

**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, 2016**

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# Officials

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Name	Title	Term Expires
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## Board of Directors

### (Before September, 2015)

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

### (After September, 2015)

Dr. Debra Rich	President	September 30, 2017
Roberta Kraft-Abrahamson	Vice President	September 30, 2017
David Giese	Member	September 30, 2019
Darshini Jayawardena	Member	September 30, 2019
Dr. George North	Member	September 30, 2019
Richard Vande Kieft	Member	September 30, 2017
Bryan Burton	Member	September 30, 2017
Dennis Craun, Jr.	Member	September 30, 2019
Maureen Hanson	Member	September 30, 2019

## Agency

Sam Miller	Chief Administrator
David Nicholson	Chief Financial Officer and Treasurer
Kerri Wilson	Board Secretary
(resigned June 30, 2016)	

## **Independent Auditor's Report**

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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, 2016, and the related notes to the financial statements, and the discretely presented component units as of and for the year ended December 31, 2015 and June 30, 2016, 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, 2016 and the discretely presented component units as of December 31, 2015 and June 30, 2016, 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.

## **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 42 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, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 43 through 47, including the schedule of expenditures of federal awards required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 January 4, 2017 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* in considering Area Education Agency 267's internal control over financial reporting and compliance.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
January 4, 2017

**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, 2016. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

**2016 FINANCIAL HIGHLIGHTS**

General Fund revenue decreased from \$47,401,302 in fiscal year 2015 to \$46,958,989 in fiscal year 2016. General Fund expenditures and other financing uses increased from \$45,919,148 in fiscal year 2015 to \$46,963,107 in fiscal year 2016. The increase in General Fund expenditures of \$1,043,959 was mostly attributed to increased employee wages and benefits due to negotiated contracts and spending down the teacher supplemental salary reserved balance.

The General Fund balance decreased from \$6,413,529 as of the end of fiscal year 2015 to \$6,333,002 as of the end of fiscal year 2016. The fund balance consists of a nonspendable fund balance of \$179,754, a restricted fund balance of \$920,323, a committed fund balance of \$128,800, an assigned balance of \$10,089 and an unassigned balance of \$5,094,036. The unassigned fund balance as of the end of the year 2016 represents approximately 11% of the 2016 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 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 technology and repair services program is included here. This program will be closing in the year ending June 30, 2017.

### ***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 required financial statements for governmental funds 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 one enterprise fund – the Technology and Repair Services Fund.

The required financial statements for the proprietary fund 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 is a statement of fiduciary assets and liabilities.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Area Education Agency 267's net position as of the end of fiscal year 2016 was a \$13.0 million deficit compared to a deficit balance of approximately \$13.8 million as of the end of fiscal year 2015. The analysis that follows focuses on the net position and changes in net position.

	Condensed Statement of Net Position					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2016	2015	2016	2015	2016	2015
Current and other assets.....	\$ 13,113,305	\$ 14,095,427	\$ 44,042	\$ 464,352	\$ 13,157,347	\$ 14,559,779
Capital assets .....	<u>7,632,811</u>	<u>7,920,166</u>	<u>—</u>	<u>18,561</u>	<u>7,632,811</u>	<u>7,938,727</u>
<b>Total Assets .....</b>	<b><u>20,746,116</u></b>	<b><u>22,015,593</u></b>	<b><u>44,042</u></b>	<b><u>482,913</u></b>	<b><u>20,790,158</u></b>	<b><u>22,498,506</u></b>
<b>Deferred Outflows of Resources</b>	<b><u>4,169,697</u></b>	<b><u>1,144,144</u></b>	<b><u>—</u></b>	<b><u>6,212</u></b>	<b><u>4,169,697</u></b>	<b><u>1,150,356</u></b>
<b>Total Assets and Deferred Outflows of Resources .....</b>	<b><u>\$ 24,915,813</u></b>	<b><u>\$ 23,159,737</u></b>	<b><u>\$ 44,042</u></b>	<b><u>\$ 489,125</u></b>	<b><u>\$ 24,959,855</u></b>	<b><u>\$ 23,648,862</u></b>
Long-term obligations .....	\$ 26,514,949	\$ 21,925,540	\$ —	\$ 109,031	\$ 26,514,949	\$ 22,034,571
Other liabilities .....	<u>6,751,831</u>	<u>7,671,884</u>	<u>44,042</u>	<u>45,374</u>	<u>6,795,873</u>	<u>7,717,258</u>
<b>Total Liabilities .....</b>	<b><u>33,266,780</u></b>	<b><u>29,597,424</u></b>	<b><u>44,042</u></b>	<b><u>154,405</u></b>	<b><u>33,310,822</u></b>	<b><u>29,751,829</u></b>
<b>Deferred Inflows of Resources...</b>	<b><u>4,668,835</u></b>	<b><u>7,661,454</u></b>	<b><u>—</u></b>	<b><u>41,581</u></b>	<b><u>4,668,835</u></b>	<b><u>7,703,035</u></b>
<b>Net Position</b>						
Net investment in capital assets....	7,632,811	7,920,166	—	18,561	7,632,811	7,938,727
Restricted.....	948,795	1,479,987	—	—	948,795	1,479,987
Unrestricted .....	<u>(21,601,408)</u>	<u>(23,499,294)</u>	<u>—</u>	<u>274,578</u>	<u>(21,601,408)</u>	<u>(23,224,716)</u>
<b>Total Net Position .....</b>	<b><u>(13,019,802)</u></b>	<b><u>(14,099,141)</u></b>	<b><u>—</u></b>	<b><u>293,139</u></b>	<b><u>(13,019,802)</u></b>	<b><u>(13,806,002)</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position .....</b>	<b><u>\$ 24,915,813</u></b>	<b><u>\$ 23,159,737</u></b>	<b><u>\$ 44,042</u></b>	<b><u>\$ 489,125</u></b>	<b><u>\$ 24,959,855</u></b>	<b><u>\$ 23,648,862</u></b>

The Agency's combined net position increased by 5.7%, or approximately \$786,000, from fiscal year 2015. Overall, net investment in capital assets decreased approximately \$306,000, or 3.9%.

