

**AREA EDUCATION AGENCY 267
CEDAR FALLS, 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 | | |
| Charlotte Upah | President | September 30, 2015 |
| Roberta Kraft-Abrahamson | Vice President | September 30, 2017 |
| David Giese | Member | September 30, 2015 |
| Darshini Jayawardena | Member | September 30, 2015 |
| Dr. George North | Member | September 30, 2015 |
| Dr. Debra Rich | Member | September 30, 2017 |
| Bernice Richard | Member | September 30, 2015 |
| Richard Vande Kieft | Member | September 30, 2017 |
| Bryan Burton | Member | September 30, 2017 |
| Agency | | |
| Roark Horn | Chief Administrator (resigned June 30, 2015) | |
| David Nicholson | Chief Financial Officer and Treasurer | |
| Kerri Wilson | Board Secretary | |

Independent Auditor's Report

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Area Education Agency 267 as of and for the year ended June 30, 2015, and the related notes to the financial statements, and the discretely presented component units as of and for the year ended December 31, 2014 and June 30, 2015, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Area Education Agency 267 as of June 30, 2015 and the discretely presented component units as of December 31, 2014 and June 30, 2015, and the respective changes in financial position and cash flows, where applicable, 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 14 to the financial statements, Area Education Agency 267 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 4 through 9 and 37 through 43 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 Area Education Agency 267'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 nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 44 through 52, 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 December 21, 2015 on our consideration of Area Education Agency 267's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 21, 2015

**AREA EDUCATION AGENCY 267
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Area Education Agency 267 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 \$45,553,406 in fiscal year 2014 to \$47,401,302 in fiscal year 2015. General Fund expenditures and other financing uses increased from \$45,562,244 in fiscal year 2014 to \$45,919,148 in fiscal year 2015. The increase in General Fund revenue of \$1,847,896 was mostly attributed to the 4% supplemental state aid that provided additional funding in the amount of \$1,024,648 and additional federal dollars in the amount of \$359,714, the majority of which was used to support Part B expenses.

The General Fund balance increased from \$5,464,159 as of the end of fiscal year 2014 to \$6,413,529 as of the end of fiscal year 2015. The fund balance consists of a nonspendable fund balance of \$270,962, a restricted fund balance of \$1,469,973, a committed fund balance of \$143,000, an assigned balance of \$547,261 and an unassigned balance of \$3,982,333. The unassigned fund balance as of the end of the year 2015 represents approximately 9% of the 2015 fiscal year expenditures and other financing uses.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-Wide Financial Statements consist of a statement of net position and a statement of activities. These provide information about the activities of Area Education Agency 267 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 as a Whole

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, 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 – the difference between the Agency's assets and liabilities – is one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net position are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.
- *Business-type activities:* The Agency charges fees to help cover the costs of certain services it provides. The Agency's nutrition and technology and repair services programs are included here.

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 three kinds of funds:

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

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

- Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the Government-wide statements. The Agency's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provides more detail and additional information, such as cash flows. The Agency currently has two Enterprise Funds – the Nutrition Fund and Technology and Repair Services Fund.

The required financial statements for the proprietary funds include a statement of net position, a statement of revenue, expenses and changes in net position and a statement of cash flows.

- Fiduciary funds are funds through which the Agency administers and accounts for certain federal and/or state grants on behalf of Cedar Valley's Promise and certain revenue collected for Agency employee purchases of pop and related expenditures. 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 statements for fiduciary funds include a statement of fiduciary assets and liabilities.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Area Education Agency 267's net position as of the end of fiscal year 2015 was a \$13.8 million deficit. This compared to a positive balance of approximately \$12.5 million as of the end of fiscal year 2014. The analysis that follows provides a summary of the Agency's net position as of June 30, 2015 for the governmental and business-type activities:

| | Condensed Statement of Net Position | | | | | |
|--|-------------------------------------|-----------------------------|--------------------------|---------------------------|-----------------------------|-----------------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | June 30, | | June 30, | | June 30, | |
| | 2015 | 2014 (Not Restated) | 2015 | 2014 (Not Restated) | 2015 | 2014 (Not Restated) |
| Current and other assets..... | \$ 14,095,427 | \$ 12,127,287 | \$ 464,352 | \$ 489,572 | \$ 14,559,779 | \$ 12,616,859 |
| Capital assets | <u>7,920,166</u> | <u>8,181,841</u> | <u>18,561</u> | <u>19,036</u> | <u>7,938,727</u> | <u>8,200,877</u> |
| Total Assets | <u>22,015,593</u> | <u>20,309,128</u> | <u>482,913</u> | <u>508,608</u> | <u>22,498,506</u> | <u>20,817,736</u> |
| Deferred Outflows of Resources | <u>1,144,144</u> | <u>—</u> | <u>6,212</u> | <u>—</u> | <u>1,150,356</u> | <u>—</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 23,159,737</u> | <u>\$ 20,309,128</u> | <u>\$ 489,125</u> | <u>\$ 508,608</u> | <u>\$ 23,648,862</u> | <u>\$ 20,817,736</u> |
| Long-term obligations | \$ 21,925,540 | \$ 1,255,810 | \$ 109,031 | \$ — | \$ 22,034,571 | \$ 1,255,810 |
| Other liabilities | <u>7,671,884</u> | <u>6,922,721</u> | <u>45,374</u> | <u>38,790</u> | <u>7,717,258</u> | <u>6,961,511</u> |
| Total Liabilities | <u>29,597,424</u> | <u>8,178,531</u> | <u>154,405</u> | <u>38,790</u> | <u>29,751,829</u> | <u>8,217,321</u> |
| Deferred Inflows of Resources... | <u>7,661,454</u> | <u>50,424</u> | <u>41,581</u> | <u>—</u> | <u>7,703,035</u> | <u>50,424</u> |
| Net Position | | | | | | |
| Net investment in capital assets.... | 7,920,166 | 8,181,841 | 18,561 | 19,036 | 7,938,727 | 8,200,877 |
| Restricted..... | 1,479,987 | 1,384,797 | — | — | 1,479,987 | 1,384,797 |
| Unrestricted | <u>(23,499,294)</u> | <u>2,513,535</u> | <u>274,578</u> | <u>450,782</u> | <u>(23,224,716)</u> | <u>2,964,317</u> |
| Total Net Position | <u>(14,099,141)</u> | <u>12,080,173</u> | <u>293,139</u> | <u>469,818</u> | <u>(13,806,002)</u> | <u>12,549,991</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 23,159,737</u> | <u>\$ 20,309,128</u> | <u>\$ 489,125</u> | <u>\$ 508,608</u> | <u>\$ 23,648,862</u> | <u>\$ 20,817,736</u> |

The Agency's combined net position decreased by 210%, or approximately \$26,000,000, from fiscal year 2014. The decrease occurred due to the implementation of GASB 68. Overall, net investment in capital assets decreased \$262,150, or 3.2%.

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 \$28,968,375 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 | | Business-Type Activities | | Total | |
| | June 30, | | June 30, | | June 30, | |
| | 2015 | 2014 (Not Restated) | 2015 | 2014 (Not Restated) | 2015 | 2014 (Not Restated) |
| Revenue | | | | | | |
| Program Revenue | | | | | | |
| Charges for service | \$ 8,869,616 | \$ 8,354,874 | \$ 550,348 | \$ 541,921 | \$ 9,419,964 | \$ 8,896,795 |
| Operating grants and contributions | 21,246,012 | 21,194,631 | 1,523 | 46,512 | 21,247,535 | 21,241,143 |
| General Revenue | | | | | | |
| Property tax, levied | 12,158,275 | 11,777,917 | — | — | 12,158,275 | 11,777,917 |
| State foundation aid | 12,886,394 | 12,180,765 | — | — | 12,886,394 | 12,180,765 |
| Unrestricted investment earnings | 359 | 2,212 | — | — | 359 | 2,212 |
| Loss on disposal of capital assets | (55,412) | — | — | — | (55,412) | — |
| Total Revenue | <u>55,105,244</u> | <u>53,510,399</u> | <u>551,871</u> | <u>588,433</u> | <u>55,657,115</u> | <u>54,098,832</u> |
| Program Expenses | | | | | | |
| Instruction | 9,712,300 | 10,484,237 | — | — | 9,712,300 | 10,484,237 |
| Student support services | 20,753,566 | 20,893,762 | — | — | 20,753,566 | 20,893,762 |
| Instructional staff support services | 10,298,894 | 11,562,222 | — | — | 10,298,894 | 11,562,222 |
| General administration | 5,836,020 | 5,674,351 | — | — | 5,836,020 | 5,674,351 |
| Business administration | 2,903,067 | 3,290,788 | — | — | 2,903,067 | 3,290,788 |
| Plant operations and maintenance | 1,705,663 | 1,984,495 | — | — | 1,705,663 | 1,984,495 |
| Central and other support services | 193,240 | 229,118 | — | — | 193,240 | 229,118 |
| Long-term debt interest | 880,726 | 159,800 | — | — | 880,726 | 159,800 |
| Noninstructional programs | 189,078 | 5,063 | 572,179 | 504,036 | 761,257 | 509,099 |
| Total Expenses | <u>52,472,554</u> | <u>54,283,836</u> | <u>572,179</u> | <u>504,036</u> | <u>53,044,733</u> | <u>54,787,872</u> |
| Change in Net Position Before Other Financing Sources | 2,632,690 | (773,437) | (20,308) | 84,397 | 2,612,382 | (689,040) |
| Other Financing Sources (Uses) | — | (15,249) | — | 15,249 | — | — |
| Increase (Decrease) in Net Position | 2,632,690 | (788,686) | (20,308) | 99,646 | 2,612,382 | (689,040) |
| Net Position - Beginning of Year, as restated | (16,731,831) | 12,868,859 | 313,447 | 370,172 | (16,418,384) | 13,239,031 |
| Net Position - End of Year | <u>\$ (14,099,141)</u> | <u>\$ 12,080,173</u> | <u>\$ 293,139</u> | <u>\$ 469,818</u> | <u>\$ (13,806,002)</u> | <u>\$ 12,549,991</u> |

