

**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, 2013**

Table of Contents

Officials	1	
Independent Auditor's Report	2-3	
Management's Discussion and Analysis (MD&A)	4-9	
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	10	
Statement of Activities.....	11	
Governmental Fund Financial Statements		
Balance Sheet.....	12	
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	13	
Statement of Revenue, Expenditures and Changes in Fund Balances.....	14	
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	15	
Proprietary Fund Financial Statements		
Statement of Net Position	16	
Statement of Revenue, Expenses and Changes in Net Position	17	
Statement of Cash Flows	18	
Fiduciary Fund Financial Statement		
Statement of Fiduciary Assets and Liabilities - Agency Fund	19	
Notes to the Financial Statements	20-32	
Required Supplementary Information		
Schedule of Revenue, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund.....	33	
Schedule of Funding Progress for the Retiree Health Plan	34	
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet.....	35	
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	36	
Nonmajor Proprietary Funds		
Combining Schedule of Net Position	37	
Combining Schedule of Revenue, Expenses and Changes in Net Position.....	38	
Combining Schedule of Cash Flows.....	39	
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	40	
Schedule of Revenue by Source and Expenditures by Function - All Governmental Fund Types (Modified Accrual Basis).....	41	
Schedule of Expenditures of Federal Awards	42-43	
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 Governmental Auditing Standards		44-45
Independent Auditor's Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133		46-47
Schedule of Findings and Questioned Costs	48-51	

Officials

Name	Title	Term Expires
Board of Directors		
Charlotte Upah	President	September 30, 2015
Roberta Kraft-Abrahamson	Vice President	September 30, 2013
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, 2015
Bernice Richard	Member	September 30, 2015
Richard Vande Kieft	Member	September 30, 2013
Charles Vaughn (resigned September, 2012)	Member	September 30, 2013
Barbara Opheim (appointed November, 2012)	Member	September 30, 2013
Agency		
Roark Horn	Chief Administrator	
David Nicholson	Chief Financial Officer and Treasurer (hired January, 2013)	
Dennis Scudder	Finance Director and Treasurer (retired February, 2013)	
Kerri Wilson	Board Secretary	

Independent Auditor's Report

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Area Education Agency 267 as of and for the year ended June 30, 2013 and the discretely presented component units as of and for the year ended December 31, 2012 and June 30, 2013, 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.

Opinion

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, 2013 and the discretely presented component units as of December 31, 2012 and June 30, 2013, 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, budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 9 and 33 through 34 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 seven years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 35 through 43, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2014 on our consideration of Area Education Agency 267's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
January 22, 2014

**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, 2013. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

General Fund revenue increased from \$45,405,104 in fiscal year 2012 to \$46,453,155 in fiscal year 2013. General Fund expenditures and other financing uses decreased from \$47,564,245 in fiscal year 2012 to \$46,369,606 in fiscal year 2013. The increase in General Fund revenue of \$1,048,051 was mostly attributed to the reclassification of revenue and expenses from the special education instructional program to the General Fund. The decrease in expenditures was due primarily to the reduction in staff due to attrition.

The General Fund balance increased from \$5,389,448 as of the end of fiscal year 2012 to \$5,472,997 as of the end of fiscal year 2013, a 1.6% increase. The fund balance consists of a nonspendable fund balance of \$241,797, a restricted fund balance of \$1,374,471, a committed fund balance of \$150,000 and an unassigned balance of \$3,706,729. The unassigned fund balance as of the end of the year 2013 represents approximately 8% of the 2013 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 consists 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, 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 and liabilities. All of the current year revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

The Agency has three kinds of funds:

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

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

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

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

- Fiduciary funds are funds through which the Agency administers and accounts for certain federal and/or state grants on behalf of Cedar Valley's Promise and certain revenue collected for Agency employee purchases of pop and related expenditures. The Agency is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

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

Reconciliations between the Government-wide financial statements and the fund financial statements follows 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 2013 totaled approximately \$13.2 million. This compared to approximately \$13.9 million as of the end of fiscal year 2012. The analysis that follows provides a summary of the Agency's net position as of June 30, 2013 for the governmental and business-type activities:

	Condensed Statement of Net Position					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012
Current and other assets.....	\$ 11,797,303	\$ 14,094,213	\$ 370,834	\$ 184,295	\$ 12,168,137	\$ 14,278,508
Capital assets	<u>8,986,201</u>	<u>9,780,448</u>	<u>22,081</u>	<u>—</u>	<u>9,008,282</u>	<u>9,780,448</u>
Total Assets	<u>20,783,504</u>	<u>23,874,661</u>	<u>392,915</u>	<u>184,295</u>	<u>21,176,419</u>	<u>24,058,956</u>
Long-term obligations	1,590,339	1,062,200	—	—	1,590,339	1,062,200
Other liabilities	<u>6,324,306</u>	<u>9,131,868</u>	<u>22,743</u>	<u>9,925</u>	<u>6,347,049</u>	<u>9,141,793</u>
Total Liabilities	<u>7,914,645</u>	<u>10,194,068</u>	<u>22,743</u>	<u>9,925</u>	<u>7,937,388</u>	<u>10,203,993</u>
Net Position						
Net investment in capital assets	8,861,201	9,535,448	22,081	—	8,883,282	9,535,448
Restricted.....	1,374,471	1,382,578	—	—	1,374,471	1,382,578
Unrestricted	<u>2,633,187</u>	<u>2,762,567</u>	<u>348,091</u>	<u>174,370</u>	<u>2,981,278</u>	<u>2,936,937</u>
Total Net Position	<u>\$ 12,868,859</u>	<u>\$ 13,680,593</u>	<u>\$ 370,172</u>	<u>\$ 174,370</u>	<u>\$ 13,239,031</u>	<u>\$ 13,854,963</u>

The Agency's combined net position decreased by 4.4% or approximately \$615,000 from fiscal year 2012. The decrease occurred primarily in the governmental funds as a result of a decrease in net investment in capital assets due to depreciation and disposal of assets. Overall, net investment in capital assets decreased \$652,166 or 6.8%.