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

	<b>Changes in Net Position</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Revenue</b>						
Program Revenue						
Charges for service .....	\$ 7,579,574	\$ 8,869,616	\$ 679,391	\$ 550,348	\$ 8,258,965	\$ 9,419,964
Operating grants and contributions .....	25,333,228	21,246,012	—	1,523	25,333,228	21,247,535
General Revenue						
Property tax levied for general purposes .....	8,329,894	12,158,275	—	—	8,329,894	12,158,275
State foundation aid .....	12,963,618	12,886,394	—	—	12,963,618	12,886,394
Unrestricted investment earnings	600,752	359	—	—	600,752	359
Loss on disposal of capital assets	(5,172)	(55,412)	—	—	(5,172)	(55,412)
<b>Total Revenue .....</b>	<b><u>54,801,894</u></b>	<b><u>55,105,244</u></b>	<b><u>679,391</u></b>	<b><u>551,871</u></b>	<b><u>55,481,285</u></b>	<b><u>55,657,115</u></b>
<b>Program Expenses</b>						
Instruction .....	10,213,257	9,712,300	—	—	10,213,257	9,712,300
Student support services .....	21,699,694	20,753,566	—	—	21,699,694	20,753,566
Instructional staff support services	11,059,549	10,298,894	—	—	11,059,549	10,298,894
General administration .....	5,095,695	5,836,020	—	—	5,095,695	5,836,020
Business administration .....	3,669,838	2,903,067	—	—	3,669,838	2,903,067
Plant operations and maintenance	1,720,048	1,705,663	—	—	1,720,048	1,705,663
Central and other support services	23,518	193,240	—	—	23,518	193,240
Noninstructional programs .....	186,227	189,078	623,913	572,179	810,140	761,257
Depreciation/amortization (unallocated) .....	403,346	880,726	—	—	403,346	880,726
<b>Total Expenses .....</b>	<b><u>54,071,172</u></b>	<b><u>52,472,554</u></b>	<b><u>623,913</u></b>	<b><u>572,179</u></b>	<b><u>54,695,085</u></b>	<b><u>53,044,733</u></b>
<b>Change in Net Position Before Other Financing Sources .....</b>	<b>730,722</b>	<b>2,632,690</b>	<b>55,478</b>	<b>(20,308)</b>	<b>786,200</b>	<b>2,612,382</b>
<b>Other Financing Sources (Uses) .....</b>	<b><u>348,617</u></b>	<b>—</b>	<b><u>(348,617)</u></b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Change in Net Position .....</b>	<b>1,079,339</b>	<b>2,632,690</b>	<b>(293,139)</b>	<b>(20,308)</b>	<b>786,200</b>	<b>2,612,382</b>
Net Position - Beginning of Year ..	(14,099,141)	(16,731,831)	293,139	313,447	(13,806,002)	(16,418,384)
<b>Net Position - End of Year .....</b>	<b><u>\$ (13,019,802)</u></b>	<b><u>\$ (14,099,141)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 293,139</u></b>	<b><u>\$ (13,019,802)</u></b>	<b><u>\$ (13,806,002)</u></b>

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for 85.1% 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 79.5% of the total expenses.

### Governmental Activities

Revenue and other financing sources for governmental activities were \$55,150,511 and expenses were \$54,071,172.

### Business-Type Activities

Revenue of the Agency's business-type activities totaled \$679,391, a 23.1% increase from the prior year and expenses were \$623,913, a 9.0% increase from the prior year. The increase in revenue was mainly due to a refund of a prior year expense for the GASB 68 pension liability that was reversed due to the HVAC repair program being discontinued at the close of the year and transfer of the remaining assets for the equipment repair program to the General Fund. The Agency's decision to move the equipment repair program to the General Fund was suggested by the Iowa Department of Education (IDOE). The IDOE felt this was more of a service function not a business function of the AEA. The increase in expenses is due to an increase in the number of repairs being completed by the equipment and repair operation.

Revenue from this activity is comprised of charges for services.

## **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 \$6,361,474, which is a decrease from the beginning of the year fund balances of \$6,423,543.

### **Governmental Fund Highlights**

The General Fund balance decreased by approximately \$80,500. The primary reason for the small decrease in the combined fund balance is due to the Agency's efforts to contain costs to maintain its fund balance.

### **Proprietary Fund Highlights**

The Technology and Repair Service Fund will be closed at the beginning of the 2017 fiscal year.

## **BUDGETARY HIGHLIGHTS**

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 intermediate sources revenue. The Agency's total revenue was \$521,036 less than budgeted revenue, a variance of 0.9%. Total expenditures were \$1,659,012 less than budgeted, a variance of 3.1%.

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**

As of June 30, 2016, the Agency had invested \$7,632,811, 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 \$305,916 from the beginning of the year.

Area Education Agency 267 reported depreciation expense of \$844,859 in fiscal year 2016 and total accumulated depreciation of \$12,204,256 as of June 30, 2016. 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, 2016 or 2015.

### **Governmental Activities**

As of June 30, 2016, the Agency had \$26,514,949 of long-term liabilities outstanding compared to \$21,925,540 as of June 30, 2015. 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.

## **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 FY 17, the supplemental state aid was set by the legislature at 2.25% and they did not take action for setting the rate for FY 18 as required by law. Late in the legislative session, the legislature increased the prior cut to the AEA's from \$15 million to \$18.75 million, which equates to \$524,156 for the Agency. The Agency was also made aware of a possible federal funding reduction pending action of the federal government. The amount of the cut is not known at this time.
- Stable enrollment growth is critical in maintaining a sound financial position. The Agency has seen a very slight decline in its enrollment over the past few years. The budgeted enrollment count for FY 17 went down by 0.34%.
- Health insurance can have a significant impact on the Agency's negotiated settlements. Health insurance premiums increased by 8.43% for FY 17. As of right now, the Agency is beating Wellmark's book of business with its current health care costs, which hopefully will translate in a lower increased insurance rate for FY 18.
- Maintaining facilities is always a challenge for all AEA's, as they are at a huge disadvantage when compared to local school districts. AEA's only have one funding source for facility maintenance and updates, its General Fund. Local school districts have access to PPEL and SAVE dollars to help with their building improvement projects. The Agency conducted an extensive facility study and it was determined that the Agency could reduce the amount of square footage it was maintaining. The recommendation of the facility study was to completely remodel the Cedar Falls Conference Center and sell the Agency's special education building in Cedar Falls. The estimated cost to complete the remodel of the Cedar Falls Conference Center was approximately \$3.2 million. Because of the age of the Conference Center and \$3 million estimated value of the Conference Center after the remodel, the Agency decided to investigate other options. The Agency was able to locate a facility that would allow the Agency to reduce its square footage and sell all three of its Cedar Falls buildings and move under one roof. The Agency has moved forward with the purchase of the facility by financing the purchase and remodel through a 16-year lease-purchase arrangement in the amount of \$6 million. The Agency has put all of its Cedar Falls offices on the market and will use the proceeds from the sale to buy down the life of the lease-purchase arrangement.