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for 84% of the total revenue. A substantial percentage of the remaining revenue comes from tuition charges for special education instructional programs. The Agency's expenses primarily relate to instruction, student support services and instructional staff support services which account for 78% of the total expenses.

Governmental Activities

Revenue for governmental activities was \$55,105,244 and expenses and other financing uses were \$52,472,554.

Business-Type Activities

Revenue of the Agency's Business-Type Activities totaled \$551,871, a 6.2% decrease from the prior year and expenses were \$572,179, a 13.5% increase from the prior year. The decrease in revenue was mainly due to the transfer of our nutrition program to the resident LEA of one of the instructional programs the Agency operates. The increase in expenses is due to the increase of repairs for both our heating-cooling and equipment repair operations.

Revenue from these activities is comprised of charges for services and state and federal grants. Expenses totaled \$4,614 and \$567,565 for the Nutrition Fund and Technology and Repair Services Fund, respectively.

INDIVIDUAL FUND ANALYSIS

As previously noted, Area Education Agency 267 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$6,423,543, which is an increase from the beginning of the year fund balances of \$5,464,159. The primary reason for the increase in the combined fund balance is due to the increase in categorical funding that was not spent and assignment of funds in the amount of \$512,000 to complete the Agency's conference center renovation project.

Governmental Fund Highlights

The General Fund balance increased by almost \$950,000 due to the additional categorical funding that was not spent and the assignment of funds to complete the Agency's conference center renovation project.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund-type level.

Over the course of the year, the Agency amended its budget once to reflect the decrease in revenue and expenditures due to decreases in amounts expected from local, state and federal revenue. The Agency's total revenue was \$59,863 less than budgeted revenue, a variance of 0.11%. Total expenditures were \$1,309,175 less than budgeted, a variance of 2.5%.

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 on page 37.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Agency had invested \$7,938,727, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net decrease of \$262,150 from the beginning of the year.

Area Education Agency 267 reported depreciation expense of \$1,006,221 in fiscal year 2015 and total accumulated depreciation of \$12,688,491 as of June 30, 2015. More detailed information about capital assets is available in Note 3 to the financial statements.

Long-Term Debt

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

Governmental Activities

As of June 30, 2015, the Agency had \$21,925,540 of long-term liabilities outstanding compared to \$33,337,799 (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 4 to the financial statements.

Business-Type Activities

As of June 30, 2015, the Agency had \$109,031 of long-term liabilities outstanding due to the net pension liability newly enacted reporting requirement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

- Due to the economy nationally, state and federal funding levels continue to be an area of concern for the LEA's and AEA's throughout the state. For FY16, the supplemental state aid was set by the legislature at 1.25% and they did not take action for setting the rate for FY17 as required by law. Since the closure of last year's legislative session, the revenue estimating committee has lowered the projected economic growth for the state, which will make it very difficult to see much of an increase in supplemental state aid for the FY17 school year.
- Stable enrollment growth is critical in maintaining a sound financial position. The Agency has experienced a slight decline in enrollment over the past couple of years. The estimated enrollment figures that will be used to determine the amount of state funding is dropping by 219.5 students, or 0.03%.
- Health insurance cost can have a profound impact on negotiated settlements. Our insurance cost has been trending upward over the past several years. Wellmark's book of business trend as of October, 2015 was approximately 9%. In hopes to limit the increase for FY17, the Agency has decided to go out for competitive bids on health insurance.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer's office of Area Education Agency 267, 3712 Cedar Heights Drive, Cedar Falls, Iowa 50613-6290.

Basic Financial Statements

Statement of Net Position

As of June 30, 2015

| | Governmental Activities | Business- Type Activities | Total | Component Units | |
|--|----------------------------|---------------------------------|----------------------|--------------------|----------------------|
| | | | | AEA6 Foundation | AEA267 Foundation |
| Assets and Deferred Outflows of Resources | | | | | |
| Assets | | | | | |
| Cash, cash equivalents and investments..... | \$ 8,469,184 | \$ 316,761 | \$ 8,785,945 | \$ 744,615 | \$ 31,130 |
| Receivables | | | | | |
| Accounts | 1,823,042 | 106,537 | 1,929,579 | — | — |
| Due from other governments | 3,532,239 | — | 3,532,239 | — | — |
| Inventories..... | 62,975 | 40,723 | 103,698 | — | — |
| Prepaid items | 207,987 | 331 | 208,318 | — | — |
| Capital assets, net of accumulated depreciation..... | 7,920,166 | 18,561 | 7,938,727 | — | — |
| Total Assets..... | 22,015,593 | 482,913 | 22,498,506 | 744,615 | 31,130 |
| Deferred Outflows of Resources | | | | | |
| Pension-related deferred outflows | <u>1,144,144</u> | <u>6,212</u> | <u>1,150,356</u> | <u>—</u> | <u>—</u> |
| Total Assets and Deferred Outflows of Resources..... | \$ 23,159,737 | \$ 489,125 | \$ 23,648,862 | \$ 744,615 | \$ 31,130 |
| Liabilities, Deferred Inflows of Resources and Net Position | | | | | |
| Liabilities | | | | | |
| Accounts payable..... | \$ 1,584,752 | \$ 45,374 | \$ 1,630,126 | \$ — | \$ 901 |
| Salaries and benefits payable..... | 6,087,132 | — | 6,087,132 | — | — |
| Long-Term Liabilities | | | | | |
| Portion Due or Payable Within One Year | | | | | |
| Compensated absences | 302,485 | — | 302,485 | — | — |
| Portion Due or Payable After One Year | | | | | |
| Net pension liability | 20,089,230 | 109,031 | 20,198,261 | — | — |
| Net OPEB liability..... | 1,533,825 | — | 1,533,825 | — | — |
| Total Liabilities | 29,597,424 | 154,405 | 29,751,829 | — | 901 |
| Deferred Inflows of Resources | | | | | |
| Pension-related deferred inflows | <u>7,661,454</u> | <u>41,581</u> | <u>7,703,035</u> | <u>—</u> | <u>—</u> |
| Net Position | | | | | |
| Net investment in capital assets | 7,920,166 | 18,561 | 7,938,727 | — | — |
| Restricted for | | | | | |
| Categorical funding..... | 899,005 | — | 899,005 | — | — |
| Media materials..... | 570,968 | — | 570,968 | — | — |
| Special education instruction..... | 10,014 | — | 10,014 | — | — |
| Unrestricted..... | (23,499,294) | 274,578 | (23,224,716) | 744,615 | 30,229 |
| Total Net Position..... | (14,099,141) | 293,139 | (13,806,002) | 744,615 | 30,229 |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 23,159,737 | \$ 489,125 | \$ 23,648,862 | \$ 744,615 | \$ 31,130 |

