $ 17,206,139 | $ 17,030,516 | $ 16,038,177 | $ 15,041,418 | $ 13,983,285 |
| State sources | 18,273,292 | 17,216,621 | 15,895,236 | 14,867,307 | 17,188,524 | 15,277,092 | 16,486,116 | 14,749,636 | 12,264,922 | 11,178,373 |
| Federal sources | 16,208,381 | 15,261,041 | 15,824,051 | 16,537,030 | 20,805,815 | 28,598,201 | 19,520,136 | 15,202,341 | 14,987,496 | 15,511,872 |
| **Total Revenue** | **$ 54,984,329** | **$ 52,054,943** | **$ 49,934,242** | **$ 49,480,689** | **$ 55,932,751** | **$ 61,081,432** | **$ 53,036,768** | **$ 45,990,154** | **$ 42,293,836** | **$ 40,673,530** |
| **Expenditures** | | | | | | | | | | |
| Current | | | | | | | | | | |
| Instruction | $ 2,661,878 | $ 3,194,221 | $ 3,200,893 | $ 3,601,708 | $ 3,306,263 | $ 3,410,085 | $ 4,478,567 | $ 3,431,606 | $ 3,218,572 | $ 2,861,860 |
| Student support services | 22,279,615 | 21,483,108 | 21,597,493 | 20,048,381 | 22,374,649 | 29,381,578 | 22,105,572 | 19,216,300 | 17,612,480 | 16,334,283 |
| Instructional staff support services | 18,852,604 | 17,191,844 | 14,415,436 | 14,293,448 | 14,053,374 | 13,828,831 | 12,258,544 | 12,361,673 | 11,276,485 | 12,251,021 |
| General administration | 1,949,074 | 1,890,305 | 1,756,694 | 1,596,547 | 1,822,184 | 2,097,285 | 1,987,993 | 1,444,593 | 1,781,740 | 1,282,735 |
| Building administration | 2,583,211 | 2,485,994 | 2,474,672 | 2,210,580 | 2,123,953 | 2,331,166 | 2,288,356 | 1,990,916 | 1,937,768 | 1,612,866 |
| Business and central administration | 3,614,121 | 3,826,426 | 3,822,443 | 3,980,072 | 3,687,540 | 3,178,880 | 3,152,350 | 4,402,141 | 3,887,997 | 3,866,531 |
| Purchasing, distributing, printing, publishing and duplicating | 1,081,557 | 1,120,654 | 847,367 | 775,251 | 869,658 | 897,708 | 900,666 | — | — | — |
| Plant operations and maintenance | 1,108,287 | 1,112,688 | 1,260,503 | 743,786 | 685,943 | 1,115,925 | 1,426,833 | 1,712,287 | 757,681 | 661,940 |
| Central and other support services | 6,923 | 4,921 | 5,839 | 4,847 | 3,433 | 9,030 | 7,279 | 9,432 | 10,979 | 190,256 |
| Noninstructional programs | 687,909 | 699,628 | 689,660 | 715,537 | 787,483 | 909,035 | 1,041,533 | 1,412,006 | — | — |
| Facilities acquisition and construction | 561,682 | 120 | — | 1,379,796 | 677,291 | 164,998 | 1,633,129 | — | 1,151,924 | 1,065,020 |
| Debt service | — | — | — | 886,907 | 279,990 | 206,065 | 258,865 | 271,023 | 279,755 | 290,239 |
| **Total Expenditures** | **$ 55,386,861** | **$ 53,009,909** | **$ 50,071,000** | **$ 50,236,860** | **$ 50,671,761** | **$ 57,530,586** | **$ 51,539,687** | **$ 46,251,977** | **$ 41,915,381** | **$ 40,416,751** |

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

| Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Grant Number | Expenditures |
|---|---|---|---|
| **U.S. Department of Education - Indirect** | | | |
| Pass-Through From Iowa Department of Education | | | |
| Special Education Cluster (IDEA) | | | |
| Special Education - Grants to States | | | |
| IDEA Part B Section 611 | 84.027 | N/A | $ 10,484,982 |
| Information Management Systems | 84.027 | N/A | 424,872 |
| Parent Educator Connection | 84.027 | N/A | 159,389 |
| IDEA - Flowthrough to LEA | 84.027 | N/A | 3,281,486 |
| Total Special Education - Grants to States | | | 14,350,729 |
| Special Education - Preschool Grants Section 619 | 84.173 | 14619-10 | 402,190 |
| Total Special Education Cluster (IDEA) | | | 14,752,919 |
| Special Education - Grants for Infants and Families Part C - Infant and Toddler | 84.181 | C1415-10 | 373,548 |
| English Language Acquisition State Grants | 84.365 | 15ELA-05 | 199,007 |
| Total Pass-Through From Iowa Department of Education | | | 15,325,474 |
| Pass-Through From New Teacher Center | | | |
| Investing in Innovation (i3) Fund Mentoring | 84.411 | 79500 | 857,299* |
| Pass-Through From University of Northern Iowa | | | |
| Investing in Innovation (i3) Fund Reading Recovery | 84.411 | N/A | 12,875* |
| **Total Federal Financial Assistance** | | | **$ 16,195,648** |

* Total Investing in Innovation (i3) Fund $870,174.