## **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**

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# Statement of Net Position

As of June 30, 2016

	Governmental Activities	Business- Type Activities	Total	Component Units	
				AEA6 Foundation	AEA267 Foundation
<b>Assets and Deferred Outflows of Resources</b>					
<b>Assets</b>					
Cash, cash equivalents and investments.....	\$ 10,518,327	\$ —	\$ 10,518,327	\$ 718,599	\$ 87,583
Accounts receivable .....	26,392	6,517	32,909	—	—
Due from other governments .....	2,227,270	168,125	2,395,395	—	—
Internal balance.....	161,562	(161,562)	—	—	—
Inventories.....	61,789	30,840	92,629	—	—
Prepaid expenses .....	117,965	122	118,087	—	—
Capital assets, net of accumulated depreciation.....	7,632,811	—	7,632,811	—	—
<b>Total Assets.....</b>	<b>20,746,116</b>	<b>44,042</b>	<b>20,790,158</b>	<b>718,599</b>	<b>87,583</b>
<b>Deferred Outflows of Resources</b>					
Pension-related deferred outflows	<u>4,169,697</u>	<u>—</u>	<u>4,169,697</u>	<u>—</u>	<u>—</u>
<b>Total Assets and Deferred Outflows of Resources.....</b>	<b>\$ 24,915,813</b>	<b>\$ 44,042</b>	<b>\$ 24,959,855</b>	<b>\$ 718,599</b>	<b>\$ 87,583</b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>					
<b>Liabilities</b>					
Accounts payable.....	\$ 508,328	\$ 44,042	\$ 552,370	\$ —	\$ —
Salaries and benefits payable.....	6,211,398	—	6,211,398	—	—
Advances from grantors.....	32,105	—	32,105	—	—
<b>Long-Term Liabilities</b>					
Portion Due or Payable Within One Year					
Compensated absences .....	297,619	—	297,619	—	—
Portion Due or Payable After One Year					
Net pension liability .....	24,409,344	—	24,409,344	—	—
Net OPEB liability.....	1,807,986	—	1,807,986	—	—
<b>Total Liabilities.....</b>	<b>33,266,780</b>	<b>44,042</b>	<b>33,310,822</b>	<b>—</b>	<b>—</b>
<b>Deferred Inflows of Resources</b>					
Pension-related deferred inflows ....	<u>4,668,835</u>	<u>—</u>	<u>4,668,835</u>	<u>—</u>	<u>—</u>
<b>Net Position</b>					
Net investment in capital assets .....	7,632,811	—	7,632,811	—	—
Restricted for					
Categorical funding.....	349,355	—	349,355	—	—
Media materials.....	570,968	—	570,968	—	—
Special education transportation	28,472	—	28,472	—	—
Unrestricted.....	(21,601,408)	—	(21,601,408)	718,599	87,583
<b>Total Net Position.....</b>	<b>(13,019,802)</b>	<b>—</b>	<b>(13,019,802)</b>	<b>718,599</b>	<b>87,583</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position.....</b>	<b>\$ 24,915,813</b>	<b>\$ 44,042</b>	<b>\$ 24,959,855</b>	<b>\$ 718,599</b>	<b>\$ 87,583</b>

See accompanying notes to the financial statements.

# Statement of Activities

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue		Net Revenue (Expense) and Changes in Net Position			Component Units	
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total	AEA6 Foundation	AEA267 Foundation
<b>Governmental Activities</b>								
Regular instruction.....	\$ 10,213,257	\$ 2,105,314	\$ 6,503,475	\$ (1,604,468)	\$ —	\$ (1,604,468)	\$ —	\$ —
Student support services .....	21,699,694	621	18,685,480	(3,013,593)	—	(3,013,593)	—	—
Instructional staff support services.....	11,059,549	646,456	141,220	(10,271,873)	—	(10,271,873)	—	—
General administration .....	5,095,695	114,811	3,053	(4,977,831)	—	(4,977,831)	—	—
Business administration.....	3,669,838	426,016	—	(3,243,822)	—	(3,243,822)	—	—
Plant operations and maintenance .....	1,720,048	—	—	(1,720,048)	—	(1,720,048)	—	—
Central and other support services .....	23,518	—	—	(23,518)	—	(23,518)	—	—
Noninstructional programs.....	186,227	4,286,356	—	4,100,129	—	4,100,129	—	—
Depreciation/amortization (unallocated)* .....	403,346	—	—	(403,346)	—	(403,346)	—	—
<b>Total Governmental Activities .....</b>	<b>54,071,172</b>	<b>7,579,574</b>	<b>25,333,228</b>	<b>(21,158,370)</b>	<b>—</b>	<b>(21,158,370)</b>	<b>—</b>	<b>—</b>
<b>Business-Type Activities</b>								
Noninstructional Program								
Technology and repair services.....	<u>623,913</u>	<u>679,391</u>	<u>—</u>	<u>—</u>	<u>55,478</u>	<u>55,478</u>	<u>—</u>	<u>—</u>
<b>Total .....</b>	<b>\$ 54,695,085</b>	<b>\$ 8,258,965</b>	<b>\$ 25,333,228</b>	<b>(21,158,370)</b>	<b>55,478</b>	<b>(21,102,892)</b>	<b>—</b>	<b>—</b>
<b>Component Units</b>								
<b>AEA6 Foundation .....</b>	<b>\$ 42,104</b>	<b>\$ —</b>	<b>\$ —</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(42,104)</b>	<b>—</b>
<b>AEA267 Foundation .....</b>	<b>\$ 28,916</b>	<b>\$ —</b>	<b>\$ 86,256</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>57,340</b>
<b>General Revenue (Expense)</b>								
Property tax levied for general purposes .....				8,329,894	—	8,329,894	—	—
State foundation aid.....				12,963,618	—	12,963,618	—	—
Unrestricted investment earnings .....				600,752	—	600,752	16,088	14
Loss on disposal of capital assets .....				(5,172)	—	(5,172)	—	—
Transfer in .....				348,617	(348,617)	—	—	—
<b>Total General Revenue (Expense).....</b>				<b>22,237,709</b>	<b>(348,617)</b>	<b>21,889,092</b>	<b>16,088</b>	<b>14</b>
<b>Change in Net Position .....</b>				<b>1,079,339</b>	<b>(293,139)</b>	<b>786,200</b>	<b>(26,016)</b>	<b>57,354</b>
Net Position - Beginning of Year.....				(14,099,141)	293,139	(13,806,002)	744,615	30,229
<b>Net Position - End of Year.....</b>				<b>\$ (13,019,802)</b>	<b>\$ —</b>	<b>\$ (13,019,802)</b>	<b>\$ 718,599</b>	<b>\$ 87,583</b>

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

## Balance Sheet - Governmental Funds

As of June 30, 2016

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and cash equivalents.....	\$ 10,427,041	\$ —	\$ 91,286	\$ 10,518,327
Accounts receivable .....	26,392	—	—	26,392
Due from other governments	645,849	1,577,131	4,290	2,227,270
Due from other funds.....	1,648,224	—	—	1,648,224
Inventories.....	61,789	—	—	61,789
Prepaid expenditures.....	117,965	—	—	117,965
<b>Total Assets .....</b>	<b><u>\$ 12,927,260</u></b>	<b><u>\$ 1,577,131</u></b>	<b><u>\$ 95,576</u></b>	<b><u>\$ 14,599,967</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable .....	\$ 383,302	\$ 61,555	\$ 63,471	\$ 508,328
Salaries and benefits payable	6,210,956	442	—	6,211,398
Due to other funds.....	—	1,486,662	—	1,486,662
Advances from grantors .....	—	—	32,105	32,105
<b>Total Liabilities .....</b>	<b><u>6,594,258</u></b>	<b><u>1,548,659</u></b>	<b><u>95,576</u></b>	<b><u>8,238,493</u></b>
<b>Fund Balances</b>				
Nonspendable				
Inventories .....	61,789	—	—	61,789
Prepaid expenditures .....	117,965	—	—	117,965
Restricted for				
Categorical funding.....	349,355	—	—	349,355
Media materials.....	570,968	—	—	570,968
Special education instruction.....	—	28,472	—	28,472
Committed for				
Retro worker's compensa- tion program.....	128,800	—	—	128,800
Assigned .....	10,089	—	—	10,089
Unassigned .....	5,094,036	—	—	5,094,036
<b>Total Fund Balances .....</b>	<b><u>6,333,002</u></b>	<b><u>28,472</u></b>	<b><u>—</u></b>	<b><u>6,361,474</u></b>
<b>Total Liabilities and Fund Balances .....</b>	<b><u>\$ 12,927,260</u></b>	<b><u>\$ 1,577,131</u></b>	<b><u>\$ 95,576</u></b>	<b><u>\$ 14,599,967</u></b>

See accompanying notes to the financial statements.