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

	Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012
Revenue						
Program Revenue						
Charges for service	\$ 11,664,480	\$ 24,092,701	\$ 666,585	\$ 517,326	\$ 12,331,065	\$ 24,610,027
Operating grants and contributions	22,909,964	24,255,146	83,444	88,464	22,993,408	24,343,610
General Revenue						
Property tax, levied	11,550,778	11,386,096	—	—	11,550,778	11,386,096
State foundation aid	11,254,497	10,985,627	—	—	11,254,497	10,985,627
Unrestricted investment earnings	4,841	14,224	—	—	4,841	14,224
Total Revenue	<u>57,384,560</u>	<u>70,733,794</u>	<u>750,029</u>	<u>605,790</u>	<u>58,134,589</u>	<u>71,339,584</u>
Program Expenses						
Instruction	13,752,455	26,008,493	—	—	13,752,455	26,008,493
Student support services	17,064,659	17,759,258	—	—	17,064,659	17,759,258
Instructional staff support services	11,411,002	12,518,380	—	—	11,411,002	12,518,380
General administration	5,745,426	6,097,494	—	—	5,745,426	6,097,494
Business administration	3,391,460	3,278,685	—	—	3,391,460	3,278,685
Plant operations and maintenance	2,203,824	2,671,888	—	—	2,203,824	2,671,888
Central and other support services	1,015,078	1,549,320	—	—	1,015,078	1,549,320
Long-term debt interest	9,743	13,110	—	—	9,743	13,110
Noninstructional programs	137,378	149,530	559,502	523,956	696,880	673,486
Total Expenses	<u>54,731,025</u>	<u>70,046,158</u>	<u>559,502</u>	<u>523,956</u>	<u>55,290,527</u>	<u>70,570,114</u>
Change in Net Position Before Other Financing Sources	2,653,535	687,636	190,527	81,834	2,844,062	769,470
Other Financing Sources (Uses)	<u>(3,465,269)</u>	<u>(3,408,618)</u>	<u>5,275</u>	<u>17,967</u>	<u>(3,459,994)</u>	<u>(3,390,651)</u>
Increase (Decrease) in Net Position	(811,734)	(2,720,982)	195,802	99,801	(615,932)	(2,621,181)
Net Position - Beginning of Year .	13,680,593	16,401,575	174,370	74,569	13,854,963	16,476,144
Net Position - End of Year	<u>\$ 12,868,859</u>	<u>\$ 13,680,593</u>	<u>\$ 370,172</u>	<u>\$ 174,370</u>	<u>\$ 13,239,031</u>	<u>\$ 13,854,963</u>

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for 78.8% 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 76.4% of the total expenses.

Governmental Activities

Revenue for governmental activities was \$57,384,560 and expenses and other financing uses were \$58,196,294.

Business-Type Activities

Revenue of the Agency's Business-Type Activities totaled \$750,029, a 23.8% increase from the prior year and expenses were \$559,502, a 6.8% increase from the prior year. A transfer of \$5,275 was made to the Nutrition Fund from the Special Education Instructional Fund to defer costs in the Nutrition Fund. The increase in revenue and expenses is due to the increase in one-to-one computer initiative throughout the schools in our AEA. The one-to-one computer initiative greatly increased our equipment repair program revenue and expenses.

Revenue from these activities is comprised of charges for services and state and federal grants. Expenses totaled \$118,026 and \$441,476 for the Nutrition Fund and Technology and Repair Services Fund, respectively.

INDIVIDUAL FUND ANALYSIS

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

The Agency's governmental funds reported combined fund balances of \$5,472,997, which is an increase from the beginning of the year fund balances of \$5,389,448. The primary reason for the increase in the combined fund balance is due to the Agency efforts to cut and control costs in order to maintain as much fund balance as possible.

Governmental Fund Highlights

The General Fund balance increased approximately 1.6% due to the Agency cost-cutting efforts to maintain its fund balance. The Agency's 2011-2012 fiscal year was a very difficult year financially, reducing its fund balance by \$2.2 million. The Agency was able to control cost in the year ended June 30, 2013 mainly through staff attrition.

BUDGETARY HIGHLIGHTS

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

Over the course of the year, the Agency amended its budget once to reflect the decrease in revenue and expenditures associated with less state and federal revenue. The Agency's total revenue was \$814,814 more than budgeted revenue, a variance of 1.4%. Total expenditures were \$429,900 more than budgeted, a variance of 0.8%.

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 33.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the Agency had invested \$9,008,282, 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 \$772,166 from the beginning of the year.

Area Education Agency 267 reported depreciation expense of \$1,278,405 in fiscal year 2013 and total accumulated depreciation of \$14,983,099 as of June 30, 2013. More detailed information about capital assets is available in Note 4 to the financial statements.

Long-Term Debt

A summary of the Agency's long-term debt is summarized below.

	<u>Balance - June 30,</u>	
	<u>2013</u>	<u>2012</u>
Capital lease.....	<u>\$ 125,000</u>	<u>\$ 245,000</u>

More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In planning for fiscal year 2014-2015, the Agency does have more information than in past years. The State of Iowa has set allowable growth at 4% for fiscal year 2014-2015, the Agency has experienced a 221.3 increase in student growth and the impact of the federal sequestration will be limited due to the passage of a federal budget; all of which will have a positive impact on the Agency's overall budget.

The biggest unknown factor is the amount the State will reinstate of the \$27.5 million cut from area education agencies' budgets. In the fiscal year 2013-2014, the State restored \$5 million of the \$27.5 million dollar cut. It is a possibility, with the good financial position of the State, the area education agencies could see more than \$5 million being restored for the upcoming year.

The Agency has gone through some very difficult times these past few years with all of the dramatic reductions required to keep the Agency in good financial position. With the 4% allowable growth and the increase in enrollment, the Agency should be able to maintain its fund balance and possibly even start to restore some of the services that have been cut in the past.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Statement of Net Position