**Basis of Presentation**

The schedule of expenditures of federal awards includes the federal grant activity of Grant Wood Area Education Agency 10 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Subrecipients**

Grant Wood Area Education Agency 10 provided $3,281,486 of federal awards to local educational agencies as part of the Special Education - Grants to States program.

# 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

Board of Directors
Grant Wood Area Education Agency 10
Cedar Rapids, 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 Grant Wood Area Education Agency 10 as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated November 25, 2015.

**Internal Control Over Financial Reporting**
In planning and performing our audit, we considered Grant Wood Area Education Agency 10's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grant Wood Area Education Agency 10's internal control. Accordingly, we do not express an opinion on the effectiveness of Grant Wood Area Education Agency 10'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 that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

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 Grant Wood Area Education Agency 10's financial statements are free of 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*. However, we noted an immaterial instance of noncompliance which is described in Part IV of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about Grant Wood Area Education Agency 10's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Grant Wood Area Education Agency 10. 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.

**Grant Wood Area Education Agency 10’s Response to the Finding**
Grant Wood Area Education Agency 10’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Grant Wood Area Education Agency 10’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 Agency’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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hogan - Hansen

HOGAN - HANSEN

Mason City, Iowa
November 25, 2015

# Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Board of Directors
Grant Wood Area Education Agency 10
Cedar Rapids, Iowa

**Report on Compliance for Each Major Federal Program**
We have audited Grant Wood Area Education Agency 10's compliance, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. Grant Wood Area Education Agency 10's major federal programs are identified in Part I 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 Grant Wood Area Education Agency 10'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 Grant Wood Area Education Agency 10'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 on Grant Wood Area Education Agency 10's compliance.

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**Opinion on Each Major Federal Program**
In our opinion, Grant Wood Area Education Agency 10 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, 2015.

**Report on Internal Control Over Compliance**
The management of Grant Wood Area Education Agency 10 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 Grant Wood Area Education Agency 10'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 our 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 Grant Wood Area Education Agency 10's internal control over compliance.

A deficiency in the Agency's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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 we considered 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.

Hogan - Hansen

HOGAN - HANSEN

Mason City, Iowa
November 25, 2015

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

***Financial Statements***

| | | |
|---|---|---|
| Type of auditor's report issued: | Unmodified | |
| Internal control over financial reporting: | | |
| Material weakness identified? | __ yes | X no |
| Significant deficiency identified not considered to be material weakness? | __ yes | X none reported |
| Noncompliance material to financial statements noted? | __ yes | X no |

***Federal Awards***

| | | |
|---|---|---|
| Internal control over major programs: | | |
| Material weakness identified? | __ yes | X no |
| Significant deficiency identified not considered to be material weakness? | __ yes | X none reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified | |
| Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? | __ yes | X no |

Identification of major programs:

| CFDA Numbers or Cluster | Name of Federal Program |
|---|---|
| Special Education Cluster (IDEA) | |
| 84.027 | Special Education - Grants to States |
| 84.173 | Special Education - Preschool Grants |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $485,869 | |
| Auditee qualified as low-risk auditee? | X yes | __ no |

# Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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

**Instances of Noncompliance**
There were no reported instances of noncompliance.

**Internal Control Deficiencies**
There were no internal control deficiencies reported.

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

**Instances of Noncompliance**
There were no reported instances of noncompliance.

**Internal Control Deficiencies**
There were no internal control deficiencies reported.

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

**15-IV-A** **Certified Budget** - Expenditures during the year ended June 30, 2015 did not exceed the amount budgeted.

**15-IV-B** **Questionable Expenditures** - We noted no expenditures which did not appear to meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979.

**15-IV-C** **Travel Expenses** - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

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

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

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

**15-IV-G** **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.

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

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

**15-IV-J** **Financial Condition** - The Agency's governmental activities has a deficit net position of $2,664,138 as of June 30, 2015.

**Auditor's Recommendation** - The Agency should investigate alternatives to eliminate this deficit to return this fund to a sound financial position.

**Agency's Response** - The deficit was the result of recognizing the Agency's proportionate share of IPERS' net pension liability. The Agency realizes this liability is not due and payable immediately. Rather the pension liability will be paid down over a period of time with the Agency's future employer share of IPERS contributions.

**Auditor's Conclusion** - Response accepted.