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

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As of June 30, 2016

**Total Fund Balances for Governmental Funds (Page 12)....** **\$ 6,361,474**

***Amounts reported for governmental activities in the  
statement of net position are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$19,837,067 and the accumulated depreciation is \$12,204,256..... 7,632,811

Pension-related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources .....	\$ 4,169,697	
Deferred inflows of resources .....	<u>(4,668,835)</u>	(499,138)

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.....	\$ (297,619)	
Net pension liability .....	(24,409,344)	
Net OPEB liabilities .....	<u>(1,807,986)</u>	<u>(26,514,949)</u>

**Net Position of Governmental Activities (Page 10) .....** **\$ (13,019,802)**

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

Year Ended June 30, 2016

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
<b>Revenue</b>				
Local sources .....	\$ 15,033,519	\$ 6,246,071	\$ 4,498	\$ 21,284,088
State sources .....	15,961,954	358,598	1,246,005	17,566,557
Intermediate sources .....	20,414	—	—	20,414
Federal sources .....	15,936,007	—	—	15,936,007
<b>Total Revenue .....</b>	<b><u>46,951,894</u></b>	<b><u>6,604,669</u></b>	<b><u>1,250,503</u></b>	<b><u>54,807,066</u></b>
<b>Expenditures</b>				
<b>Current</b>				
Instruction .....	3,447,252	5,912,357	1,155,369	10,514,978
Student support services .....	18,925,733	221,248	—	19,146,981
Instructional staff support services .....	11,132,687	10,388	2,343	11,145,418
General administration .....	5,123,754	—	81,000	5,204,754
Business administration .....	3,379,408	394,236	—	3,773,644
Plant operations and maintenance .....	1,644,190	—	11,791	1,655,981
Central and other support services .....	—	47,982	—	47,982
Noninstructional programs .....	186,227	—	—	186,227
Facilities acquisition and construction .....	—	—	425,026	425,026
<b>Total Expenditures .....</b>	<b><u>43,839,251</u></b>	<b><u>6,586,211</u></b>	<b><u>1,675,529</u></b>	<b><u>52,100,991</u></b>
<b>Revenue Over (Under) Expenditures .....</b>	<b><u>3,112,643</u></b>	<b><u>18,458</u></b>	<b><u>(425,026)</u></b>	<b><u>2,706,075</u></b>
<b>Other Financing Sources (Uses)</b>				
LEA flow through .....	(3,123,856)	—	—	(3,123,856)
Transfers, net .....	(76,409)	—	425,026	348,617
Proceeds from sale of equipment .....	7,095	—	—	7,095
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>(3,193,170)</u></b>	<b><u>—</u></b>	<b><u>425,026</u></b>	<b><u>(2,768,144)</u></b>
<b>Change in Fund Balances .....</b>	<b>(80,527)</b>	<b>18,458</b>	<b>—</b>	<b>(62,069)</b>
Fund Balances - Beginning of Year .....	<u>6,413,529</u>	<u>10,014</u>	<u>—</u>	<u>6,423,543</u>
<b>Fund Balances - End of Year .....</b>	<b><u>\$ 6,333,002</u></b>	<b><u>\$ 28,472</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 6,361,474</u></b>

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, 2016

**Change in Fund Balances - Total Governmental Funds (Page 14)**..... **\$ (62,069)**

***Amounts reported for governmental activities in the statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are not reported in the statement of activities and are allocated over their estimated useful lives as depreciation/amortization expense in the statement of activities. The amounts of capital outlays and depreciation/amortization expense for the year are as follows:

Expenditures for capital outlays.....	\$ 569,771	
Depreciation/amortization expense .....	<u>(844,859)</u>	(275,088)

The net book value of capital assets disposed of during the year.....		(12,267)
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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.....	\$ 4,866	
Pension expense.....	1,698,058	
Other post-employment benefits.....	<u>(274,161)</u>	<u>1,428,763</u>

**Change in Net Position of Governmental Activities (Page 11)**..... **\$ 1,079,339**

# Statement of Net Position - Proprietary Fund

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As of June 30, 2016

	<b>Nonmajor Proprietary Fund</b>
	<b>Technology and Repair Services</b>
<b>Assets</b>	
Accounts receivable .....	\$ 6,517
Due from other governments .....	168,125
Inventory .....	30,840
Prepaid expenses.....	<u>122</u>
<b>Total Assets</b> .....	<b><u>\$ 205,604</u></b>
<b>Liabilities</b>	
Accounts payable .....	\$ 44,042
Due to other funds.....	<u>161,562</u>
<b>Total Liabilities</b> .....	<b><u>\$ 205,604</u></b>

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

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Year Ended June 30, 2016

	<b>Nonmajor Proprietary Fund</b> <hr style="border: 0.5px solid black;"/> <b>Technology and Repair Services</b>
<b>Operating Revenue</b>	
Charges for service .....	<b><u>\$ 679,391</u></b>
<b>Operating Expenses</b>	
Noninstructional Programs	
Plant Operations and Maintenance	
Materials and supplies.....	<u>2,487</u>
Central and Other Support Services	
Salaries .....	193,684
Benefits .....	70,218
Purchased services.....	311
Materials and supplies.....	<u>357,213</u>
Total Central and Other Support Services .....	<u>621,426</u>
<b>Total Operating Expenses</b> .....	<b><u>623,913</u></b>
<b>Income From Operations</b> .....	<b>55,478</b>
<b>Other Financing Uses</b>	
Transfers out .....	<u>(348,617)</u>
<b>Change in Net Assets</b> .....	<b>(293,139)</b>
Net Position - Beginning of Year.....	<u>293,139</u>
<b>Net Position - End of Year</b> .....	<b><u>\$ —</u></b>

# Statement of Cash Flows - Proprietary Fund

Year Ended June 30, 2016

	<b>Nonmajor Proprietary Fund Technology and Repair Services</b>
<b>Cash Flows From Operating Activities</b>	
Cash received from customers .....	\$ 611,286
Cash paid to employees for services .....	(408,302)
Cash paid to suppliers for goods and services.....	<u>(189,689)</u>
<b>Net Cash Provided by Operating Activities .....</b>	<b><u>13,295</u></b>
<b>Cash Flows From Noncapital Financing Activities</b>	
Transfer out.....	<u>(348,617)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Disposal of capital assets .....	<u>18,561</u>
<b>Net Increase in Cash and Cash Equivalents.....</b>	<b>(316,761)</b>
Cash and Cash Equivalents at Beginning of Year .....	<u>316,761</u>
<b>Cash and Cash Equivalents at End of Year .....</b>	<b><u>\$ —</u></b>
<b>Reconciliation of Income From Operations to Net Cash Provided by Operating Activities</b>	
Income from operations .....	\$ 55,478
Adjustments to Reconcile Income From Operations to Net Cash Provided by Operating Activities	
Increase in accounts receivable .....	(68,105)
Decrease in inventories .....	9,883
Decrease in prepaid expenses .....	209
Decrease in pension-related deferred outflows.....	6,212
Decrease in accounts payable.....	(1,332)
Increase in due to other funds .....	161,562
Decrease in net pension liability .....	(109,031)
Decrease in pension-related deferred inflows.....	<u>(41,581)</u>
<b>Net Cash Provided by Operating Activities .....</b>	<b><u>\$ 13,295</u></b>

See accompanying notes to the financial statements.