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2015

| Functions/Programs | Expenses | Program Revenue | | Net (Expenses), Revenue and Changes in Net Position | | | Component Units | |
|---|----------------------|----------------------|------------------------------------|---|--------------------------|------------------------|-------------------|-------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | Total | AEA6 Foundation | AEA267 Foundation |
| Governmental Activities | | | | | | | | |
| Regular instruction..... | \$ 9,712,300 | \$ 7,586,788 | \$ 1,523,405 | \$ (602,107) | \$ — | \$ (602,107) | \$ — | \$ — |
| Student support services | 20,753,566 | 26,895 | 18,415,541 | (2,311,130) | — | (2,311,130) | — | — |
| Instructional staff support services..... | 10,298,894 | 775,703 | 1,304,048 | (8,219,143) | — | (8,219,143) | — | — |
| General administration | 5,836,020 | — | — | (5,836,020) | — | (5,836,020) | — | — |
| Business administration..... | 2,903,067 | — | — | (2,903,067) | — | (2,903,067) | — | — |
| Plant operations and maintenance | 1,705,663 | — | — | (1,705,663) | — | (1,705,663) | — | — |
| Central and other support services | 193,240 | 480,230 | 3,018 | 290,008 | — | 290,008 | — | — |
| Unallocated depreciation* | 880,726 | — | — | (880,726) | — | (880,726) | — | — |
| Noninstructional programs..... | 189,078 | — | — | (189,078) | — | (189,078) | — | — |
| Total Governmental Activities | 52,472,554 | 8,869,616 | 21,246,012 | (22,356,926) | — | (22,356,926) | — | — |
| Business-Type Activities | | | | | | | | |
| Noninstructional Programs | | | | | | | | |
| Nutrition services..... | 4,614 | 127 | 1,523 | — | (2,964) | (2,964) | — | — |
| Technology and repair services..... | 567,565 | 550,221 | — | — | (17,344) | (17,344) | — | — |
| Total Business-Type Activities..... | 572,179 | 550,348 | 1,523 | — | (20,308) | (20,308) | — | — |
| Total | \$ 53,044,733 | \$ 9,419,964 | \$ 21,247,535 | (22,356,926) | (20,308) | (22,377,234) | — | — |
| Component Units | | | | | | | | |
| AEA6 Foundation | \$ 53,795 | \$ — | \$ — | — | — | — | (53,795) | — |
| AEA267 Foundation | \$ 43,355 | \$ — | \$ 16,205 | — | — | — | — | (27,150) |
| General Revenue | | | | | | | | |
| Property tax levied for general purposes | | | | 12,158,275 | — | 12,158,275 | — | — |
| State foundation aid..... | | | | 12,886,394 | — | 12,886,394 | — | — |
| Unrestricted investment earnings | | | | 359 | — | 359 | 94,544 | 12 |
| Loss on disposal of capital assets | | | | (55,412) | — | (55,412) | — | — |
| Total General Revenue | | | | 24,989,616 | — | 24,989,616 | 94,544 | 12 |
| Change in Net Position | | | | 2,632,690 | (20,308) | 2,612,382 | 40,749 | (27,138) |
| Net Position - Beginning of Year, as restated | | | | (16,731,831) | 313,447 | (16,418,384) | 703,866 | 57,367 |
| Net Position - End of Year..... | | | | \$ (14,099,141) | \$ 293,139 | \$ (13,806,002) | \$ 744,615 | \$ 30,229 |

* This amount does not include depreciation that is reported in the direct expenses of the various programs.

Balance Sheet - Governmental Funds

As of June 30, 2015

| | General | Special Revenue Special Education Instruction | Nonmajor Governmental Funds | Total |
|--|-----------------------------|---|-----------------------------------|-----------------------------|
| Assets | | | | |
| Cash and cash equivalents..... | \$ 8,469,184 | \$ — | \$ — | \$ 8,469,184 |
| Receivables | | | | |
| Accounts | 1,782,158 | — | 40,884 | 1,823,042 |
| Due from other governments | 1,147,983 | 2,384,256 | — | 3,532,239 |
| Due from other funds | 2,388,135 | — | 141,121 | 2,529,256 |
| Inventories..... | 62,975 | — | — | 62,975 |
| Prepaid expenses..... | <u>207,987</u> | <u>—</u> | <u>—</u> | <u>207,987</u> |
| Total Assets | <u>\$ 14,058,422</u> | <u>\$ 2,384,256</u> | <u>\$ 182,005</u> | <u>\$ 16,624,683</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 1,416,640 | \$ 5,166 | \$ 162,946 | \$ 1,584,752 |
| Salaries and benefits payable | 6,087,132 | — | — | 6,087,132 |
| Due to other funds | <u>141,121</u> | <u>2,369,076</u> | <u>19,059</u> | <u>2,529,256</u> |
| Total Liabilities | <u>7,644,893</u> | <u>2,374,242</u> | <u>182,005</u> | <u>10,201,140</u> |
| Fund Balances | | | | |
| Nonspendable | | | | |
| Inventories | 62,975 | — | — | 62,975 |
| Prepaid expenditures | 207,987 | — | — | 207,987 |
| Restricted for | | | | |
| Categorical funding | 899,005 | — | — | 899,005 |
| Media materials..... | 570,968 | — | — | 570,968 |
| Special education instruction..... | — | 10,014 | — | 10,014 |
| Committed for | | | | |
| Retro worker's compensa- tion program..... | 143,000 | — | — | 143,000 |
| Assigned | 547,261 | — | — | 547,261 |
| Unassigned | <u>3,982,333</u> | <u>—</u> | <u>—</u> | <u>3,982,333</u> |
| Total Fund Balances | <u>6,413,529</u> | <u>10,014</u> | <u>—</u> | <u>6,423,543</u> |
| Total Liabilities and Fund Balances | <u>\$ 14,058,422</u> | <u>\$ 2,384,256</u> | <u>\$ 182,005</u> | <u>\$ 16,624,683</u> |

See accompanying notes to the financial statements.

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 12).... | | \$ 6,423,543 |
| <i>Amounts reported for governmental activities in the statement of net position are different because:</i> | | |
| 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 \$20,600,238 and the accumulated depreciation is \$12,680,072..... | | 7,920,166 |
| 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..... | \$ 1,144,144 | |
| Deferred inflows of resources..... | <u>(7,661,454)</u> | (6,517,310) |
| Long-term liabilities, including compensated absences, other post-employment benefits and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds. | | |
| Compensated absences..... | \$ (302,485) | |
| Net pension liability..... | (20,089,230) | |
| Net OPEB liabilities..... | <u>(1,533,825)</u> | <u>(21,925,540)</u> |
| Net Position of Governmental Activities (Page 10)..... | | <u>\$ (14,099,141)</u> |

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

Year Ended June 30, 2015

| | General | Special Revenue Special Education Instruction | Nonmajor Governmental Funds | Total |
|---|----------------------------|---|-----------------------------------|----------------------------|
| Revenue | | | | |
| Local sources | \$ 15,340,657 | \$ 6,348,084 | \$ 287 | \$ 21,689,028 |
| State sources | 15,930,807 | 284,494 | 1,165,654 | 17,380,955 |
| Intermediate sources | 219,526 | — | — | 219,526 |
| Federal sources | 15,871,147 | — | — | 15,871,147 |
| Total Revenue | <u>47,362,137</u> | <u>6,632,578</u> | <u>1,165,941</u> | <u>55,160,656</u> |
| Expenditures | | | | |
| Current | | | | |
| Instruction | 3,270,472 | 5,770,476 | 1,071,567 | 10,112,515 |
| Student support services | 18,227,595 | 147,601 | — | 18,375,196 |
| Instructional staff support services | 10,844,258 | 41,615 | 2,139 | 10,888,012 |
| General administration | 5,535,265 | 381,894 | 81,048 | 5,998,207 |
| Business administration | 3,067,516 | — | — | 3,067,516 |
| Plant operations and maintenance | 1,657,120 | 61,371 | 11,419 | 1,729,910 |
| Central and other support services | — | 219,607 | — | 219,607 |
| Noninstructional programs | 189,078 | — | — | 189,078 |
| Facilities acquisition and construction | — | — | 532,552 | 532,552 |
| Total Expenditures | <u>42,791,304</u> | <u>6,622,564</u> | <u>1,698,725</u> | <u>51,112,593</u> |
| Revenue Over (Under) Expenditures | <u>4,570,833</u> | <u>10,014</u> | <u>(532,784)</u> | <u>4,048,063</u> |
| Other Financing Sources (Uses) | | | | |
| LEA flow through | (3,127,844) | — | — | (3,127,844) |
| Transfers, net | (532,784) | — | 532,784 | — |
| Proceeds from sale of equipment | 39,165 | — | — | 39,165 |
| Total Other Financing Sources (Uses) | <u>(3,621,463)</u> | <u>—</u> | <u>532,784</u> | <u>(3,088,679)</u> |
| Net Change in Fund Balances ... | 949,370 | 10,014 | — | 959,384 |
| Fund Balances - Beginning of Year | 5,464,159 | — | — | 5,464,159 |
| Fund Balances - End of Year | <u>\$ 6,413,529</u> | <u>\$ 10,014</u> | <u>\$ —</u> | <u>\$ 6,423,543</u> |

See accompanying notes to the financial statements.