As of June 30, 2013

	Governmental Activities	Business- Type Activities	Total	Component Units	
				AEA6 Foundation	AEA267 Foundation
Assets					
Cash, cash equivalents and investments.....	\$ 4,014,543	\$ 182,919	\$ 4,197,462	\$ 782,055	\$ 171,254
Receivables					
Accounts	1,272,665	146,989	1,419,654	—	—
Due from other governments	6,268,029	—	6,268,029	—	—
Inventories.....	72,211	40,926	113,137	—	—
Prepaid expenses	169,855	—	169,855	—	—
Capital assets, net of accumulated depreciation.....	8,986,201	22,081	9,008,282	—	—
Total Assets.....	<u>\$ 20,783,504</u>	<u>\$ 392,915</u>	<u>\$ 21,176,419</u>	<u>\$ 782,055</u>	<u>\$ 171,254</u>
Liabilities					
Accounts payable.....	\$ 314,977	\$ 21,644	\$ 336,621	\$ —	\$ 12,596
Salaries and benefits payable.....	5,791,347	1,099	5,792,446	—	—
Due to other governments	—	—	—	—	32,830
Deferred revenue	217,982	—	217,982	—	—
Long-Term Liabilities					
Portion Due or Payable Within One Year					
Capital lease.....	125,000	—	125,000	—	—
Compensated absences	325,339	—	325,339	—	—
Portion Due or Payable After One Year					
Net OPEB liability.....	1,140,000	—	1,140,000	—	—
Total Liabilities	<u>7,914,645</u>	<u>22,743</u>	<u>7,937,388</u>	<u>—</u>	<u>45,426</u>
Net Position					
Net investment in capital assets	8,861,201	22,081	8,883,282	—	—
Restricted for					
Categorical funding.....	803,503	—	803,503	—	—
Media materials.....	570,968	—	570,968	—	—
Unrestricted.....	2,633,187	348,091	2,981,278	782,055	125,828
Total Net Position.....	<u>12,868,859</u>	<u>370,172</u>	<u>13,239,031</u>	<u>782,055</u>	<u>125,828</u>
Total Liabilities and Net Position	<u>\$ 20,783,504</u>	<u>\$ 392,915</u>	<u>\$ 21,176,419</u>	<u>\$ 782,055</u>	<u>\$ 171,254</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue		Net (Expenses), Revenue and Changes in Net Position			Component Units	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	AEA6 Foundation	AEA267 Foundation
Governmental Activities								
Instruction.....	\$ 13,752,455	\$ 10,551,145	\$ 1,429,929	\$ (1,771,381)	\$ —	\$ (1,771,381)	\$ —	\$ —
Student support services	20,519,255	42,501	19,124,222	(1,352,532)	—	(1,352,532)	—	—
Instructional staff support services.....	11,416,400	865,929	2,355,813	(8,194,658)	—	(8,194,658)	—	—
General administration	5,745,426	—	—	(5,745,426)	—	(5,745,426)	—	—
Business administration.....	3,391,460	—	—	(3,391,460)	—	(3,391,460)	—	—
Plant operations and maintenance	2,203,824	—	—	(2,203,824)	—	(2,203,824)	—	—
Central and other support services	1,015,078	204,905	—	(810,173)	—	(810,173)	—	—
Noninstructional programs.....	137,378	—	—	(137,378)	—	(137,378)	—	—
Interest on long-term debt.....	9,743	—	—	(9,743)	—	(9,743)	—	—
Total Governmental Activities.....	58,191,019	11,664,480	22,909,964	(23,616,575)	—	(23,616,575)	—	—
Business-Type Activities								
Noninstructional Programs								
Nutrition services.....	118,026	29,307	83,444	—	(5,275)	(5,275)	—	—
Technology and repair services.....	441,476	637,278	—	—	195,802	195,802	—	—
Total Business-Type Activities.....	559,502	666,585	83,444	—	190,527	190,527	—	—
Total	\$ 58,750,521	\$ 12,331,065	\$ 22,993,408	(23,616,575)	190,527	(23,426,048)	—	—
Component Units								
AEA6 Foundation	\$ 51,817	\$ —	\$ —	—	—	—	(51,817)	—
AEA267 Foundation	\$ 94,658	\$ —	\$ 144,233	—	—	—	—	49,575
General Revenue								
Property tax levied for general purposes				11,550,778	—	11,550,778	—	—
State foundation aid.....				11,254,497	—	11,254,497	—	—
Unrestricted investment earnings				4,841	—	4,841	53,533	76
Transfers				(5,275)	5,275	—	—	—
Total General Revenue				22,804,841	5,275	22,810,116	53,533	76
Change in Net Position				(811,734)	195,802	(615,932)	1,716	49,651
Net Position - Beginning of Year.....				13,680,593	174,370	13,854,963	780,339	76,177
Net Position - End of Year.....				\$ 12,868,859	\$ 370,172	\$ 13,239,031	\$ 782,055	\$ 125,828

Balance Sheet - Governmental Funds

As of June 30, 2013

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
Assets				
Cash and cash equivalents.....	\$ 3,833,338	\$ —	\$ 181,205	\$ 4,014,543
Receivables				
Accounts	1,272,665	—	—	1,272,665
Due from other governments	3,973,161	2,294,868	—	6,268,029
Due from other funds	982,492	—	—	982,492
Inventories.....	72,211	—	—	72,211
Prepaid expenses.....	169,586	269	—	169,855
Total Assets	<u>\$ 10,303,453</u>	<u>\$ 2,295,137</u>	<u>\$ 181,205</u>	<u>\$ 12,779,795</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 273,197	\$ 21,501	\$ 20,279	\$ 314,977
Salaries and benefits payable	4,402,165	1,291,144	98,038	5,791,347
Due to other funds	—	982,492	—	982,492
Deferred revenue	155,094	—	62,888	217,982
Total Liabilities	<u>4,830,456</u>	<u>2,295,137</u>	<u>181,205</u>	<u>7,306,798</u>
Fund Balances				
Nonspendable				
Inventories	72,211	—	—	72,211
Prepaid expenditures	169,586	—	—	169,586
Restricted for				
Categorical funding.....	803,503	—	—	803,503
Media materials.....	570,968	—	—	570,968
Committed for retro worker's compensation program	150,000	—	—	150,000
Unassigned	3,706,729	—	—	3,706,729
Total Fund Balances	<u>5,472,997</u>	<u>—</u>	<u>—</u>	<u>5,472,997</u>
Total Liabilities and Fund Balances	<u>\$ 10,303,453</u>	<u>\$ 2,295,137</u>	<u>\$ 181,205</u>	<u>\$ 12,779,795</u>

See accompanying notes to the financial statements.

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

As of June 30, 2013

Total Fund Balances for Governmental Funds (Page 12).... **\$ 5,472,997**

***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 \$23,967,015 and the accumulated depreciation is \$14,980,814.....

8,986,201

Long-term liabilities, including capital lease payable, compensated absences and other post-employment benefits are not due and payable in the current year and, therefore, are not reported in the governmental funds.

Capital lease	\$	(125,000)	
Compensated absences.....		(325,339)	
Net OPEB liabilities		<u>(1,140,000)</u>	<u>(1,590,339)</u>

Net Position of Governmental Activities (Page 10)..... **\$ 12,868,859**

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

Year Ended June 30, 2013

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
Revenue				
Local sources	\$ 15,180,360	\$ 9,650,793	\$ 3,001	\$ 24,834,154
State sources	14,484,126	330,000	947,611	15,761,737
Federal sources.....	16,788,669	—	—	16,788,669
Total Revenue.....	<u>46,453,155</u>	<u>9,980,793</u>	<u>950,612</u>	<u>57,384,560</u>
Expenditures				
Current				
Instruction	4,806,603	7,745,208	865,834	13,417,645
Student support services.....	16,767,705	214,487	—	16,982,192
Instructional staff support services.....	11,042,622	84,513	660	11,127,795
General administration.....	4,592,699	917,664	79,985	5,590,348
Business administration	3,349,700	—	—	3,349,700
Plant operations and maintenance	1,832,651	102,909	4,133	1,939,693
Central and other support services.....	375	916,012	—	916,387
Noninstructional programs	137,378	—	—	137,378
Facilities acquisition and construction	—	—	250,259	250,259
Debt service	—	—	129,743	129,743
Total Expenditures	<u>42,529,733</u>	<u>9,980,793</u>	<u>1,330,614</u>	<u>53,841,140</u>
Revenue Over (Under) Expenditures	<u>3,923,422</u>	<u>—</u>	<u>(380,002)</u>	<u>3,543,420</u>
Other Financing Sources (Uses)				
LEA flow through	(3,454,596)	—	—	(3,454,596)
Transfers, net	(385,277)	—	380,002	(5,275)
Total Other Financing Sources (Uses)	<u>(3,839,873)</u>	<u>—</u>	<u>380,002</u>	<u>(3,459,871)</u>
Net Change in Fund Balances ...	83,549	—	—	83,549
Fund Balances - Beginning of Year	5,389,448	—	—	5,389,448
Fund Balances - End of Year	<u>\$ 5,472,997</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,472,997</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds (Page 14)	\$	83,549
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the statement of net position and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays, depreciation expense and loss on disposal for the year are as follows:

