Heartland Area Education Agency 11

Financial Report
Year Ended June 30, 2018

Table of Contents

Table of Contents

Heartland Area Education Agency 11

Officials
Year Ended June 30, 2018

	Title	Term/Contract Expires
Board of Directors:		
John Kinley	President	2019
Sheri Benson	Vice President	2019
Margaret Borgen	Board Member	2019
Elizabeth Brennan	Board Member	2019
Earl Bridgewater	Board Member	2021
Bruce Christensen	Board Member	2021
Pete Evans	Board Member	2021
Steve Rose	Board Member	2019
Agency:		
Jon Sheldahl	Chief Administrator	
Jenny Ugolini	Board Secretary	
Kurt Subra	Chief Financial Officer and Treasurer	

Heartland Area Education Agency 11

Areas Served
Year Ended June 30, 2018

Audubon County:
Audubon School District
Exira-Elk Horn-Kimballton School District

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

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

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

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

Jasper County:
Baxter School District
Colfax-Mingo School District
Lynnville-Sully School District
Newton School District
Newton Christian School
Prairie City-Monroe School District
Sully Christian School

Madison County:
Earlham School District
Interstate 35 School District
Winterset School District

Marion County:
Knoxville School District
Melcher-Dallas School District
Pella School District

Marion County (continued):
Pella Christian Grade School
Pella Christian High School
Peoria Christian School
Pleasantville School District
Twin Cedars School District

Polk County:
Ankeny School District
Ankeny Christian Academy
Bondurant-Farrar School District
Christ the King School
Des Moines School District
Des Moines Christian School
Bergman Academy
Dowling High School
Grand View Christian School
Holy Family Schools
Holy Trinity School
Iowa Christian Academy
Johnston School District
Mt. Olive Lutheran School
North Polk School District
Sacred Heart School
St. Anthony School
St. Augustin School
St. Francis of Assisi School
St. Joseph Elementary School
St. Luke's the Evangelist School
St. Pius X School
St. Theresa School
Saydel School District
Southeast Polk School District
Sterling West School District
Urbandale School District
West Des Moines School District

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

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

Bohnsack & Frommelt LLP
Certified Public Accountants

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Heartland Area Education Agency 11, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Heartland Area Education Agency 11, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the basic financial statements, the Agency implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the Agency's net position for governmental activities has been restated. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the Agency's total OPEB liability and related ratios, schedule of proportionate share of the net pension liability, and schedule of contributions on pages 4–9 and 39-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information including the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Bohnsack & Frommelt LLP

Moline, Illinois
October 31, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Area Education Agency 11 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2018. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- General Fund Revenues were $94,200,375 and General Fund Expenditures were $93,120,001 in FY2018. General Fund Other Financing Sources and Uses for FY2018 were a net source of $69,507. Revenues less Expenditures and Other Uses resulted in a net operating gain of $1,149,881. The Agency's General Fund total fund balance increased from $12,330,777 in FY2017 to $13,480,658 in FY2018.

- The Agency's special education support services state foundation aid revenue was reduced a total of $5,144,672 as the result of a state-wide $22.5 million cut to all area education agencies. This is a decrease of $3.75 million in state-wide cuts from the $26.25 million cut in FY 2017. Prior to that, the state-wide cut was $22.5 million for three years.

- The Agency completed its fifth year of self-insured health insurance. In FY2018 the internal service fund revenues totaled $7,768,949 and expenditures totaled $7,283,243. The funds net position increased from $5,772,780 in FY2017 to $6,258,486 in FY2018. The internal service fund records activity for the self-insured health and dental insurances and for health reimbursement accounts.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-Wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Area Education Agency 11 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the Agency's operations in more detail than the Government-Wide Statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year to actual expenditures, and Other Supplementary Information provides detailed information about expenditures by function and federal awards.

Reporting the Agency as a Whole

The Statement of Net Position and the Statement of Activities

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

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

- Over time, increases or decreases in the Agency's net position is an indicator of whether financial position is improving or deteriorating, respectively.

- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's student population base and the condition of its facilities need to be considered.

- The Government-Wide Financial Statements include the Agency's basic services, such as regular and special education instruction, student and instructional staff support services and administration. Property taxes, state aid and federal grants finance most of these activities.