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

As of June 30, 2016

## Assets

Cash and cash equivalents.....	\$ 310,912
Due from other governments .....	<u>9,499</u>

<b>Total Assets</b> .....	<b><u>\$ 320,411</u></b>
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## Liabilities

Accounts payable .....	\$ 94,592
Due to other governments .....	9,499
Deposits held in custody for others.....	<u>216,320</u>

<b>Total Liabilities</b> .....	<b><u>\$ 320,411</u></b>
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# Notes to the Financial Statements

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## **(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 18 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, 2015.

During the Agency's fiscal year ended June 30, 2016, the Foundation provided the Agency \$42,104 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, 2016.

# Notes to the Financial Statements

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

During the Agency's fiscal year ended June 30, 2016, the 267 Foundation donated to the Agency \$28,916 towards River Hills School repairs and remodeling expenses. The 267 Foundation owed the Agency \$0 as of June 30, 2016.

### 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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation 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. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position that does not meet the definition of the 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 revenue and other revenue not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the funds are paid the general operating expenditures, including instructional, support and other costs.

# Notes to the Financial Statements

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

The Special Revenue, Special Education Instruction Fund is used to account for a program 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.

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

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## (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 fund is 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 as of June 30, 2016.

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.

#### ***Due From Other Governments***

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

#### ***Inventories***

Inventories are stated at cost using the first-in, first-out method and 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

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## (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:

<b>Asset Class</b>	<b>Estimated Useful Lives</b>
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.

### ***Due From Other Governments***

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

### ***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, 2016. 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, 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.

# Notes to the Financial Statements

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## (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 receivables not collected within 60 days after year end.

Deferred inflows of resources in the statement of net position consist of the unamortized portion of the net difference between projected and actual earnings on IPERS' 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. During the year ended June 30, 2016, expenditures did not exceed the amount budgeted.

## (2) Cash, Cash Equivalents and Investments

The Agency's deposits in banks as of June 30, 2016 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.

## Notes to the Financial Statements

### (2) Cash, Cash Equivalents and Investments

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

The Agency had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

#### 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.

#### AEA6 Foundation

Cash and investments of the AEA6 Foundation component unit are stated at fair value and are summarized as follows as of December 31, 2015:

	Cost	Fair Value	Unrealized Depreciation
Money market funds .....	\$ 29,271	\$ 29,271	\$ —
Mutual funds .....	101,783	101,440	(343)
Unit trusts .....	<u>622,760</u>	<u>587,888</u>	<u>(34,872)</u>
	<u>\$ 753,814</u>	<u>\$ 718,599</u>	<u>\$ (35,215)</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) .....	\$ 30,480
Net unrealized loss .....	<u>(14,392)</u>
	<u>\$ 16,088</u>

The AEA6 Foundation uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The recurring fair value measurement for the above investments were determined using the last reported sales price at current exchange rates. (Level 1 inputs)

The Agency had no other investment meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 27.

## Notes to the Financial Statements

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated/Amortized				
Land.....	\$ 809,308	\$ —	\$ —	\$ 809,308
Construction in progress .....	462,609	—	462,609	—
Total Capital Assets Not Being Depreciated.....	<u>1,271,917</u>	<u>—</u>	<u>462,609</u>	<u>809,308</u>
Capital Assets Being Depreciated/Amortized				
Buildings and improvements .....	11,176,716	806,898	—	11,983,614
Furniture and equipment .....	3,458,031	102,615	851,099	2,709,547
Library books and films .....	4,693,574	122,867	481,843	4,334,598
Total Capital Assets Being Depreciated/Amortized.....	<u>19,328,321</u>	<u>1,032,380</u>	<u>1,332,942</u>	<u>19,027,759</u>
Less Accumulated Depreciation/Amortization for				
Buildings and improvements .....	5,920,991	327,973	—	6,248,964
Furniture and equipment .....	2,669,164	209,001	838,832	2,039,333
Library books and films .....	4,089,917	307,885	481,843	3,915,959
Total Accumulated Depreciation/ Amortization .....	<u>12,680,072</u>	<u>844,859</u>	<u>1,320,675</u>	<u>12,204,256</u>
Total Capital Assets Being Depreciated/Amortized, Net .....	<u>6,648,249</u>	<u>187,521</u>	<u>12,267</u>	<u>6,823,503</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net.....</b>	<b><u>\$ 7,920,166</u></b>	<b><u>\$ 187,521</u></b>	<b><u>\$ 474,876</u></b>	<b><u>\$ 7,632,811</u></b>

Depreciation expense was charged to the following functions:

Governmental Activities	
Instruction .....	\$ 3,393
Student support services.....	7,354
Instructional staff support services .....	335,044
General administration .....	62,363
Business administration .....	15,535
Plant operations and maintenance .....	13,836
Central and other support services.....	3,988
Unallocated .....	403,346
<b>Total Governmental Activities Depreciation Expense .....</b>	<b><u>\$ 844,859</u></b>

## Notes to the Financial Statements

### (3) Capital Assets

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Business-Type Activities</b>				
Furniture and equipment .....	\$ 26,980	\$ —	\$ 26,980	\$ —
Less accumulated depreciation .....	<u>8,419</u>	<u>—</u>	<u>8,419</u>	<u>—</u>
<b>Net Business-Type Activities.....</b>	<b><u>\$ 18,561</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 18,561</u></b>	<b><u>\$ —</u></b>

Depreciation expense for business-type activities was \$0.

### (4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
<b>Governmental Activities</b>					
Compensated absences \$	302,485	\$ 297,619	\$ 302,485	\$ 297,619	\$ 297,619
Net pension liability....	20,089,230	4,320,114	—	24,409,344	—
Net OPEB liability .....	<u>1,533,825</u>	<u>274,161</u>	<u>—</u>	<u>1,807,986</u>	<u>—</u>
	<b><u>\$ 21,925,540</u></b>	<b><u>\$ 4,891,894</u></b>	<b><u>\$ 302,485</u></b>	<b><u>\$ 26,514,949</u></b>	<b><u>\$ 297,619</u></b>
<b>Business-Type Activities</b>					
Net pension liability....	<u>\$ 109,031</u>	<u>\$ —</u>	<u>\$ 109,031</u>	<u>\$ —</u>	<u>\$ —</u>

### (5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer From	Amount
Capital Projects	General	\$ 425,026
General	Nonmajor Proprietary Fund	<u>348,617</u>
<b>Total</b>		<b><u>\$ 773,643</u></b>

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

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### (6) Due From and Due to Other Funds

The detail of interfund receivables and payables as of June 30, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue	
	Special Education Instruction	\$ 1,486,662
General	Nonmajor	
	Proprietary	<u>161,562</u>
		<u>\$ 1,648,224</u>

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

### (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, 2016 for all operating leases, except those with terms of a month or less that were not renewed, was \$64,390.