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

Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds (Page 14)..... **\$ 959,384**

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 reported in the statement of net position and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays, depreciation expense and loss on disposal for the year are as follows:

| | | |
|---|-----------------|-----------|
| Capital outlays..... | \$ 836,033 | |
| Depreciation expense..... | (1,003,132) | |
| Net book value of disposed assets | <u>(94,577)</u> | (261,676) |

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 3,014,028

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

| | | |
|-------------------------------------|------------------|--------------------|
| Compensated absences..... | \$ 7,532 | |
| Pension expense..... | (808,563) | |
| Other post-employment benefits..... | <u>(278,015)</u> | <u>(1,079,046)</u> |

Change in Net Position of Governmental Activities (Page 11)..... **\$ 2,632,690**

Statement of Net Position - Proprietary Funds

As of June 30, 2015

| | Nonmajor Proprietary Funds |
|--|---|
| Assets and Deferred Outflows of Resources | |
| Current Assets | |
| Cash and cash equivalents..... | \$ 316,761 |
| Accounts receivable | 106,537 |
| Inventory | 40,723 |
| Prepaid items | <u>331</u> |
| Total Current Assets | <u>464,352</u> |
| Capital Assets, Net of Accumulated Depreciation | <u>18,561</u> |
| Total Assets | <u>482,913</u> |
| Deferred Outflows of Resources | |
| Pension-related deferred outflows | <u>6,212</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 489,125</u> |
| Liabilities, Deferred Inflows of Resources and Net Position | |
| Current Liabilities | |
| Accounts payable | \$ <u>45,374</u> |
| Long-Term Liabilities | |
| Net pension liability..... | <u>109,031</u> |
| Total Liabilities | <u>154,405</u> |
| Deferred Inflows of Resources | |
| Pension-related deferred inflows | <u>41,581</u> |
| Net Position | |
| Net investment in capital assets | 18,561 |
| Unrestricted | <u>274,578</u> |
| Total Net Position | <u>293,139</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 489,125</u> |

See accompanying notes to the financial statements.

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Funds

Year Ended June 30, 2015

| | Nonmajor Proprietary Funds |
|--|---|
| Operating Revenue | |
| Charges for services..... | <u>\$ 550,348</u> |
| Operating Expenses | |
| Noninstructional Programs | |
| Plant Operations and Maintenance | |
| Purchased services..... | 1,037 |
| Materials and supplies..... | 6,919 |
| Depreciation..... | <u>3,045</u> |
| Total Plant Operations and Maintenance..... | <u>11,001</u> |
| Central and Other Support Services | |
| Salaries..... | 178,922 |
| Benefits..... | 57,457 |
| Purchased services..... | 89 |
| Materials and supplies..... | 318,796 |
| Depreciation..... | 44 |
| Miscellaneous..... | <u>1,256</u> |
| Total Central and Other Support Services..... | <u>556,564</u> |
| Food Service Operations | |
| Salaries..... | 2,298 |
| Benefits..... | 410 |
| Materials and supplies..... | <u>1,906</u> |
| Total Food Service Operations..... | <u>4,614</u> |
| Total Operating Expenses | <u>572,179</u> |
| Income (Loss) From Operations | (21,831) |
| Nonoperating Revenue | |
| Federal sources..... | <u>1,523</u> |
| Change in Net Assets | (20,308) |
| Net Position - Beginning of Year, as restated..... | <u>313,447</u> |
| Net Position - End of Year | <u>\$ 293,139</u> |

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2015

| | Nonmajor Proprietary Funds |
|--|---|
| Cash Flows From Operating Activities | |
| Cash received from customers | \$ 590,821 |
| Cash paid to employees for services | (251,057) |
| Cash paid to suppliers for goods and services..... | <u>(322,823)</u> |
| Net Cash Provided by Operating Activities | <u>16,941</u> |
| Cash Flows From Noncapital Financing Activities | |
| Federal grants received | <u>1,523</u> |
| Cash Flows From Capital and Related Financing Activities | |
| Acquisition of capital assets..... | <u>(2,615)</u> |
| Net Increase in Cash and Cash Equivalents..... | 15,849 |
| Cash and Cash Equivalents at Beginning of Year | <u>300,912</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 316,761</u> |
| Reconciliation of Income From Operations to Net Cash Provided by Operating Activities | |
| Income from operations | \$ (21,831) |
| Adjustments to Reconcile Income From Operations to Net Cash Provided by Operating Activities | |
| Depreciation | 3,089 |
| Decrease in accounts receivable..... | 40,473 |
| Decrease in inventories..... | 927 |
| Increase in prepaid items | (331) |
| Increase in pension-related deferred outflows | (6,212) |
| Increase in accounts payable | 6,584 |
| Decrease in net pension liability | (47,339) |
| Increase in pension-related deferred inflows | <u>41,581</u> |
| Net Cash Provided by Operating Activities | <u>\$ 16,941</u> |

See accompanying notes to the financial statements.

Statement of Fiduciary Assets and Liabilities - Agency Funds ---

As of June 30, 2015

Assets

| | |
|--------------------------------|-------------------|
| Cash and cash equivalents..... | <u>\$ 369,368</u> |
|--------------------------------|-------------------|

Liabilities

| | |
|--|----------------|
| Accounts payable | \$ 92,446 |
| Deposits held in custody for others..... | <u>276,922</u> |

| | |
|--------------------------------|--------------------------|
| Total Liabilities | <u>\$ 369,368</u> |
|--------------------------------|--------------------------|

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Organization and Function

Area Education Agency 267 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 53 public school districts and 17 nonpublic school districts in an 18-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, the Agency 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.

These financial statements present Area Education Agency 267 and its component units. The component units discussed below are included in the Agency's reporting entity because of the significance of the operational or financial relationship with the Agency.

Discretely Presented Component Units

The AEA6 Foundation (Foundation) is a legally separate entity, organized as a charitable organization under Chapter 501(c)(3) of the Internal Revenue Code. The Foundation's primary purpose is to collect funds and provide financial support for a swimming pool operated by Area Education Agency 267. The Foundation is governed by a seven-member Board of Directors. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The financial information presented is as of and for its year end of December 31, 2014.

During the Agency's fiscal year ended June 30, 2015, the Foundation provided the Agency \$53,795 for costs associated with the swimming pool.

The AEA267 Foundation (267 Foundation) is a legally separate entity, organized as a charitable organization under Chapter 501(c)(3) of the Internal Revenue Code. The 267 Foundation's primary purpose is to collect funds and provide financial support for the Agency. The 267 Foundation is governed by a seven-member Board of Directors. In accordance with criteria set forth by the Governmental Accounting Standards Board, the 267 Foundation meets the definition of a component unit which should be discretely presented. The financial information presented is as of and for its year end of June 30, 2015.

During the Agency's fiscal year ended June 30, 2015, the 267 Foundation donated to the Agency \$40,814 towards River Hills School repairs and remodeling expenses. The 267 Foundation also owed the Agency \$901 as of June 30, 2015.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program 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, contributions and interest that are 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 instead as general revenue.

Fund Financial Statements

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

The Agency had the following major governmental funds:

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Proprietary funds are used to record services for which the Agency charges the districts and other departments a fee. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The Agency did not report any major proprietary funds:

The Agency also reports fiduciary funds which focus on net position. The Agency funds are used to account for assets held by the Agency as an agent for individuals, private organizations and other governments. The Agency funds are custodial in nature, assets equal liabilities and do not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

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 balances and then from less-restrictive classifications - committed, assigned and then unassigned fund balances.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Agency's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits and money market funds. Component unit investments are stated at fair value on the statement of net position. The Agency held no investments at June 30, 2015.

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

Inventories

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

Capital Assets

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

| | |
|---|--------------|
| Land..... | \$ 2,000 |
| Buildings | 10,000 |
| Improvements other than buildings | 2,000 |
| Intangibles..... | 200,000 |
| Furniture and equipment | 2,000 |
| Library books and films | No threshold |

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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

| Asset Class | Estimated Useful Lives |
|---|-------------------------------|
| Buildings | 50 Years |
| Improvements other than buildings | 20 - 30 Years |
| Intangibles..... | 2 - 10 Years |
| Furniture and equipment | 5 - 20 Years |
| Library books and films | 5 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 teachers 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 and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net position representing the Agency's commitment to fund 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 governmental activities column 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 governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not 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 consists of property tax receivable and other receivables not collected within 60 days after year end.

Deferred inflows of resources in the statement of net position consist of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and 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 a specific purpose.

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.

Notes to the Financial Statements

(2) Cash, Cash Equivalents 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.