Capital outlays.....	\$ 487,271		
Depreciation expense.....	(1,276,120)		
Net book value of disposed assets.....	<u>(5,398)</u>		(794,247)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			120,000
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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.....	\$ (18,236)		
Other post-employment benefits.....	<u>(202,800)</u>		<u>(221,036)</u>

Change in Net Position of Governmental Activities (Page 11)	\$	<u>(811,734)</u>
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Statement of Net Position - Proprietary Funds

As of June 30, 2013

	Nonmajor Proprietary Funds
Assets	
Current Assets	
Cash and cash equivalents.....	\$ 182,919
Accounts receivable	146,989
Inventories.....	<u>40,926</u>
Total Current Assets	<u>370,834</u>
Capital Assets, Net of Accumulated Depreciation	<u>22,081</u>
Total Assets	<u>\$ 392,915</u>
Liabilities and Net Position	
Current Liabilities	
Accounts payable	\$ 21,644
Salaries and benefits payable.....	<u>1,099</u>
Total Current Liabilities	<u>22,743</u>
Net Position	
Investment in capital assets.....	22,081
Unrestricted	<u>348,091</u>
Total Net Position	<u>370,172</u>
Total Liabilities and Net Position	<u>\$ 392,915</u>

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

Year Ended June 30, 2013

	Nonmajor Proprietary Funds
Operating Revenue	
Charges for services.....	<u>\$ 666,585</u>
Operating Expenses	
Noninstructional Programs	
General Administration	
Purchased services.....	<u>1,217</u>
Plant Operations and Maintenance	
Purchased services.....	600
Materials and supplies.....	8,270
Depreciation.....	<u>2,285</u>
Total Plant Operations and Maintenance.....	<u>11,155</u>
Central and Other Support Services	
Salaries.....	153,024
Benefits.....	56,719
Purchased services.....	1,488
Materials and supplies.....	<u>217,873</u>
Total Central and Other Support Services.....	<u>429,104</u>
Food Service Operations	
Salaries.....	27,663
Benefits.....	13,130
Purchased services.....	307
Materials and supplies.....	<u>76,926</u>
Total Food Service Operations.....	<u>118,026</u>
Total Operating Expenses	<u>559,502</u>
Income From Operations	<u>107,083</u>
Nonoperating Revenue	
State sources.....	1,119
Federal sources.....	<u>82,325</u>
Total Nonoperating Revenue	<u>83,444</u>
Change in Net Position Before Transfers	190,527
Transfers in.....	<u>5,275</u>
Change in Net Position	195,802
Net Position - Beginning of Year.....	<u>174,370</u>
Net Position - End of Year	<u>\$ 370,172</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2013

	Nonmajor Proprietary Funds
Cash Flows From Operating Activities	
Cash received from customers	\$ 588,088
Cash paid to employees for services	(253,027)
Cash paid to suppliers for goods and services.....	<u>(274,390)</u>
Net Cash Provided by Operating Activities	<u>60,671</u>
Cash Flows From Noncapital Financing Activities	
State grants received.....	1,119
Federal grants received.....	76,766
Transfers in	<u>5,275</u>
Net Cash Provided by Noncapital Financing Activities	<u>83,160</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets.....	<u>(24,366)</u>
Net Increase in Cash and Cash Equivalents.....	119,465
Cash and Cash Equivalents at Beginning of Year	<u>63,454</u>
Cash and Cash Equivalents at End of Year	<u>\$ 182,919</u>
Reconciliation of Income From Operations to Net Cash Provided by Operating Activities	
Income from operations	\$ 107,083
Adjustments to Reconcile Income From Operations to Net Cash Provided by Operating Activities	
Commodities used.....	5,559
Depreciation	2,285
Increase in accounts receivable	(78,497)
Decrease in inventories	11,423
Increase in accounts payable	15,309
Decrease in salaries and benefits payable	<u>(2,491)</u>
Net Cash Provided by Operating Activities	<u>\$ 60,671</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2013, the Agency received \$5,559 of federal commodities.

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

As of June 30, 2013

Assets

Cash and cash equivalents.....	<u>\$ 288,700</u>
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Liabilities

Accounts payable	\$ 99,802
Deposits held in custody for others.....	<u>188,898</u>

Total Liabilities	<u>\$ 288,700</u>
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Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Organization and Function

Area Education Agency 267 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 57 school districts and 28 private schools 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, 2012.

During the Agency's fiscal year ended June 30, 2013, the Foundation provided the Agency \$44,769 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, 2013.

During the Agency's fiscal year ended June 30, 2013, the 267 Foundation donated to the Agency \$89,641 towards River Hills School repairs and remodeling expenses. The 267 Foundation also owed the Agency \$32,830 as of June 30, 2013.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenue are reported instead as general revenue.

Fund Financial Statements

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

The Agency had the following major governmental funds:

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Assets, Liabilities and Fund Equity

Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits and money market funds. Component unit investments are stated at fair value on the statement of net position. The Agency held no investments at June 30, 2013.

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

Inventories

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

Capital Assets

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

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

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

Asset Class	Estimated Useful Lives
Buildings	50 Years
Improvements other than buildings	20 - 30 Years
Intangibles.....	2 - 10 Years
Furniture and equipment	5 - 20 Years
Library books and films	5 Years

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Salaries and Benefits Payable

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

Deferred Revenue

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

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, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-Term Liabilities

In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net position.

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.

Unassigned - All amounts not included in the preceding classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information.

Notes to the Financial Statements

(2) Cash, Cash Equivalents and Investments

The Agency's deposits in banks as of June 30, 2013 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

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

The Agency held no investments as of June 30, 2013. The component unit, AEA6 Foundation, investments are shown below.

Interest Rate Risk

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

Credit Risk

Cash and investments of the following component unit are stated at fair value and are summarized as follows as of December 31, 2012:

AEA6 Foundation

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Money market funds	\$ 102,530	\$ 102,530	\$ —
Corporate bonds.....	82,320	82,225	(95)
U.S. Treasury securities	84,917	102,328	17,411
Unit trusts	<u>471,573</u>	<u>494,972</u>	<u>23,399</u>
	<u>\$ 741,340</u>	<u>\$ 782,055</u>	<u>\$ 40,715</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)	\$ 40,028
Net unrealized gain.....	6,641
Net realized loss	<u>6,864</u>
	<u>\$ 53,533</u>

Notes to the Financial Statements

(3) Iowa School Cash Anticipation Program (ISCAP)

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by an annual issuance of anticipatory warrants. The warrant sizing of each participating entity is based on a projection of cash flow needs during the fiscal year. Bankers Trust Company, N.A. is the trustee of the program.