### (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](http://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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date 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**

Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State 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 2016, pursuant to the required rate, regular members contributed 5.95% of covered payroll 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, 2016 were \$3,128,852.

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

As of June 30, 2016, the Agency reported a liability of \$24,409,344 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 IPERS relative to the contributions of all IPERS participating employers. As of June 30, 2015, the Agency's proportion was 0.4940679% which was a decrease of 0.015230% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Agency recognized pension expense of \$1,278,646. As of June 30, 2016, 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 .....	\$ 368,794	\$ —
Changes of assumptions .....	672,051	—
Net difference between projected and actual earnings on IPERS' investments.....	—	2,031,496
Changes in proportion and differences between Agency contributions and proportionate share of contributions .....	—	2,637,339
Agency contributions subsequent to the measurement date.....	3,128,852	—
<b>Total .....</b>	<b><u>\$ 4,169,697</u></b>	<b><u>\$ 4,668,835</u></b>

\$3,128,852 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, 2017. 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,	
2017 .....	\$ (1,458,292)
2018 .....	(1,458,292)
2019 .....	(1,458,292)
2020 .....	755,548
2021 .....	(8,662)
<b>Total .....</b>	<b><u>\$ (3,627,990)</u></b>

There were no nonemployer contributing entities at IPERS.

## Notes to the Financial Statements

### (8) Pension and Retirement Benefits

#### Actuarial Assumptions

The total pension liability in the June 30, 2015 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% per annum.
Rates of salary increases (effective June 30, 2010)	4% to 17%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.5% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4% per annum, based on 3% inflation assumption and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 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 IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of 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
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
<b>Total</b>	<b><u>100%</u></b>	

**(8) Pension and Retirement Benefits**

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' 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 IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	<b>1% Decrease (6.5%)</b>	<b>Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
Agency's proportionate share of the net pension liability	\$42,736,369	\$24,409,344	\$8,940,019

**Pension Plan Fiduciary Net Position**

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**Payables to the Pension Plan**

As of June 30, 2016, the Agency reported no payables to the defined benefit pension plan for legally required employer or 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.

## Notes to the Financial Statements

### (9) Other Post-Employment Benefits (OPEB)

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.

#### 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 Governmental Accounting Standards Board 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, 2016, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution .....	\$ 404,057
Interest on net OPEB obligation.....	38,346
Adjustment to annual required contribution.....	<u>(116,001)</u>
Annual OPEB Cost .....	326,402
Contributions made .....	<u>(52,241)</u>
Increase in Net OPEB Obligation .....	274,161
Net OPEB Obligation - Beginning of Year.....	<u>1,533,825</u>
Net OPEB Obligation - End of Year .....	<u><b>\$ 1,807,986</b></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, 2016.

For the year ended June 30, 2016, the Agency contributed approximately \$52,241 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, 2016 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 436,810	73.5%	\$ 1,255,810
June 30, 2015	339,668	18.2	1,533,825
June 30, 2016	326,402	16.0	1,807,986

## Notes to the Financial Statements

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### **(9) Other Post-Employment Benefits (OPEB)**

#### **Funded Status and Funding Progress**

As of July 1, 2014, the most recent actuarial valuation date for the period of July 1, 2015 through June 30, 2016, 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 \$31.8 million and the ratio of the UAAL to the covered payroll was 9.1%. As of June 30, 2016, there were no trust fund assets.

#### **Actuarial Methods and Assumptions**

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

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

As of the July 1, 2014 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions 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 0% 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 the IPERS Actuarial Report as of June 30, 2014.

Projected claim costs of the medical plan are \$347 per month for active employees. 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.

## Notes to the Financial Statements

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### (11) Employee Dental Plan

The Agency currently sponsors a self-funded dental plan. Under this plan, employees contribute a portion of their compensation and retirees and COBRA participants contribute to the total cost of maintaining the plan. The Agency contracts with an insurance company to administer the plan.

The following is a summary of the claims activity for the year ended June 30, 2016:

Estimated claims incurred but not reported.....	\$ 16,845
Claims incurred and reported and estimated cost incurred but not reported for the year ended June 30, 2016 .....	302,641
Claims paid during the year ended June 30, 2016 .....	302,486
<b>Estimated Claims Incurred But Not Reported - June 30, 2016 .....</b>	<b><u>\$ 17,000</u></b>

### (12) Categorical Funding

The Agency's restricted fund balance for categorical funding as of June 30, 2016 is comprised of the following programs:

<b>Program</b>	<b>Amount</b>
Teacher leadership and compensation .....	\$ 111,238
Education quality, professional development for model core curriculum .....	238,117
.....	<b><u>\$ 349,355</u></b>

### (13) Commitments and Contingencies

The Agency had no outstanding commitments or contingencies as of June 30, 2016.

### (14) Deficit Balance

The Agency had a governmental activities deficit net position balance of \$13,019,802 as of June 30, 2016, primarily due to the net pension liability.

### (15) Subsequent Events

Management has evaluated subsequent events through January 4, 2017, the date which the financial statements were available to be issued.

The Agency has approved a lease purchase agreement in the amount of \$6,082,240 for the acquisition of a building in Cedar Falls, Iowa, which will be used to consolidate several of the Agency's offices.

The Agency placed the previously used buildings for sale. The name of the Agency, as of July 1, 2017, was changed to Central Rivers Area Education Agency.

### (16) New Accounting Pronouncement

The Agency adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

**Required Supplementary Information**

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# 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, 2016