Fund Financial Statements

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

Governmental Funds

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

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

Proprietary Funds

The Agency maintains one internal service fund to account for the premium and claim payments for the self-funded health and dental insurance plans and for health reimbursement accounts. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Agency's various functions. Because the service provided by the Agency benefits governmental, rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Area Education Agency 11's net position at the end of FY2018 totaled approximately $(1.99) million compared to $(1.81) million at the end of FY2017. The Agency's self-insurance fund is included with the governmental activities in the government-wide financial statements. The Agency does not have any Business-Type Activities, therefore, the total is only composed of the Governmental Funds. The analysis that follows focuses on the net position and changes in net position.

Condensed Statement of Net Position

	FY2018	Restated FY2017	% Change
Assets:			
Current and other assets	$ 31,279,200	$ 31,085,373	1%
Capital assets	9,595,426	10,318,752	-7%
Total Assets	$ 40,874,626	$ 41,404,125	-1%
Deferred Outflows of Resources	11,568,670	10,501,497	10%
Liabilities:			
Long-term obligations	$ 41,938,526	$ 41,594,918	1%
Other liabilities	11,540,058	11,673,916	-1%
Total Liabilities	$ 53,478,584	$ 53,268,834	0%
Deferred Inflows of Resources	954,604	444,338	115%
Net Position:			
Net investment in capital assets	$ 9,595,424	$ 10,318,752	-7%
Restricted	1,096,457	1,117,866	-2%
Unrestricted	(12,681,773)	(13,244,168)	-4%
Total Net Position	$ (1,989,892)	$ (1,807,550)	10%

The Agency's total net position decreased by $182,342 from FY2017. With the adoption of GASB 75 the Agency's Net OPEB Receivable of $1.3 million in FY2017 changed to a liability of $2.2 million in FY2018. In addition, the Agency's Net Pension Liability increased $1.9 million. The increase in liabilities was partially offset by the Agency's General Fund net gain of $1.1 million and net income of $.5 million in the Self Insurance Fund.

The following analysis shows the changes in Net Position for the year ended June 30, 2018 as compared to June 30, 2017.

Changes in Net Position

	FY2018	Not restated FY2017	% Change
Revenues:			
Program Revenues:			
Charges for Services	$ 4,228,294	$ 4,038,409	5%
Operating Grants and Contributions	32,694,788	32,623,309	0%
General Revenues:			
Property Tax	24,874,948	24,168,861	3%
State Aid	34,030,911	32,226,653	6%
Unrestricted Investment Earnings	305,590	123,385	148%
Total Revenues	$ 96,134,531	$ 93,180,617	3%
Program Expenses:			
Instruction	$ 3,557,674	$ 3,601,652	-1%
Student Support Services	38,938,753	35,964,178	8%
Instructional Staff Support Services	28,538,790	27,191,670	5%
General Administration	4,318,725	3,968,877	9%
Regional Administration	5,089,007	4,889,916	4%
Business Administration	1,515,455	1,477,420	3%
Central and Other Support Services	4,835,404	4,870,203	-1%
Printing, Delivery, and Coop Services	1,107,930	1,069,079	4%
Plant Operations and Maintenance	1,128,582	1,294,998	-13%
Student Transportation	66	2,443	-97%
Management services	97,620	7,399	1219%
Community Services Operations	183,332	174,680	5%
LEA Part B Flow-Through	6,634,858	6,562,379	1%
Facilities Improvements	-	-	
Long-Term Debt Interest	-	-	
Depreciation-Unallocated	370,677	329,456	13%
Total Expenses	$ 96,316,873	$ 91,404,350	5%
Increase in Net Position	(182,342)	1,776,267	-110%
Net Position-Beginning	(1,807,550)	261,723	-791%
Net Position-Ending	$ (1,989,892)	$ 2,037,990	-198%

The Agency's overall revenue increase of 3% was primarily due to a 1.11% increase in supplemental state aid and approximately 1.5% increase in enrollment. Investment earnings increased approximately $182,000 due to rising interest rates and charges for services increased approximately $190,000 due to increased revenues from professional development.

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

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

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

Governmental Fund

The Agency's Governmental Funds reported combined fund balances of $13,480,658, which is approximately $1.15 million greater than last year's ending fund balances of $12,330,777. Governmental Fund revenues increased approximately $2.9 million. The increased revenues are primarily a result of a 1.11% increase to supplemental state aid and a 1.5% student enrollment increase. Governmental Fund expenditures increased approximately $2.1 million. The expenditure increase is due to employee salary increases and the addition of approximately 23 staff positions.

Proprietary Fund

The Agency completed its fifth year of self-insured health insurance. The fund's net position increased from $5,772,780 at June 30, 2017 to $6,258,486 at June 30, 2018. For FY2018 the fund had revenues of approximately $7.8 million and expenditures of approximately $7.3 million. The Agency will continue to monitor the fund's net position to ensure adequate funds are available.