The Agency pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The Agency must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The Series 2012-2013 ONE included taxable warrants only. The interest rates on the taxable Series 2012-2013 ONE warrants are variable rates, calculated daily, based on the one-month LIBOR rate plus 100 basis points. The LIBOR rate at June 30, 2013 was 0.1932%. A summary of the Agency's ISCAP activity for the year ended June 30, 2013 is as follows:

Series	Balance - Beginning of Year	Advances Received	Advances Repaid	Balance - End of Year
2012-13 ONE	<u>\$ —</u>	<u>\$ 18,500,000</u>	<u>\$ 18,500,000</u>	<u>\$ —</u>

During the year ended June 30, 2013, the Agency paid \$10,433 of interest on the ISCAP warrants.

(4) Capital Assets

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

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	<u>\$ 809,308</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 809,308</u>
Capital Assets Being Depreciated				
Buildings and improvements	11,288,841	—	—	11,288,841
Furniture and equipment	6,465,310	14,509	37,235	6,442,584
Library books and films	<u>5,635,976</u>	<u>472,762</u>	<u>682,456</u>	<u>5,426,282</u>
Total Capital Assets				
Being Depreciated.....	<u>23,390,127</u>	<u>487,271</u>	<u>719,691</u>	<u>23,157,707</u>
Less Accumulated Depreciation For				
Buildings and improvements	5,003,909	318,112	—	5,322,021
Furniture and equipment	5,132,165	318,102	31,837	5,418,430
Library books and films	<u>4,282,913</u>	<u>639,906</u>	<u>682,456</u>	<u>4,240,363</u>
Total Accumulated Depreciation	<u>14,418,987</u>	<u>1,276,120</u>	<u>714,293</u>	<u>14,980,814</u>
Net Total Capital Assets Being Depreciated.....	<u>8,971,140</u>	<u>(788,849)</u>	<u>5,398</u>	<u>8,176,893</u>
Net Governmental Activities				
Capital Assets.....	<u>\$ 9,780,448</u>	<u>\$ (788,849)</u>	<u>\$ 5,398</u>	<u>\$ 8,986,201</u>

Notes to the Financial Statements

(4) Capital Assets

Depreciation expense was charged to the following functions:

Governmental Activities	
Instruction	\$ 276,610
Student support services.....	6,696
Instructional staff support services	712,179
General administration	136,992
Business administration	29,214
Plant operations and maintenance	10,455
Central and other support services.....	103,974
Total Governmental Activities Depreciation Expense	<u>\$ 1,276,120</u>

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Furniture and equipment	\$ —	\$ 24,366	\$ —	\$ 24,366
Less accumulated depreciation	<u>—</u>	<u>2,285</u>	<u>—</u>	<u>2,285</u>
Net Business-Type Activities.....	<u>\$ —</u>	<u>\$ 22,081</u>	<u>\$ —</u>	<u>\$ 22,081</u>

Depreciation expense for business-type activities was \$2,285.

(5) Long-Term Liabilities

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

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Capital lease.....	\$ 245,000	\$ —	\$ 120,000	\$ 125,000	\$ 125,000
Compensated absences.....	307,103	325,339	307,103	325,339	325,339
Net OPEB liability	<u>937,200</u>	<u>202,800</u>	<u>—</u>	<u>1,140,000</u>	<u>—</u>
	<u>\$ 1,489,303</u>	<u>\$ 528,139</u>	<u>\$ 427,103</u>	<u>\$ 1,590,339</u>	<u>\$ 450,339</u>

Capital Lease

On September 15, 2004, the Agency entered into a capital lease agreement with a bank. The agreement is for a period of ten years ending in June, 2014 at interest rates ranging from 2.1% to 4.05%. This lease is secured by land and a building.

The following is a schedule by years of future payments required:

Year Ending June 30,	Principal	Interest	Total
2014	<u>\$ 125,000</u>	<u>\$ 5,062</u>	<u>\$ 130,062</u>

Payments on the capital lease for the year ended June 30, 2013, including interest of \$9,743, totaled \$129,743.

Notes to the Financial Statements

(6) Interfund Transfers

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

Transfer to	Transfer From	Amount
Capital Projects	General	\$ 250,259
Debt Service	General	129,743
Proprietary Nutrition	General	<u>5,275</u>
Total		<u>\$ 385,277</u>

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

(7) Due From and Due to Other Funds

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

Receivable Fund	Payable Fund	Amount
General	Special Revenue Special Education Instruction	<u>\$ 982,492</u>

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

(8) Operating Leases

The Agency leases several copiers, with remaining terms ranging from one to three years, under operating leases. The Agency has also leased various facilities within the area to house its different divisions under leases with remaining terms ranging from one to two years. 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.

The following is a schedule by years of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013.

Year Ending June 30,	
2014	\$ 160,247
2015	<u>77,151</u>
Total	<u>\$ 237,398</u>

Total rental expenditures for the year ended June 30, 2013 for all operating leases, except those with terms of a month or less that were not renewed, was \$312,052.

Notes to the Financial Statements

(9) Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual covered salary and the Agency is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$3,164,787, \$3,570,083 and \$3,143,398, respectively, which was equal to the required contribution for the years.

(10) 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 717 active and 76 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

Notes to the Financial Statements

(10) Other Post-Employment Benefits (OPEB)

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

Annual required contribution	\$ 428,800
Interest on net OPEB obligation.....	42,000
Adjustment to annual required contribution.....	<u>(36,000)</u>
Annual OPEB Cost	434,800
Contributions made	<u>(232,000)</u>
Increase in Net OPEB Obligation	202,800
Net OPEB Obligation - Beginning of Year.....	<u>937,200</u>
Net OPEB Obligation - End of Year	<u>\$ 1,140,000</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, 2013.

For the year ended June 30, 2013, the Agency contributed approximately \$232,000 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, 2013 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 536,300	62.1%	\$ 465,300
June 30, 2011	563,000	49.2	751,300
June 30, 2012	564,900	67.1	937,200
June 30, 2013	434,800	53.4	1,140,000

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period of July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$3.959 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.959 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$33 million and the ratio of the UAAL to the covered payroll was 12%. As of June 30, 2013, there were no trust fund assets.

(10) Other Post-Employment Benefits (OPEB)

Actuarial Methods and Assumptions

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

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

As of the July 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4.5% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by 0.5% each year until reaching the 5% ultimate trend rate. 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, 2012 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2012.

Projected claim costs of the medical plan are \$763 per month for retirees age 60. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(11) 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

(12) Commitments

The Agency is involved in various building maintenance projects. As of June 30, 2013, the Agency was committed to approximately \$87,000 for maintenance projects.

(13) Subsequent Events

Management has evaluated subsequent events through January 22, 2014, the date which the financial statements were available to be issued.