	<u>Actual</u>		Total	<u>Budget Amount</u>		Over (Under) Budget
	Governmental Fund Types	Proprietary Fund Type		Original	Final	
<b>Revenue</b>						
Local sources .....	\$ 21,284,088	\$ 679,391	\$ 21,963,479	\$ 22,357,650	\$ 21,930,756	\$ 32,723
State sources .....	17,566,557	—	17,566,557	18,991,220	17,523,746	42,811
Intermediate sources.....	20,414	—	20,414	70,000	—	20,414
Federal sources .....	<u>15,936,007</u>	<u>—</u>	<u>15,936,007</u>	<u>16,346,913</u>	<u>16,552,991</u>	<u>(616,984)</u>
<b>Total Revenue .....</b>	<b><u>54,807,066</u></b>	<b><u>679,391</u></b>	<b><u>55,486,457</u></b>	<b><u>57,765,783</u></b>	<b><u>56,007,493</u></b>	<b><u>(521,036)</u></b>
<b>Expenditures/Expenses</b>						
<b>Current</b>						
Instruction.....	10,514,978	—	10,514,978	10,457,321	10,658,529	(143,551)
Student support services....	19,146,981	—	19,146,981	19,119,094	19,392,484	(245,503)
Instructional staff support services .....	11,145,418	—	11,145,418	11,761,132	12,029,315	(883,897)
General administration .....	5,204,754	—	5,204,754	5,422,470	5,149,709	55,045
Business administration .....	3,773,644	—	3,773,644	4,253,536	4,051,721	(278,077)
Plant operations and maintenance .....	1,655,981	2,487	1,658,468	2,017,289	1,666,743	(8,275)
Central and other support services .....	47,982	621,426	669,408	803,231	639,639	29,769
Noninstructional programs	186,227	—	186,227	186,952	197,776	(11,549)
Facilities acquisition and construction .....	<u>425,026</u>	<u>—</u>	<u>425,026</u>	<u>540,000</u>	<u>598,000</u>	<u>(172,974)</u>
<b>Total Expenditures/ Expenses .....</b>	<b><u>52,100,991</u></b>	<b><u>623,913</u></b>	<b><u>52,724,904</u></b>	<b><u>54,561,025</u></b>	<b><u>54,383,916</u></b>	<b><u>(1,659,012)</u></b>
<b>Revenue Over Expenditures/Expenses....</b>	<b>2,706,075</b>	<b>55,478</b>	<b>2,761,553</b>	<b>3,204,758</b>	<b>1,623,577</b>	<b>1,137,976</b>
<b>Other Financing Sources (Uses), Net.....</b>	<b><u>(2,768,144)</u></b>	<b><u>(348,617)</u></b>	<b><u>(3,116,761)</u></b>	<b><u>(3,121,053)</u></b>	<b><u>(3,121,756)</u></b>	<b><u>4,995</u></b>
<b>Revenue and Other Financing Sources Over Expenditures/Expenses and Other Financing Uses.....</b>	<b>(62,069)</b>	<b>(293,139)</b>	<b>(355,208)</b>	<b>83,705</b>	<b>(1,498,179)</b>	<b>1,142,971</b>
Balance - Beginning of Year ...	<u>6,423,543</u>	<u>293,139</u>	<u>6,716,682</u>	<u>5,591,367</u>	<u>6,716,682</u>	<u>—</u>
<b>Balance - End of Year .....</b>	<b><u>\$ 6,361,474</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 6,361,474</u></b>	<b><u>\$ 5,675,072</u></b>	<b><u>\$ 5,218,503</u></b>	<b><u>\$ 1,142,971</u></b>

## Notes to Required Supplementary Information - Budgetary Reporting ---

Year Ended June 30, 2016

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 Two Years\*

	<b>2016</b>	<b>2015</b>
Agency's proportion of the net pension liability .....	0.4940679%	0.499082%
Agency's proportionate share of the net pension liability .....	\$24,409,344	\$20,198,261
Agency's covered-employee payroll .....	\$33,853,000	\$31,712,000
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll .....	72.10%	63.69%
IPERS' net position as a percentage of the total pension liability .....	85.19%	87.61%

\* In accordance with Governmental Accounting Standards Board Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

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

Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution .....	\$ 3,128,852	\$ 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
Contributions in relation to the statutorily required contributions.....	<u>(3,128,852)</u>	<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>
Contribution Deficiency (Excess) .....	<u>\$ —</u>									
Agency's covered-employee payroll .....	\$ 35,038,000	\$ 33,853,000	\$ 31,712,000	\$ 36,503,000	\$ 44,239,000	\$ 45,229,000	\$ 46,878,000	\$ 44,574,000	\$ 41,829,000	\$ 40,035,000
Contributions as a percentage of covered-employee payroll .....	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

## Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2016

### 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.

### 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.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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

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

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

## Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30, 2016

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
2016	7-1-14	—	2,885,158	2,885,158	0.0	31,800,000	9.10

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**

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# Combining Balance Sheet - Nonmajor Governmental Funds ---

As of June 30, 2016

	<u>Special Revenue Juvenile Home</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Assets</b>			
Cash.....	\$ 91,286	\$ —	\$ 91,286
Due from other governments .....	<u>4,290</u>	<u>—</u>	<u>4,290</u>
<b>Total Assets</b> .....	<b><u>\$ 95,576</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 95,576</u></b>
<b>Liabilities</b>			
Accounts payable .....	\$ 63,471	\$ —	\$ 63,471
Deferred revenue .....	<u>32,105</u>	<u>—</u>	<u>32,105</u>
<b>Total Liabilities</b> .....	<b><u>\$ 95,576</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 95,576</u></b>

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

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Year Ended June 30, 2016

	<u>Special Revenue Juvenile Home</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Revenue</b>			
Local sources .....	\$ 4,498	\$ —	\$ 4,498
State sources .....	1,246,005	—	1,246,005
<b>Total Revenue</b> .....	<u><b>1,250,503</b></u>	<u><b>—</b></u>	<u><b>1,250,503</b></u>
<b>Expenditures</b>			
Current			
Instruction .....	1,155,369	—	1,155,369
Instructional staff support services .....	2,343	—	2,343
General administration .....	81,000	—	81,000
Plant operations and maintenance .....	11,791	—	11,791
Facilities acquisition and construction.....	—	425,026	425,026
<b>Total Expenditures</b> .....	<u><b>1,250,503</b></u>	<u><b>425,026</b></u>	<u><b>1,675,529</b></u>
<b>Revenue Under Expenditures</b> .....	—	<b>(425,026)</b>	<b>(425,026)</b>
<b>Other Financing Sources</b>			
Transfers in .....	—	425,026	425,026
<b>Change in Fund Balances</b> .....	—	—	—
Fund Balances - Beginning of Year .....	—	—	—
<b>Fund Balances - End of Year</b> .....	<u><b>\$ —</b></u>	<u><b>\$ —</b></u>	<u><b>\$ —</b></u>

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

Year Ended June 30, 2016

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
<b>Assets</b>				
Cash and pooled investments .....	\$ 369,368	\$ 1,769,443	\$ 1,827,899	\$ 310,912
Due from other governments .....	<u>—</u>	<u>9,499</u>	<u>—</u>	<u>9,499</u>
<b>Total Assets</b> .....	<b><u>\$ 369,368</u></b>	<b><u>\$ 1,778,942</u></b>	<b><u>\$ 1,827,899</u></b>	<b><u>\$ 320,411</u></b>
<b>Liabilities</b>				
Accounts payable .....	\$ 92,446	\$ 94,592	\$ 92,446	\$ 94,592
Due to other governments .....	<u>—</u>	<u>9,499</u>	<u>—</u>	<u>9,499</u>
Deposits held in custody for others....	<u>276,922</u>	<u>1,674,851</u>	<u>1,735,453</u>	<u>216,320</u>
<b>Total Liabilities</b> .....	<b><u>\$ 369,368</u></b>	<b><u>\$ 1,778,942</u></b>	<b><u>\$ 1,827,899</u></b>	<b><u>\$ 320,411</u></b>