BUDGETARY HIGHLIGHTS

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the Agency had invested $9.6 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, computers, equipment, software, and an extensive library/media collection.

Area Education Agency 11 had depreciation expense of $990,476 in FY2018 and total accumulated depreciation of $13,466,972 at June 30, 2018. More detailed information about capital assets is available in Note 3 to the financial statements.

Debt Administration

At June 30, 2018 the Agency had no long-term outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Iowa economy is growing slowly despite a weak farm sector. The Iowa legislature enacted a 1% supplemental state aid increase for FY2019. With the student enrollment increases added in, the Agency has a 2.83% increase in supplemental state aid in FY2019. The state-wide cut to all area education agencies continues at $22.5 million in FY2019. The Agency's share of the cut is $5,144,673. Federal funding increased approximately $0.7 million in FY 2019.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

Exhibit A

Heartland Area Education Agency 11
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash and Cash Equivalents	$ 20,367,722
Due from Other Governments	9,985,790
Accrued Interest	9,030
Prepaid Expenses	916,660
Capital Assets:	
Nondepreciable	1,136,985
Depreciable, net of accumulated depreciation	8,458,439
Total Assets	40,874,626
Deferred Outflows of Resources	
Pension Related Deferred Outflows	11,568,670
Liabilities	
Accounts Payable and Other Current Liabilities	11,148,643
Unearned Revenue	391,415
Long-term Liabilities:	
Compensated Absences	557,630
Other Post Employment Benefits	2,244,171
Net Pension Liability	39,136,725
Total Liabilities	53,478,584
Deferred Inflows of Resources	
OPEB Related Deferred Inflows	30,970
Pension Related Deferred Inflows	923,634
Total Deferred Inflows	954,604
Net Position	
Net Investment in Capital Assets	9,595,424
Restricted for:	
Materials Resource	815,757
State Teacher Categorical	127,783
Other	152,917
Unrestricted	(12,681,773)
Total Net Position	(1,989,892)

See accompanying notes to the financial statements.

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Exhibit B

Heartland Area Education Agency 11
Statement of Activities
For the Year Ended June 30, 2018

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**
Governmental Activities:					
Instruction	$ 3,557,674	$ 1,421	$ 3,110,130	$ -	$ (446,123)
Student support services	38,938,753	7,246	11,008,068	-	(27,923,439)
Instructional staff support services	28,538,790	2,795,649	10,537,847	-	(15,205,294)
General administration	4,318,725	34,451	283,733	-	(4,000,541)
Regional administration	5,089,007	203,128	183,806	-	(4,702,073)
Business administration	1,515,455	90,209	719,689	-	(705,557)
Central & other support services	4,835,404	591,381	4,999	-	(4,239,024)
Printing, delivery services & coop services	1,107,930	408,691	-	-	(699,239)
Plant operations and maintenance	1,128,582	4,118	31,357	-	(1,093,107)
Student transportation	66	-	66	-	-
Management services	97,620	92,000	-	-	(5,620)
Community services	183,332	-	180,235	-	(3,097)
LEA Part B Flowthrough	6,634,858	-	6,634,858	-	-
Depreciation-unallocated	370,677	-	-	-	(370,677)
Total Primary Government	$ 96,316,873	$ 4,228,294	$ 32,694,788	-	$ (59,393,791)

General Revenues	
Property Taxes, Levied for General Purposes	$ 24,874,948
State Aid-Formula Grants	34,030,911
Unrestricted Investment Earnings	305,590
Total General Revenues	$ 59,211,449
Change in Net Position	(182,342)
Net Position-Beginning, as restated	(1,807,550)
Net Position-Ending	$ (1,989,892)

See accompanying notes to the financial statements.

Exhibit C

Heartland Area Education Agency 11
Balance Sheet
Governmental Funds
June 30, 2018

	General	Non-Major Funds	Total
Assets			
Cash and Cash Equivalents	$ 13,418,291	$ 115,269	$ 13,533,560
Due from Other Governments	9,909,705	76,085	9,985,790
Accrued Interest	9,030	-	9,030
Prepaid Items	916,660	-	916,660
Total Assets	24,253,686	191,354	24,445,040
Liabilities and Fund Balance			
Liabilities			
Accounts Payable and Other Current Liabilities	10,388,648	191,354	10,580,002
Unearned Revenue	384,380	-	384,380
Total Liabilities	10,773,028	191,354	10,964,382
Fund Balances			
Non-Spendable			
Prepaid Items	916,660	-	916,660
Restricted			
Materials Resource	815,757	-	815,757
State Teacher Categorical	127,783	-	127,783
Other	152,917	-	152,917
Committed			
Unemployment	33,150	-	33,150
Facility and Site Improvements	1,064,532	-	1,064,532
Assigned			
Encumbrances	5,097	-	5,097
Unassigned/uncommitted	10,364,762	-	10,364,762
Total Fund Balances	13,480,658	-	13,480,658
Total Liabilities and Fund Balances	$ 24,253,686	$ 191,354	$ 24,445,040

See accompanying notes to the financial statements.