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 held no investments as of June 30, 2015. The component unit, AEA6 Foundation, investments are shown below.

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) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

Credit Risk

Cash and investments of the following component unit are stated at fair value and are summarized as follows as of December 31, 2014:

AEA6 Foundation

| | Cost | Fair Value | Unrealized Appreciation (Depreciation) |
|--------------------------------|-------------------|-------------------|--|
| Money market funds..... | \$ 29,453 | \$ 29,453 | \$ — |
| U.S. Treasury securities | 84,917 | 98,804 | 13,887 |
| Unit trusts | 622,760 | 616,358 | (6,402) |
| | <u>\$ 737,130</u> | <u>\$ 744,615</u> | <u>\$ 7,485</u> |

Earnings on the investments are made up of interest and the change in unrealized and realized gains and losses for the year as follows:

| | |
|--|------------------|
| Interest income (net of expense) | \$ 36,060 |
| Net unrealized gain..... | 58,484 |
| | <u>\$ 94,544</u> |

Notes to the Financial Statements

(3) Capital Assets

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

| | Balance - Beginning of Year | Increases | Decreases | Balance - End of Year |
|--|-----------------------------------|----------------------------|-------------------------|----------------------------|
| Governmental Activities | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land..... | \$ 809,308 | \$ — | \$ — | \$ 809,308 |
| Construction in progress | <u>—</u> | <u>462,609</u> | <u>—</u> | <u>462,609</u> |
| Total Capital Assets Not Being Depreciated..... | <u>809,308</u> | <u>462,609</u> | <u>—</u> | <u>1,271,917</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings and improvements | 11,288,841 | — | 112,125 | 11,176,716 |
| Furniture and equipment | 5,975,776 | 145,096 | 2,662,841 | 3,458,031 |
| Library books and films | <u>4,917,366</u> | <u>228,329</u> | <u>452,121</u> | <u>4,693,574</u> |
| Total Capital Assets Being Depreciated..... | <u>22,181,983</u> | <u>373,425</u> | <u>3,227,087</u> | <u>19,328,321</u> |
| Less Accumulated Depreciation For | | | | |
| Buildings and improvements | 5,640,134 | 316,376 | 35,519 | 5,920,991 |
| Furniture and equipment | 5,089,781 | 224,253 | 2,644,870 | 2,669,164 |
| Library books and films | <u>4,079,535</u> | <u>462,503</u> | <u>452,121</u> | <u>4,089,917</u> |
| Total Accumulated Depreciation | <u>14,809,450</u> | <u>1,003,132</u> | <u>3,132,510</u> | <u>12,680,072</u> |
| Net Total Capital Assets Being Depreciated..... | <u>7,372,533</u> | <u>(629,707)</u> | <u>94,577</u> | <u>6,648,249</u> |
| Net Governmental Activities | | | | |
| Capital Assets..... | <u>\$ 8,181,841</u> | <u>\$ (167,098)</u> | <u>\$ 94,577</u> | <u>\$ 7,920,166</u> |

Depreciation expense was charged to the following functions:

| | |
|---|----------------------------|
| Governmental Activities | |
| Instruction | \$ 7,727 |
| Student support services..... | 6,911 |
| Instructional staff support services | 26,427 |
| General administration | 69,430 |
| Business administration | 3,268 |
| Plant operations and maintenance | 7,980 |
| Central and other support services..... | 663 |
| Unallocated | <u>880,726</u> |
| Total Governmental Activities Depreciation Expense | <u>\$ 1,003,132</u> |

Notes to the Financial Statements

(3) Capital Assets

| | Balance - Beginning of Year | Increases | Decreases | Balance - End of Year |
|--|-----------------------------------|------------------------|--------------------|--------------------------|
| Business-Type Activities | | | | |
| Furniture and equipment | \$ 24,366 | \$ 2,614 | \$ — | \$ 26,980 |
| Less accumulated depreciation | <u>5,330</u> | <u>3,089</u> | <u>—</u> | <u>8,419</u> |
| Net Business-Type Activities..... | <u>\$ 19,036</u> | <u>\$ (475)</u> | <u>\$ —</u> | <u>\$ 18,561</u> |

Depreciation expense for business-type activities was \$3,089.

(4) 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 (As Restated) | Additions | Reductions | Balance - End of Year | Due Within One Year |
|---------------------------------|--|--------------------------|-----------------------------|-----------------------------|--------------------------|
| Governmental Activities | | | | | |
| Compensated absences \$ | 310,017 | \$ 302,485 | \$ 310,017 | \$ 302,485 | \$ 302,485 |
| Net pension liability.... | 31,771,972 | — | 11,682,742 | 20,089,230 | — |
| Net OPEB liability | <u>1,255,810</u> | <u>278,015</u> | <u>—</u> | <u>1,533,825</u> | <u>—</u> |
| | <u>\$ 33,337,799</u> | <u>\$ 580,500</u> | <u>\$ 11,992,759</u> | <u>\$ 21,925,540</u> | <u>\$ 302,485</u> |
| Business-Type Activities | | | | | |
| Net pension liability.... | <u>\$ 172,436</u> | <u>\$ —</u> | <u>\$ 63,405</u> | <u>\$ 109,031</u> | <u>\$ —</u> |

(5) 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 | <u>\$ 532,784</u> |

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

Notes to the Financial Statements

(6) 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 |
|------------------|-------------------------------|---------------------|
| General | Special Revenue | |
| | Special Education Instruction | \$ 2,369,076 |
| General | Special Revenue | |
| | Juvenile Home | 19,059 |
| Capital Projects | General | <u>141,121</u> |
| | | <u>\$ 2,529,256</u> |

The General Fund receivable balance results from an interfund loan to finance individual funds accounts receivable. Repayments will be made from future revenue.

The General Fund payable balances result from payments made by the receivable fund which will be repaid by future transfers from the General Fund.

(7) Operating Leases

The Agency leases several copiers, with remaining terms of one year, under operating leases. The Agency has also leased various facilities within the area to house its different divisions under leases with remaining terms of one year. These leases have been classified as operating leases and, accordingly, all rents are recorded as expenditures when incurred. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

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, was \$145,976.

(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.

(8) Pension and Retirement Benefits

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.

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.

Notes to the Financial Statements

(8) Pension and Retirement Benefits

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 \$3,030,388.

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 \$20,198,261 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 0.499082% which was a decrease of 0.065107 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Agency recognized pension expense of \$808,563. 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 | \$ 219,516 | \$ — |
| Changes of assumptions | 891,395 | — |
| Net difference between projected and actual earnings on pension plan investments | — | 7,703,035 |
| Changes in proportion and differences between Agency contributions and proportionate share of contributions | (2,990,943) | — |
| Agency contributions subsequent to the measurement date | 3,030,388 | — |
| Total | <u>\$ 1,150,356</u> | <u>\$ 7,703,035</u> |

\$3,030,388 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 | \$ (2,365,019) |
| 2017 | (2,365,019) |
| 2018 | (2,365,019) |
| 2019 | (2,365,019) |
| 2020 | (122,993) |
| Total | <u>\$ 9,583,069</u> |

Notes to the Financial Statements

(8) Pension and Retirement Benefits

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 | <u>100%</u> | |

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.

Notes to the Financial Statements

(8) Pension and Retirement Benefits

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 | \$ 38,164,045 | \$ 20,198,261 | \$ 5,033,276 |

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 \$1,041,079 for legally required employer contributions and \$238,345 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(9) Other Post-Employment Benefits (OPEB)

Plan Description

The Agency operates a single-employer retiree benefit plan which provides medical/prescription drug, dental and life insurance benefits for retirees and their spouses. There are 522 active and 38 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through one of four fully insured plans with Wellmark. The dental plan is a self-funded plan with Delta Dental of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability. There is no subsidy or OPEB liability associated with the dental benefit.

Life insurance is provided at a rate of three times the employee's annual salary rounded to the nearest \$10,000.

Funding Policy

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

Notes to the Financial Statements

(9) Other Post-Employment Benefits (OPEB)

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 that, 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 | \$ 395,380 |
| Interest on net OPEB obligation..... | 31,435 |
| Adjustment to annual required contribution..... | <u>(87,147)</u> |
| Annual OPEB Cost | 339,668 |
| Contributions made | <u>(61,653)</u> |
| Increase in Net OPEB Obligation | 278,015 |
| Net OPEB Obligation - Beginning of Year..... | <u>1,255,810</u> |
| Net OPEB Obligation - End of Year | <u><u>\$ 1,533,825</u></u> |

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 approximately \$61,653 to the medical plan.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2015 are summarized as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------|---------------------|--|------------------------|
| June 30, 2013 | \$ 434,800 | 53.4% | \$ 1,140,000 |
| June 30, 2014 | 436,810 | 73.5 | 1,255,810 |
| June 30, 2015 | 339,668 | 18.2 | 1,533,825 |

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 \$2.9 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.9 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$31 million and the ratio of the UAAL to the covered payroll was 9.3%. As of June 30, 2015, there were no trust fund assets.