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

Last Ten Years

	Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Revenue</b>										
Local sources .....	\$ 21,284,088	\$ 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
State sources .....	17,566,557	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
Intermediate sources .....	20,414	219,526	113,644	—	—	—	—	—	—	—
Federal sources .....	15,936,007	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
<b>Total Revenue .....</b>	<b>\$ 54,807,066</b>	<b>\$ 55,160,656</b>	<b>\$ 53,480,456</b>	<b>\$ 57,384,560</b>	<b>\$ 70,733,794</b>	<b>\$ 75,150,297</b>	<b>\$ 85,973,090</b>	<b>\$ 75,636,788</b>	<b>\$ 68,782,500</b>	<b>\$ 66,326,483</b>
<b>Expenditures</b>										
<b>Current</b>										
Instruction .....	\$ 10,514,978	\$ 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
Student support services .....	19,146,981	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
Instructional staff support services .....	11,145,418	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
General administration .....	5,204,754	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
Business administration .....	3,773,644	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
Plant operations and maintenance .....	1,655,981	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
Central and other support services .....	47,982	219,607	134,235	916,387	1,485,175	1,543,050	1,699,324	1,799,788	1,586,136	1,689,199
Noninstructional programs .....	186,227	189,078	159,800	137,378	149,530	138,675	—	—	—	—
Facilities acquisition and construction .....	425,026	532,552	234,792	250,259	552,704	270,015	377,454	—	—	—
Debt service .....	—	—	130,063	129,743	134,242	389,002	417,314	414,588	416,026	416,502
<b>Total Expenditures .....</b>	<b>\$ 52,100,991</b>	<b>\$ 51,112,593</b>	<b>\$ 50,365,798</b>	<b>\$ 53,841,140</b>	<b>\$ 69,485,192</b>	<b>\$ 70,592,307</b>	<b>\$ 74,263,848</b>	<b>\$ 69,542,256</b>	<b>\$ 65,232,027</b>	<b>\$ 63,039,773</b>

# Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>U.S. Department of Education - Indirect</b>			
Pass-Through Iowa Department of Education			
Special Education - Grants to States			
Preschool Handicapped Program .....	84.027*	57407	\$ 162,043
Preschool Handicapped Program - Flow Through ..	84.027*	151607	3,123,856
Enhancing the Parent Educator Connection .....	84.027*	151607	<u>11,176,300</u>
Total Special Education - Grants to States .....			<u>14,462,199</u>
Special Education - Preschool Grants			
Section 619 .....	84.173*	1519-07	488,756
IQPPS Grant .....	84.173*	Q16-267	<u>31,136</u>
Total Special Education - Preschool Grants .....			<u>519,892</u>
Special Education - Grants for Infants and Families...	84.181	5KC3-07	<u>373,329</u>
English Language Acquisition Grants.....	84.365	16ELA-02	<u>445,155</u>
Total Pass-Through Iowa Department of Education .....			<u>15,800,575</u>
Pass-Through Mason City Community School District			
Title I Grants to Local Educational Agencies .....	84.010	N/A	<u>52,460</u>
Pass-Through State Training School for Boys			
Special Education - Grants to States.....	84.027*	N/A	<u>22,544</u>
<b>Total .....</b>			<b><u>\$ 15,875,579</u></b>

\* Total for CFDA Number 84.027 is \$14,484,743 and total for Special Education Cluster (IDEA) (CFDA numbers 84.027 and 84.173) is \$15,004,635.

## Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Area Education Agency 267 under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Area Education Agency 267, it is not intended to and does not present the financial position, changes in financial position or cash flows of Area Education Agency 267.

## Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Area Education Agency 267 has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

## Subrecipients

Area Education Agency 267 provided \$3,123,856 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**

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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, 2016, and the related notes to the financial statements, and the discretely presented component units as of December 31, 2015 and June 30, 2016, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated January 4, 2017.

### **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. However, as described in the accompanying schedule of findings and questioned costs, we identified deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Area Education Agency 267's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying schedule of findings and questioned costs as item 16-II-R-I to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying schedule of findings and questioned costs as item 16-II-R-2 to be a significant deficiency.

### **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, 2016 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, a public record by law, is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
January 4, 2017

## **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance**

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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) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. 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 the audit requirements of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 of the major federal programs. However, our audit does not provide a legal determination on Area Education Agency 267's compliance with those requirements.

**Opinion on Each of the Major Federal Programs**

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, 2016.

**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 the Uniform Guidance, 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 significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. 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, a public record by law, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
January 4, 2017

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2016

## 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 the Uniform Guidance?  yes  no

Identification of major programs:

### **CFDA Numbers**

### **Name of Cluster**

Special Education Cluster (IDEA)  
84.027  
84.173

Special Education - Grants to States  
Special Education - Preschool Grants

84.181

Special Education - Grants for Infants and Families

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

\$750,000

Auditee qualified as low-risk auditee?

yes  no

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2016

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

### **Instances of Noncompliance**

There were no reported instances of noncompliance.

### **Internal Control Deficiencies**

**16-II-R-1 Media Inventory** - During our audit, we determined that an error in the initial media inventory as of June 30, 2016 was later identified by the appropriate staff and corrected, but the corrected information was not forwarded to the accounting department. Additionally, there was not a process in place to review the media information received to the supporting expenditure accounts. The effect of this material weakness was a material overstatement of the media inventory on the Agency's Certified Annual Report.

**Auditor's Recommendation** - We recommend that procedures be implemented to reconcile media inventory to supporting expenditure accounts or to prepare an analytical review of additions. Additionally, changes in procedures should be made to properly report any corrections in inventory amounts to the appropriate departments.

**Agency's Response** - The Agency has implemented an analytical reconciliation process to verify the amount being added to the media inventory reasonably compares with the expenditure account.

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

**16-II-R-2 Asset Addition and Removal** - During our audit, we noted there were some instances where incorrect assets were removed or assets sold were not removed from the fixed asset system. Additionally, we noted a trade-in of assets was improperly recorded. The effect of this significant deficiency was an inaccurate list of assets held by the Agency.

**Auditor's Recommendation** - We recommend that the asset addition and removal procedures be reviewed with the appropriate staff to ensure that assets are properly added for the correct amounts and asset removals are accurate.

**Agency's Response** - The Agency will modify its fixed asset procedures to ensure that trade-ins are not being deducted from the cost of capitalized assets and that sold or disposed assets are being properly recorded in the Agency's fixed asset system.

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

## **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.

## Schedule of Findings and Questioned Costs

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Year Ended June 30, 2016

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

- 16-IV-A Certified Budget** - Expenditures during the year ended June 30, 2016 did not exceed the amounts budgeted.
- 16-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.
- 16-IV-C Travel Expenses** - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 16-IV-D Business Transactions** - No business transactions between the Agency and Agency officials or employees were noted.
- 16-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.
- 16-IV-F Board Minutes** - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 16-IV-G Certified Annual Report** - The Certified Annual Report was certified timely to the Iowa Department of Education.
- 16-IV-H Categorical Funding** - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- 16-IV-I Financial Condition** - The Agency's governmental activities had a deficit net position of \$13,019,802 as of June 30, 2016.

**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.