(14) Categorical Funding

The District's restricted fund balance for categorical funding as of June 30, 2013 is comprised of the following programs:

Program	Amount
Education quality, professional development.....	\$ 122,437
Education quality, professional development for model core curriculum	245,840
Teacher salary supplement	<u>435,226</u>
	<u>\$ 803,503</u>

Required Supplementary Information

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

Year Ended June 30, 2013

	<u>Actual</u>		Total	<u>Budget Amount</u>		Over (Under) Budget
	Governmental Fund Types	Proprietary Fund Type		Original	Final	
Revenue						
Local sources	\$ 24,834,154	\$ 666,585	\$ 25,500,739	\$ 26,641,778	\$ 24,535,778	\$ 964,961
State sources	15,761,737	1,119	15,762,856	17,011,931	15,671,997	90,859
Federal sources	16,788,669	82,325	16,870,994	17,391,000	17,112,000	(241,006)
Total Revenue.....	<u>57,384,560</u>	<u>750,029</u>	<u>58,134,589</u>	<u>61,044,709</u>	<u>57,319,775</u>	<u>814,814</u>
Expenditures/Expenses						
Current						
Instruction.....	13,417,645	—	13,417,645	15,043,900	13,065,000	352,645
Student support services.....	16,982,192	—	16,982,192	17,520,000	16,750,000	232,192
Instructional staff support services	11,127,795	—	11,127,795	12,680,000	11,400,000	(272,205)
General administration	5,590,348	—	5,590,348	5,043,500	5,560,000	30,348
Business administration	3,349,700	—	3,349,700	3,910,000	3,319,000	30,700
Plant operations and maintenance	1,939,693	—	1,939,693	2,469,000	2,200,000	(260,307)
Central and other support services	916,387	—	916,387	1,147,000	1,061,000	(144,613)
Noninstructional programs	137,378	559,502	696,880	296,000	301,000	395,880
Facilities acquisition and construction	250,259	—	250,259	185,000	185,000	65,259
Debt service	129,743	—	129,743	129,742	129,742	1
Total Expenditures/ Expenses	<u>53,841,140</u>	<u>559,502</u>	<u>54,400,642</u>	<u>58,424,142</u>	<u>53,970,742</u>	<u>429,900</u>
Revenue Over Expenditures/Expenses....	3,543,420	190,527	3,733,947	2,620,567	3,349,033	384,914
Other Financing Sources (Uses), Net.....	<u>(3,459,871)</u>	<u>5,275</u>	<u>(3,454,596)</u>	<u>(3,420,258)</u>	<u>(3,369,596)</u>	<u>(85,000)</u>
Revenue and Other Financing Sources Over Expenditures/Expenses and Other Financing Uses	83,549	195,802	279,351	(799,691)	(20,563)	299,914
Balance - Beginning of Year ...	5,389,448	174,370	5,563,818	5,381,210	5,563,817	1
Balance - End of Year	<u>\$ 5,472,997</u>	<u>\$ 370,172</u>	<u>\$ 5,843,169</u>	<u>\$ 4,581,519</u>	<u>\$ 5,543,254</u>	<u>\$ 299,915</u>

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. In addition to actual expenditures/expenses for certain functions above exceeding the budget, the Agency's total expenditures/expenses also exceeded the total approved budget.

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

Year Ended June 30, 2013

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
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

See Note 10 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.

* Less than unfunded actuarial accrued liability due as of June 30, 2012 because of lower than expected claim costs and changes in employees since the prior valuation offset by the addition of excise tax and updated retirement and termination tables.

Supplementary Information 

Combining Balance Sheet - Nonmajor Governmental Funds ---

As of June 30, 2013

	<u>Special Revenue Juvenile Home</u>
Assets	
Cash and Cash Equivalents	<u>\$ 181,205</u>
Liabilities	
Accounts payable	\$ 20,279
Salaries and benefits payable.....	98,038
Deferred revenue	<u>62,888</u>
Total Liabilities	<u>\$ 181,205</u>

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

Year Ended June 30, 2013

	<u>Special Revenue Juvenile Home</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
Revenue				
Local sources	\$ 3,001	\$ —	\$ —	\$ 3,001
State sources	947,611	—	—	947,611
Total Revenue.....	<u>950,612</u>	<u>—</u>	<u>—</u>	<u>950,612</u>
Expenditures				
Current				
Instruction	865,834	—	—	865,834
Instructional staff support services	660	—	—	660
General administration	79,985	—	—	79,985
Plant operations and maintenance	4,133	—	—	4,133
Facilities acquisition and construction	—	250,259	—	250,259
Debt service	—	—	129,743	129,743
Total Expenditures.....	<u>950,612</u>	<u>250,259</u>	<u>129,743</u>	<u>1,330,614</u>
Revenue Under Expenditures.....	—	(250,259)	(129,743)	(380,002)
Other Financing Sources				
Transfers in	—	250,259	129,743	380,002
Net Change in Fund Balances	—	—	—	—
Fund Balances - Beginning of Year ..	—	—	—	—
Fund Balances - End of Year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Combining Schedule of Net Position - Nonmajor Proprietary Funds

As of June 30, 2013

	Nutrition	Technology and Repair Services	Total
Assets			
Current Assets			
Cash and cash equivalents.....	\$ 3,630	\$ 179,289	\$ 182,919
Accounts receivable	1,590	145,399	146,989
Inventory	<u>—</u>	<u>40,926</u>	<u>40,926</u>
Total Current Assets	<u>5,220</u>	<u>365,614</u>	<u>370,834</u>
Capital Assets, Net of Accumulated			
Depreciation	<u>—</u>	<u>22,081</u>	<u>22,081</u>
Total Assets	<u>\$ 5,220</u>	<u>\$ 387,695</u>	<u>\$ 392,915</u>
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ 4,121	\$ 17,523	\$ 21,644
Salaries and benefits payable.....	<u>1,099</u>	<u>—</u>	<u>1,099</u>
Total Current Liabilities	<u>5,220</u>	<u>17,523</u>	<u>22,743</u>
Net Position			
Investment in capital assets.....	—	22,081	22,081
Unrestricted	<u>—</u>	<u>348,091</u>	<u>348,091</u>
Total Net Position	<u>—</u>	<u>370,172</u>	<u>370,172</u>
Total Liabilities and Net Position	<u>\$ 5,220</u>	<u>\$ 387,695</u>	<u>\$ 392,915</u>