Notes to the Financial Statements

(9) Other Post-Employment Benefits (OPEB)

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, presented as required supplementary information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2014 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%. An inflation rate of 2.5% is assumed for the purpose of this computation.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2014 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2014.

Projected claim costs of the medical plan are \$703 per month for retirees age 60. The salary increase rate was not disclosed in the actuarial report. The UAAL is being amortized as a level percentage of projected payroll expense on an open 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) Subsequent Events

Management has evaluated subsequent events through December 21, 2015, the date which the financial statements were available to be issued.

Notes to the Financial Statements

(12) Categorical Funding

The District's restricted fund balance for categorical funding as of June 30, 2015 is comprised of the following programs:

| Program | Amount |
|---|--------------------------|
| Teacher leadership and compensation | \$ 88,964 |
| Education quality, professional development for model core curriculum | 297,019 |
| Teacher salary supplement | <u>513,022</u> |
| | <u>\$ 899,005</u> |

(13) Commitments and Contingencies

The Agency has entered into multiple contracts totaling approximately \$828,000 for the Cedar Falls Conference Center building remodeling project. As of June 30, 2015, costs of \$486,000 had been incurred against the contract. The balance of \$342,000 remaining as of June 30, 2015 will be paid as the work on the project progresses.

(14) 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 and business-type activities were 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 | Business-Type Activities |
|--|-------------------------------|-----------------------------|
| Net position - June 30, 2014, as previously reported | \$ 12,080,173 | \$ 469,818 |
| Net pension liability as of June 30, 2014..... | (31,771,972) | (172,436) |
| Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date | <u>2,959,968</u> | <u>16,065</u> |
| Net Position - July 1, 2014, as Restated..... | <u>\$ (16,731,831)</u> | <u>\$ 313,447</u> |

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2015

| | <u>Actual</u> | | Total | <u>Budget Amount</u> | | Over (Under) Budget |
|---|----------------------------|--------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | Governmental Fund Types | Proprietary Fund Type | | Original | Final | |
| Revenue | | | | | | |
| Local sources | \$ 21,689,028 | \$ 550,348 | \$ 22,239,376 | \$ 22,496,184 | \$ 21,690,023 | \$ 549,353 |
| State sources | 17,380,955 | — | 17,380,955 | 19,494,377 | 17,501,963 | (121,008) |
| Intermediate sources..... | 219,526 | — | 219,526 | — | 155,000 | 64,526 |
| Federal sources | <u>15,871,147</u> | <u>1,523</u> | <u>15,872,670</u> | <u>16,283,940</u> | <u>16,425,404</u> | <u>(552,734)</u> |
| Total Revenue..... | <u>55,160,656</u> | <u>551,871</u> | <u>55,712,527</u> | <u>58,274,501</u> | <u>55,772,390</u> | <u>(59,863)</u> |
| Expenditures/Expenses | | | | | | |
| Current | | | | | | |
| Instruction..... | 10,112,515 | — | 10,112,515 | 12,709,571 | 10,122,298 | (9,783) |
| Student support services.... | 18,375,196 | — | 18,375,196 | 18,263,065 | 18,412,712 | (37,516) |
| Instructional staff support services | 10,888,012 | — | 10,888,012 | 11,755,203 | 11,485,059 | (597,047) |
| General administration | 5,998,207 | — | 5,998,207 | 5,677,524 | 5,242,556 | 755,651 |
| Business administration | 3,067,516 | — | 3,067,516 | 3,266,682 | 4,118,196 | (1,050,680) |
| Plant operations and maintenance | 1,729,910 | 11,001 | 1,740,911 | 2,373,122 | 1,959,348 | (218,437) |
| Central and other support services | 219,607 | 556,564 | 776,171 | 799,098 | 799,055 | (22,884) |
| Noninstructional programs | 189,078 | 4,614 | 193,692 | 166,518 | 184,723 | 8,969 |
| Facilities acquisition and construction | <u>532,552</u> | <u>—</u> | <u>532,552</u> | <u>—</u> | <u>670,000</u> | <u>(137,448)</u> |
| Total Expenditures/ Expenses | <u>51,112,593</u> | <u>572,179</u> | <u>51,684,772</u> | <u>55,010,783</u> | <u>52,993,947</u> | <u>(1,309,175)</u> |
| Revenue Over Expenditures/Expenses.... | 4,048,063 | (20,308) | 4,027,755 | 3,263,718 | 2,778,443 | 1,249,312 |
| Other Financing Sources (Uses), Net..... | <u>(3,088,679)</u> | <u>—</u> | <u>(3,088,679)</u> | <u>(3,263,718)</u> | <u>(3,121,053)</u> | <u>32,374</u> |
| Revenue and Other Financing Sources Over Expenditures/Expenses and Other Financing Uses..... | 959,384 | (20,308) | 939,076 | — | (342,610) | 1,281,686 |
| Balance - Beginning of Year ... | <u>5,464,159</u> | <u>313,447</u> | <u>5,777,606</u> | <u>5,833,959</u> | <u>5,933,977</u> | <u>(156,371)</u> |
| Balance - End of Year | <u>\$ 6,423,543</u> | <u>\$ 293,139</u> | <u>\$ 6,716,682</u> | <u>\$ 5,833,959</u> | <u>\$ 5,591,367</u> | <u>\$ 1,125,315</u> |

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

The Agency is required by law to budget at the total expenditure/expense level. The Agency prepares its budget by major functions. While actual expenditures/expenses for certain functions above exceeded the budget, the Agency's total expenditures/expenses did not exceed the total 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 | 0.499082% |
| Agency's proportionate share of the net pension liability | \$20,198,261 |
| Agency's covered-employee payroll | \$33,853,337 |
| Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 59.66% |
| 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 | \$ 3,023,103 | \$ 2,831,849 | \$ 3,164,787 | \$ 3,570,083 | \$ 3,143,398 | \$ 3,117,396 | \$ 2,830,463 | \$ 2,530,629 | \$ 2,302,040 | \$ 2,232,364 |
| Contributions in relation to the statutorily required contributions..... | <u>(3,023,103)</u> | <u>(2,831,849)</u> | <u>(3,164,787)</u> | <u>(3,570,083)</u> | <u>(3,143,398)</u> | <u>(3,117,396)</u> | <u>(2,830,463)</u> | <u>(2,530,629)</u> | <u>(2,302,040)</u> | <u>(2,232,364)</u> |
| Contribution Deficiency (Excess)..... | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |
| Agency's covered-employee payroll | \$ 33,853,337 | \$ 31,712,000 | \$ 36,503,000 | \$ 44,239,000 | \$ 45,229,000 | \$ 46,878,000 | \$ 44,574,000 | \$ 41,829,000 | \$ 40,035,000 | \$ 38,824,000 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.67% | 8.07% | 6.95% | 6.65% | 6.35% | 6.05% | 5.75% | 5.75% |

Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2015

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.

Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2015

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 | \$ — | \$ 4,685,000 | \$ 4,685,000 | 0.0% | \$ 40,000,000 | 11.65% |
| 2010 | 7-1-08 | — | 4,685,000 | 4,685,000 | 0.0 | 47,300,000 | 9.90 |
| 2011 | 7-1-10 | — | 4,986,000 | 4,986,000 | 0.0 | 39,500,000 | 12.60 |
| 2012 | 7-1-10 | — | 4,986,000 | 4,986,000 | 0.0 | 41,000,000 | 12.20 |
| 2013 | 7-1-12 | — | 3,959,000 | 3,959,000 | 0.0 | 33,000,000 | 12.00 |
| 2014 | 7-1-12 | — | 3,959,000 | 3,959,000 | 0.0 | 30,700,000 | 12.90 |
| 2015 | 7-1-14 | — | 2,885,158 | 2,885,158 | 0.0 | 31,000,000 | 9.30 |

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 | Capital Projects | Total |
|--------------------------------|--|-----------------------------|--------------------------|
| Assets | | | |
| Receivables | | | |
| Accounts | \$ 40,884 | \$ — | \$ 40,884 |
| Due from other funds | <u>—</u> | <u>141,121</u> | <u>141,121</u> |
| Total Assets | <u>\$ 40,884</u> | <u>\$ 141,121</u> | <u>\$ 182,005</u> |
| Liabilities | | | |
| Accounts payable | \$ 21,825 | \$ 141,121 | \$ 162,946 |
| Due to other funds | <u>19,059</u> | <u>—</u> | <u>19,059</u> |
| Total Liabilities | <u>\$ 40,884</u> | <u>\$ 141,121</u> | <u>\$ 182,005</u> |