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

Year Ended June 30, 2013

	Nutrition	Technology and Repair Services	Total
Operating Revenue			
Charges for services.....	<u>\$ 29,307</u>	<u>\$ 637,278</u>	<u>\$ 666,585</u>
Operating Expenses			
Noninstructional Programs			
General Administration			
Purchased services.....	—	1,217	1,217
Plant Operations and Maintenance			
Purchased services.....	—	600	600
Materials and supplies.....	—	8,270	8,270
Depreciation.....	—	2,285	2,285
Total Plant Operations and Maintenance.....	—	11,155	11,155
Central and Other Support Services			
Salaries.....	—	153,024	153,024
Benefits.....	—	56,719	56,719
Purchased services.....	—	1,488	1,488
Materials and supplies.....	—	217,873	217,873
Total Central Support and Other Services.....	—	429,104	429,104
Food Service Operations			
Salaries.....	27,663	—	27,663
Benefits.....	13,130	—	13,130
Purchased services.....	307	—	307
Materials and supplies.....	76,926	—	76,926
Total Food Service Operations.....	118,026	—	118,026
Total Operating Expenses	<u>118,026</u>	<u>441,476</u>	<u>559,502</u>
Income (Loss) From Operations	<u>(88,719)</u>	<u>195,802</u>	<u>107,083</u>
Nonoperating Revenue			
State sources.....	1,119	—	1,119
Federal sources.....	82,325	—	82,325
Total Nonoperating Revenue	<u>83,444</u>	<u>—</u>	<u>83,444</u>
Change in Net Position Before Transfers	<u>(5,275)</u>	<u>195,802</u>	<u>190,527</u>
Transfers in.....	5,275	—	5,275
Change in Net Position	<u>—</u>	<u>195,802</u>	<u>195,802</u>
Net Position - Beginning of Year.....	—	174,370	174,370
Net Position - End of Year	<u><u>\$ —</u></u>	<u><u>\$ 370,172</u></u>	<u><u>\$ 370,172</u></u>

Combining Schedule of Cash Flows - Nonmajor Proprietary Funds

Year Ended June 30, 2013

	Nutrition	Technology and Repair Services	Total
Cash Flows From Operating Activities			
Cash received from customers	\$ 27,717	\$ 560,371	\$ 588,088
Cash paid to employees for services	(43,284)	(209,743)	(253,027)
Cash paid to suppliers for goods and services.....	<u>(70,639)</u>	<u>(203,751)</u>	<u>(274,390)</u>
Net Cash Provided by (Used in) Operating Activities.....	<u>(86,206)</u>	<u>146,877</u>	<u>60,671</u>
Cash Flows From Noncapital Financing Activities			
State grants received.....	1,119	—	1,119
Federal grants received.....	76,766	—	76,766
Transfers in	<u>5,275</u>	<u>—</u>	<u>5,275</u>
Net Cash Provided by Noncapital Financing Activities.....	<u>83,160</u>	<u>—</u>	<u>83,160</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition of capital assets	<u>—</u>	<u>(24,366)</u>	<u>(24,366)</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	(3,046)	122,511	119,465
Cash and Cash Equivalents at Beginning of Year	<u>6,676</u>	<u>56,778</u>	<u>63,454</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,630</u>	<u>\$ 179,289</u>	<u>\$ 182,919</u>
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities			
Income (loss) from operations.....	\$ (88,719)	\$ 195,802	\$ 107,083
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities			
Commodities used.....	5,559	—	5,559
Depreciation	—	2,285	2,285
Increase in accounts receivable	(1,590)	(76,907)	(78,497)
Decrease in inventories.....	—	11,423	11,423
Increase in accounts payable	1,035	14,274	15,309
Decrease in salaries and benefits payable	<u>(2,491)</u>	<u>—</u>	<u>(2,491)</u>
Net Cash Provided by (Used in) Operating Activities.....	<u>\$ (86,206)</u>	<u>\$ 146,877</u>	<u>\$ 60,671</u>

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

Year Ended June 30, 2013

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 341,559	\$ 1,294,169	\$ 1,347,028	\$ 288,700
Accounts receivable	<u>20,806</u>	<u>—</u>	<u>20,806</u>	<u>—</u>
Total Assets	<u>\$ 362,365</u>	<u>\$ 1,294,169</u>	<u>\$ 1,367,834</u>	<u>\$ 288,700</u>
 Liabilities				
Accounts payable	\$ 106,516	\$ 99,802	\$ 106,516	\$ 99,802
Deposits held in custody for others....	<u>255,849</u>	<u>1,194,367</u>	<u>1,261,318</u>	<u>188,898</u>
Total Liabilities	<u>\$ 362,365</u>	<u>\$ 1,294,169</u>	<u>\$ 1,367,834</u>	<u>\$ 288,700</u>

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

For the Last Nine Years

	Years Ended June 30,								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenue									
Local sources	\$ 24,834,154	\$ 37,051,670	\$ 37,475,083	\$ 39,255,589	\$ 37,963,299	\$ 35,320,511	\$ 34,467,848	\$ 33,309,117	\$ 31,453,896
State sources	15,761,737	16,387,663	18,729,978	16,787,160	18,421,837	16,590,759	13,862,015	12,706,309	12,020,599
Federal sources.....	16,788,669	17,294,461	18,945,236	29,930,341	19,251,652	16,871,230	17,996,620	18,604,604	17,533,170
Total Revenue	\$ 57,384,560	\$ 70,733,794	\$ 75,150,297	\$ 85,973,090	\$ 75,636,788	\$ 68,782,500	\$ 66,326,483	\$ 64,620,030	\$ 61,007,665
Expenditures									
Current									
Instruction	\$ 13,417,645	\$ 25,625,487	\$ 26,315,571	\$ 27,131,683	\$ 25,831,081	\$ 23,671,016	\$ 22,924,955	\$ 21,763,378	\$ 20,467,445
Student support services.....	16,982,192	17,689,241	17,944,382	18,710,718	17,601,257	16,629,025	15,267,040	15,447,597	17,889,315
Instructional staff support services	11,127,795	12,284,435	12,615,919	13,514,721	12,732,796	11,438,951	11,965,394	11,940,186	11,207,636
General administration	5,590,348	6,210,807	6,298,209	6,566,067	5,976,269	5,758,953	5,718,006	5,396,285	5,474,878
Business administration	3,349,700	3,241,039	2,967,959	3,155,816	2,991,439	3,457,122	2,996,568	2,813,973	2,873,359
Plant operations and maintenance	1,939,693	2,112,532	2,109,525	2,690,751	2,195,038	2,274,798	2,062,109	2,213,313	3,035,099
Central and other support services.....	916,387	1,485,175	1,543,050	1,699,324	1,799,788	1,586,136	1,689,199	1,642,549	104,132
Noninstructional programs	137,378	149,530	138,675	—	—	—	—	—	—
Facilities acquisition and construction.....	250,259	552,704	270,015	377,454	—	—	—	1,584,465	1,286,662
Debt service	129,743	134,242	389,002	417,314	414,588	416,026	416,502	364,510	2,007,784
Total Expenditures	\$ 53,841,140	\$ 69,485,192	\$ 70,592,307	\$ 74,263,848	\$ 69,542,256	\$ 65,232,027	\$ 63,039,773	\$ 63,166,256	\$ 64,346,310