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

Year Ended June 30, 2015

| | <u>Special Revenue Juvenile Home</u> | <u>Capital Projects</u> | <u>Total</u> |
|--|--|-----------------------------|------------------|
| Revenue | | | |
| Local sources | \$ 287 | \$ — | \$ 287 |
| State sources | 1,165,654 | — | 1,165,654 |
| Total Revenue | <u>1,165,941</u> | <u>—</u> | <u>1,165,941</u> |
| Expenditures | | | |
| Current | | | |
| Instruction | 1,071,567 | — | 1,071,567 |
| Instructional staff support services | 2,139 | — | 2,139 |
| General administration..... | 80,816 | 232 | 81,048 |
| Plant operations and maintenance..... | 11,419 | — | 11,419 |
| Facilities acquisition and construction..... | — | <u>532,552</u> | <u>532,552</u> |
| Total Expenditures | <u>1,165,941</u> | <u>532,784</u> | <u>1,698,725</u> |
| Revenue Under Expenditures | — | (532,784) | (532,784) |
| Other Financing Sources | | | |
| Transfers in | — | <u>532,784</u> | <u>532,784</u> |
| Net Change in Fund Balances | — | — | — |
| Fund Balances - Beginning of Year | — | — | — |
| Fund Balances - End of Year | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |

Combining Schedule of Net Position - Nonmajor Proprietary Funds

As of June 30, 2015

| | Nutrition | Technology and Repair Services | Total |
|---|----------------------|--------------------------------------|--------------------------|
| Assets and Deferred Outflows of Resources | | | |
| Current Assets | | | |
| Cash and cash equivalents..... | \$ 622 | \$ 316,139 | \$ 316,761 |
| Accounts receivable | — | 106,537 | 106,537 |
| Inventory | — | 40,723 | 40,723 |
| Prepaid items | — | 331 | 331 |
| Total Current Assets | <u>622</u> | <u>463,730</u> | <u>464,352</u> |
| Capital Assets, Net of Accumulated | | | |
| Depreciation | <u>—</u> | <u>18,561</u> | <u>18,561</u> |
| Total Assets | <u>622</u> | <u>482,291</u> | <u>482,913</u> |
| Deferred Outflows of Resources | | | |
| Pension-related deferred outflows | <u>—</u> | <u>6,212</u> | <u>6,212</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 622</u> | <u>\$ 488,503</u> | <u>\$ 489,125</u> |
| Liabilities, Deferred Inflows of Resources and Net Position | | | |
| Current Liabilities | | | |
| Accounts payable | <u>\$ 622</u> | <u>\$ 44,752</u> | <u>\$ 45,374</u> |
| Long-Term Liabilities | | | |
| Net pension liability..... | <u>—</u> | <u>109,031</u> | <u>109,031</u> |
| Total Liabilities | <u>622</u> | <u>153,783</u> | <u>154,405</u> |
| Deferred Inflows of Resources | | | |
| Pension-related deferred inflows | <u>—</u> | <u>41,581</u> | <u>41,581</u> |
| Net Position | | | |
| Net investment in capital assets | — | 18,561 | 18,561 |
| Unrestricted | <u>—</u> | <u>274,578</u> | <u>274,578</u> |
| Total Net Position..... | <u>—</u> | <u>293,139</u> | <u>293,139</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position..... | <u>\$ 622</u> | <u>\$ 488,503</u> | <u>\$ 489,125</u> |

Combining Schedule of Revenue, Expenses and Changes in Net Position - Nonmajor Proprietary Funds

Year Ended June 30, 2015

| | Nutrition | Technology and Repair Services | Total |
|--|-----------------------|--------------------------------------|--------------------------|
| Operating Revenue | | | |
| Charges for services..... | <u>\$ 127</u> | <u>\$ 550,221</u> | <u>\$ 550,348</u> |
| Operating Expenses | | | |
| Noninstructional Programs | | | |
| Plant Operations and Maintenance | | | |
| Purchased services..... | — | 1,037 | 1,037 |
| Materials and supplies..... | — | 6,919 | 6,919 |
| Depreciation..... | — | <u>3,045</u> | <u>3,045</u> |
| Total Plant Operations and Maintenance..... | <u>—</u> | <u>11,001</u> | <u>11,001</u> |
| Central and Other Support Services | | | |
| Salaries..... | — | 178,922 | 178,922 |
| Benefits..... | — | 57,457 | 57,457 |
| Purchased services..... | — | 89 | 89 |
| Materials and supplies..... | — | 318,796 | 318,796 |
| Depreciation..... | — | 44 | 44 |
| Miscellaneous..... | — | <u>1,256</u> | <u>1,256</u> |
| Total Central Support and Other Services..... | <u>—</u> | <u>556,564</u> | <u>556,564</u> |
| Food Service Operations | | | |
| Salaries..... | 2,298 | — | 2,298 |
| Benefits..... | 410 | — | 410 |
| Materials and supplies..... | <u>1,906</u> | — | <u>1,906</u> |
| Total Food Service Operations..... | <u>4,614</u> | <u>—</u> | <u>4,614</u> |
| Total Operating Expenses | <u>4,614</u> | <u>567,565</u> | <u>572,179</u> |
| Income (Loss) From Operations | <u>(4,487)</u> | <u>(17,344)</u> | <u>(21,831)</u> |
| Nonoperating Revenue | | | |
| Federal sources..... | <u>1,523</u> | <u>—</u> | <u>1,523</u> |
| Change in Net Position | (2,964) | (17,344) | (20,308) |
| Net Position - Beginning of Year, as restated..... | <u>2,964</u> | <u>310,483</u> | <u>313,447</u> |
| Net Position - End of Year | <u>\$ —</u> | <u>\$ 293,139</u> | <u>\$ 293,139</u> |

Combining Schedule of Cash Flows - Nonmajor Proprietary Funds

Year Ended June 30, 2015

| | Nutrition | Technology and Repair Services | Total |
|--|--------------------------|--------------------------------------|--------------------------|
| Cash Flows From Operating Activities | | | |
| Cash received from customers | \$ 127 | \$ 590,694 | \$ 590,821 |
| Cash paid to employees for services | (2,708) | (248,350) | (251,058) |
| Cash paid to suppliers for goods and services..... | <u>(2,633)</u> | <u>(320,190)</u> | <u>(322,823)</u> |
| Net Cash Provided by (Used in) Operating Activities..... | <u>(5,214)</u> | <u>22,154</u> | <u>16,940</u> |
| Cash Flows From Noncapital Financing Activities | | | |
| Federal grants received..... | <u>1,523</u> | <u>—</u> | <u>1,523</u> |
| Cash Flows From Capital and Related Financing Activities | | | |
| Acquisition of capital assets | <u>—</u> | <u>(2,614)</u> | <u>(2,614)</u> |
| Net Increase in Cash and Cash Equivalents..... | (3,691) | 19,540 | 15,849 |
| Cash and Cash Equivalents at Beginning of Year | <u>4,313</u> | <u>296,599</u> | <u>300,912</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 622</u> | <u>\$ 316,139</u> | <u>\$ 316,761</u> |
| Reconciliation of Loss From Operations to Net Cash Provided by (Used in) Operating Activities | | | |
| Loss from operations..... | \$ (4,487) | \$ (17,344) | \$ (21,831) |
| Adjustments to Reconcile Loss From Operations to Net Cash Provided by (Used in) Operating Activities | | | |
| Depreciation..... | — | 3,089 | 3,089 |
| Decrease in accounts receivable..... | — | 40,473 | 40,473 |
| Decrease in inventories..... | — | 927 | 927 |
| Increase in prepaid items | — | (331) | (331) |
| Increase in pension-related deferred outflows .. | — | (6,212) | (6,212) |
| Increase (decrease) in accounts payable | (727) | 7,311 | 6,584 |
| Decrease in net pension liability | — | (47,340) | (47,340) |
| Increase in pension-related deferred inflows | <u>—</u> | <u>41,581</u> | <u>41,581</u> |
| Net Cash Provided by (Used in) Operating Activities..... | <u>\$ (5,214)</u> | <u>\$ 22,154</u> | <u>\$ 16,940</u> |

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Funds ▬

Year Ended June 30, 2015

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---|--|----------------------------|----------------------------|------------------------------------|
| Assets | | | | |
| Cash and pooled investments | <u>\$ 339,731</u> | <u>\$ 1,755,637</u> | <u>\$ 1,726,000</u> | <u>\$ 369,368</u> |
| Liabilities | | | | |
| Accounts payable | \$ 89,194 | \$ 92,446 | \$ 89,194 | \$ 92,446 |
| Deposits held in custody for others.... | <u>250,537</u> | <u>1,663,191</u> | <u>1,636,806</u> | <u>276,922</u> |
| Total Liabilities | <u>\$ 339,731</u> | <u>\$ 1,755,637</u> | <u>\$ 1,726,000</u> | <u>\$ 369,368</u> |

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

For the Last Ten Years

| | Years Ended June 30, | | | | | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| Revenue | | | | | | | | | | |
| Local sources | \$ 21,689,028 | \$ 20,740,780 | \$ 24,834,154 | \$ 37,051,670 | \$ 37,475,083 | \$ 39,255,589 | \$ 37,963,299 | \$ 35,320,511 | \$ 34,467,848 | \$ 33,309,117 |
| State sources | 17,380,955 | 16,646,593 | 15,761,737 | 16,387,663 | 18,729,978 | 16,787,160 | 18,421,837 | 16,590,759 | 13,862,015 | 12,706,309 |
| Intermediate sources | 219,526 | 113,644 | — | — | — | — | — | — | — | — |
| Federal sources | 15,871,147 | 15,979,439 | 16,788,669 | 17,294,461 | 18,945,236 | 29,930,341 | 19,251,652 | 16,871,230 | 17,996,620 | 18,604,604 |
| Total Revenue | \$ 55,160,656 | \$ 53,480,456 | \$ 57,384,560 | \$ 70,733,794 | \$ 75,150,297 | \$ 85,973,090 | \$ 75,636,788 | \$ 68,782,500 | \$ 66,326,483 | \$ 64,620,030 |
| Expenditures | | | | | | | | | | |
| Current | | | | | | | | | | |
| Instruction | \$ 10,112,515 | \$ 10,252,644 | \$ 13,417,645 | \$ 25,625,487 | \$ 26,315,571 | \$ 27,131,683 | \$ 25,831,081 | \$ 23,671,016 | \$ 22,924,955 | \$ 21,763,378 |
| Student support services | 18,375,196 | 17,710,275 | 16,982,192 | 17,689,241 | 17,944,382 | 18,710,718 | 17,601,257 | 16,629,025 | 15,267,040 | 15,447,597 |
| Instructional staff support services | 10,888,012 | 11,131,440 | 11,127,795 | 12,284,435 | 12,615,919 | 13,514,721 | 12,732,796 | 11,438,951 | 11,965,394 | 11,940,186 |
| General administration | 5,998,207 | 5,618,383 | 5,590,348 | 6,210,807 | 6,298,209 | 6,566,067 | 5,976,269 | 5,758,953 | 5,718,006 | 5,396,285 |
| Business administration | 3,067,516 | 3,256,367 | 3,349,700 | 3,241,039 | 2,967,959 | 3,155,816 | 2,991,439 | 3,457,122 | 2,996,568 | 2,813,973 |
| Plant operations and maintenance | 1,729,910 | 1,737,799 | 1,939,693 | 2,112,532 | 2,109,525 | 2,690,751 | 2,195,038 | 2,274,798 | 2,062,109 | 2,213,313 |
| Central and other support services | 219,607 | 134,235 | 916,387 | 1,485,175 | 1,543,050 | 1,699,324 | 1,799,788 | 1,586,136 | 1,689,199 | 1,642,549 |
| Noninstructional programs | 189,078 | 159,800 | 137,378 | 149,530 | 138,675 | — | — | — | — | — |
| Facilities acquisition and construction | 532,552 | 234,792 | 250,259 | 552,704 | 270,015 | 377,454 | — | — | — | 1,584,465 |
| Debt service | — | 130,063 | 129,743 | 134,242 | 389,002 | 417,314 | 414,588 | 416,026 | 416,502 | 364,510 |
| Total Expenditures | \$ 51,112,593 | \$ 50,365,798 | \$ 53,841,140 | \$ 69,485,192 | \$ 70,592,307 | \$ 74,263,848 | \$ 69,542,256 | \$ 65,232,027 | \$ 63,039,773 | \$ 63,166,256 |

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

| Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Expenditures |
|--|----------------|---|-----------------------------|
| U.S. Department of Agriculture - Indirect | | | |
| Pass-Through Iowa Department of Education | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program..... | 10.553 | N/A | \$ 471 |
| National School Lunch Program | 10.555 | N/A | <u>1,052</u> |
| Total U.S. Department of Agriculture..... | | | <u>1,523</u> |
| U.S. Department of Education - Indirect | | | |
| Pass-Through Iowa Department of Education | | | |
| Special Education - Grants to States | | | |
| Preschool Handicapped Program | 84.027* | 4K74-07 | 162,045 |
| Preschool Handicapped Program - Flow Through .. | 84.027* | 0031-3367-5KB | 3,127,844 |
| Enhancing the Parent Educator Connection | 84.027* | 0031-3367-5KB | 11,217,322 |
| Disabilities Grants..... | 84.027* | N/A | <u>20,648</u> |
| Total Special Education - Grants to States | | | <u>14,527,859</u> |
| Special Education - Preschool Grants | | | |
| Section 619 | 84.173* | 14619-07 | 422,427 |
| IQPPS Grant | 84.173* | 19313 | <u>2,769</u> |
| Total Special Education - Preschool Grants | | | <u>425,196</u> |
| Early Intervention Services Cluster (IDEA) | | | |
| Special Education - Grants for Infants and Families... | 84.181 | C1415-07 | <u>354,328</u> |
| English Language Acquisition Grants..... | 84.365 | 15ELA-02 | <u>381,030</u> |
| Total Pass-Through Iowa Department of Education | | | <u>15,688,413</u> |
| Pass-Through From Drake University | | | |
| Mathematics and Science Partnership | 84.366 | N/A | <u>29,432</u> |
| Pass-Through Mason City Community School District | | | |
| Title I Grants to Local Educational Agencies | 84.010 | N/A | <u>40,419</u> |
| Pass-Through State Training School for Boys | | | |
| Special Education - Grants to States..... | 84.027* | N/A | <u>32,460</u> |
| Pass-Through Waterloo Community School District | | | |
| Improving Teaching Quality State Grants..... | 84.367 | N/A | <u>2,523</u> |
| Total U.S. Department of Education | | | <u>15,793,247</u> |
| Total | | | <u>\$ 15,794,770</u> |

* Total for CFDA Number 84.027 is \$14,560,319 and total for Special Education Cluster (IDEA) (CFDA numbers 84.027 and 84.173) is \$14,985,515

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Area Education Agency 267 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

Area Education Agency 267 provided \$3,127,844 of federal awards to various school districts as part of the Preschool Handicapped 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
Area Education Agency 267
Cedar Falls, 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, the business-type activities, each major fund and the aggregate remaining fund information of Area Education Agency 267 as of and for the year ended June 30, 2015, and the related notes to the financial statements, and the discretely presented component units as of December 31, 2014 and June 30, 2015, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Area Education Agency 267'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 Area Education Agency 267's internal control. Accordingly, we do not express an opinion on the effectiveness of Area Education Agency 267's internal control.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Area Education Agency 267'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 certain immaterial instances of noncompliance or other matters which are described in Part IV of the accompanying schedule of findings and questioned costs.


Comments involving statutory and other legal matters about Area Education Agency 267'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 Area Education Agency 267. 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.

Area Education Agency 267's Response to Finding

Area Education Agency 267's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Area Education Agency 267'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HOGAN - HANSEN

Mason City, Iowa
December 21, 2015

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A Professional Corporation

Certified Public Accountants and Consultants

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
Area Education Agency 267
Cedar Falls, Iowa

Report on Compliance for Each Major Federal Program

We have audited Area Education Agency 267'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. Area Education Agency 267'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 Area Education Agency 267'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 Area Education Agency 267'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 Area Education Agency 267's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Area Education Agency 267 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 Area Education Agency 267 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 Area Education Agency 267's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 Area Education Agency 267'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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 21, 2015

Schedule of Findings and Questioned Costs

Year Ended June 30, 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 no

Significant deficiencies identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Significant deficiencies identified not considered to be material weaknesses? yes 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 no

Identification of major programs:

CFDA Numbers

84.027 and 84.173

Name of Cluster

Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs:

\$473,843

Auditee qualified as low-risk auditee?

yes no

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.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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 amounts 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 Certified Annual Report** - The Certified Annual Report was certified timely to the Iowa Department of Education.
- 15-IV-H Categorical Funding** - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- 15-IV-I Financial Condition** - The Agency's governmental activities had a deficit net position of \$14,099,141 as of June 30, 2015.

Auditor's Recommendation - The Agency should investigate alternatives to eliminate this deficit to return the governmental activities 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.