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture - Indirect			
Pass-Through Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program.....	10.553	N/A	\$ 23,722
National School Lunch Program	10.555	N/A	53,044
National School Lunch Program - Food Donation (noncash).....	10.555	N/A	<u>5,559</u>
Total U.S. Department of Agriculture			<u>82,325</u>
U.S. Department of Education - Indirect			
Pass-Through Iowa Department of Education			
Special Education - Grants to States			
Preschool Handicapped Program.....	84.027**	2K74-07	139,821
Preschool Handicapped Program - Flow Through ..	84.027**	0031-3367-2KB2	3,454,596
Enhancing the Parent Educator Connection	84.027**	0031-3367-2KB1	<u>11,205,542</u>
Total Special Education - Grants to States			<u>14,799,959</u>
Special Education - Preschool Grants			
Section 619	84.173**	1213-07	425,726
IQPPS Grant	84.173**	019313	7,500
Gold on Line	84.173**	N/A	30,388
Tech Agreement.....	84.173**	N/A	<u>2,800</u>
Total Special Education - Preschool Grants.....			<u>466,414</u>
Career and Technical Education - Basic Grants to States			
Special Education - Grants for Infants and Families...	84.048***	62152 & 62153	<u>273,666</u>
Safe and Drug-Free Schools and Communities - National Programs	84.181	C-1207	<u>354,865</u>
Iowa Safe and Supportive Schools.....	84.184	1SS3	<u>99,418</u>
Special Education - State Personnel Development	84.323	SPDG-267	<u>102,230</u>
English Language Acquisition Grants.....	84.365	13ELA-02	<u>276,700</u>
Total Pass-Through Iowa Department of Education.....			<u>16,373,252</u>
Pass-Through Marshalltown Community School District			
Title I Grants to Local Educational Agencies	84.010*	N/A	<u>216,300</u>
Pass-Through Mason City Community School District			
Title I Grants to Local Educational Agencies	84.010*	N/A	<u>65,266</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education - Indirect			
Pass-Through State Training School for Boys Special Education - Grants to States.....	84.027**	N/A	\$ <u>31,972</u>
Pass-Through Waterloo Community School District Title I Grants to Local Educational Agencies	84.010*	N/A	<u>11,741</u>
Career and Technical Education - Basic Grants to States	84.048***	N/A	<u>16,509</u>
Total Pass-Through Waterloo Community School District.....			<u>28,250</u>
Total U.S. Department of Education			<u>16,715,040</u>
Total			<u>\$ 16,797,365</u>

* Total for CFDA Number 84.010 is \$293,307.

** Total for CFDA Number 84.027 is \$14,831,931 and total for Special Education Cluster (IDEA) (CFDA numbers 84.027 and 84.173) is \$15,298,345.

*** Total for CFDA Number 84.048 is \$290,175.

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Area Education Agency 267 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2. Subrecipients

Area Education Agency 267 provided \$3,454,596 of federal awards to various school districts as part of the Preschool Handicapped Program.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Area Education Agency 267 as of and for the year ended June 30, 2013, and the related notes to the financial statements, and the discretely presented component units as of December 31, 2012 and June 30, 2013, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated January 22, 2014.

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying schedule of findings as item 13-II-R-1 to be a material weakness.

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.

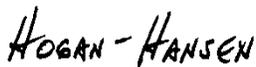
Comments involving statutory and other legal matters about Area Education Agency 267's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Area Education Agency 267. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Area Education Agency 267's Response to Finding

Area Education Agency 267's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Area Education Agency 267's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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



HOGAN - HANSEN

Mason City, Iowa
January 22, 2014

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

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

Report on Compliance for Each Major Federal Program

We have audited Area Education Agency 267's compliance, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. Area Education Agency 267's major federal programs are identified in Part I of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Area Education Agency 267's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Area Education Agency 267's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Area Education Agency 267's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Area Education Agency 267 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of Area Education Agency 267 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Area Education Agency 267's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Area Education Agency 267's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a significant deficiency.

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

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 13-III-R-1 to be a significant deficiency.

Area Education Agency 267's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Area Education Agency 267's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
January 22, 2014

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

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

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? yes no

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

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

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

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

Identification of major programs:

CFDA Numbers

84.027 and 84.173

Name of Cluster

Special Education Cluster (IDEA)

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

\$503,921

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2013

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiency

13-II-R-1 Segregation of Duties

Prior Year Finding and Recommendation - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The staffing changes at the Agency resulted in certain functions not being properly segregated during parts of the year.

Interim procedures should be established to obtain the maximum internal controls possible under the circumstances utilizing currently available staff. Administrative personnel could be utilized to provide additional control through review of financial transactions and reports. Proper internal control procedures should be followed once all staffing positions have been filled.

Current Year Finding - We found that the same condition still exists. Additionally, we noted that journal entries were not consistently reviewed by qualified staff to ensure they are properly supported and appropriate.

Auditor's Recommendation - The internal control process should be reviewed to assure that appropriate controls are in place or implemented to re-establish the proper segregation of duties among employees and appropriate review of journal entries.

Agency's Response - We acknowledge we had a segregation of duties issue through the staff changes over the past couple of years. With the filling of all open positions, we will do a review of our internal control processes to assure proper controls are in place and maintained. In addition, we will make sure that journal entries are reviewed by authorized staff prior to being posted.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

Significant Deficiency in Internal Control

CFDA Number 84.027 - Special Education Grants to States
CFDA Number 84.173 - Special Education Preschool Grants

13-III-R-1 Payment of Federal Funds

Finding - During our testing, we noted the Agency disbursed excess federal funds to local education agencies. The Agency later realized the error, requested reimbursement and received the erroneously disbursed funds. One important aspect of the payment of federal funds is the appropriate calculation and verification of amounts to be disbursed.

Recommendation - The internal control process should be reviewed to assure that processes and controls are in place or implemented to prevent erroneous payment of federal funds.

Agency's Response - The overpayment was a result of a clerical error and was discovered by the Agency. Immediately upon discovery, the appropriate local education agencies were contacted and all the extra payments have been returned to the Agency. Control mechanisms, including review of all grant payments by a responsible party have already been implemented by the Agency.

Auditor's Conclusion - Response accepted.

Part IV: Other Findings Related to Statutory Reporting

13-IV-A Certified Budget - Expenditures during the year ended June 30, 2013 exceeded the amounts budgeted. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Auditor's Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Agency's Response - The budget will be amended in the future, if applicable.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2013

- 13-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.
- 13-IV-C Travel Expenses** - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 13-IV-D Business Transactions** - No business transactions between the Agency and Agency officials or employees were noted.
- 13-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.
- 13-IV-F Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.
- 13-IV-G Deposits and Investments** - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Agency's investment policy.
- 13-IV-H Certified Annual Report** - The Certified Annual Report was certified timely to the Iowa Department of Education.
- 13-IV-I Categorical Funding** - No instances were noted of categorical funding used to supplant rather than supplement other funds.