Exhibit D

Heartland Area Education Agency 11
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2018

Total Fund Balances-Governmental Funds			$ 13,480,658
Amounts reported for Governmental Activities in the Statement of Net Position are different because:			
Capital Assets used in Governmental Activities are not financial resources and therefore are not reported as assets in Governmental Funds. The cost of the assets is $23,062,396 less the accumulated depreciation of $13,466,972.			9,595,424
Pension related deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, are not due and payable in the current year and, therefore, are not reported in the governmental funds.			
Deferred outflows of resources related to pension	$	11,568,670	
Deferred inflows of resources related to pension		(923,634)	
Deferred inflows of resources related to OPEB		(30,970)	10,614,066
Long-term liabilities, including certificates of participation, capital leases, compensated absences, other post employment benefits payable and net pension liability, are not due and payable in the current year and, therefore are not reported in the governmental funds.			(41,938,526)
Internal Service Funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of net position			
Other current assets	$	6,834,162	
Other current liabilities		(575,676)	6,258,486
Total Net Position-Governmental Activities			$ (1,989,892)

See accompanying notes to financial statements.

Exhibit E

Heartland Area Education Agency 11
Statement of Revenues, Expenditures and
Changes in Fund Balances-Governmental Funds
For the Year Ended June 30, 2018

	General	Non-Major Funds	Total
Revenues			
Local Sources	$ 29,303,995	$ 1,424	$ 29,305,419
State Sources	34,844,542	1,753,172	36,597,714
Federal Sources	30,051,838	74,661	30,126,499
Total Revenues	94,200,375	1,829,257	96,029,632
Expenditures			
Current:			
Instruction	2,054,350	1,493,022	3,547,372
Student Support Services	38,657,563	2,320	38,659,883
Instructional Staff Support Services	27,957,496	138,706	28,096,202
General Administration	4,126,416	167,588	4,294,004
Regional Administration	5,046,884	-	5,046,884
Business Administration	1,515,484	-	1,515,484
Central and Other Support Services	4,635,577	308	4,635,885
Printing & Delivery	1,106,914	-	1,106,914
Plant Operations and Maintenance	1,114,182	27,247	1,141,429
Student Transportation	-	66	66
Management Services	90,042	-	90,042
Community Services Operations	180,235	-	180,235
LEA Part B Flowthrough	6,634,858	-	6,634,858
Facilities Improvements	-	34,378	34,378
Total Expenditures	93,120,001	1,863,635	94,983,636
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	1,080,374	(34,378)	1,045,996
Other Financing Sources (Uses)			
Other	19,244	-	19,244
Sale of Equipment	84,641	-	84,641
Transfers In	-	34,378	34,378
Transfers Out	(34,378)	-	(34,378)
Total Other Financing Sources (Uses)	69,507	34,378	103,885
Net Change in Fund Balances	1,149,881	-	1,149,881
Fund Balances--Beginning	12,330,777	-	12,330,777
Fund Balances--Ending	$ 13,480,658	$ -	$ 13,480,658

See accompanying notes to the financial statements.

Exhibit F

Heartland Area Education Agency 11
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2018

Total Net Change in Fund Balances-Government Funds			$ 1,149,881
Amounts reported for Governmental Activities in the Statement of Activities are different because:			
Capital outlays are reported in Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful life as depreciation expense. This is the amount by which capital outlay ($266,223) and donation revenue ($925) exceed depreciation ($990,476).			(723,328)
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 governmental funds, as follows:			
Compensated absences	$	(40,169)	
Pension expense		(1,316,931)	
Other post employment benefits		262,499	(1,094,601)
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.			485,706
Change in Net Position of Governmental Activities			$ (182,342)

See accompanying notes to financial statements.

Heartland Area Education Agency 11
Statement of Net Position
Proprietary Fund
June 30, 2018

	Governmental Activities Internal Service
Assets	
Cash and Cash Equivalents	$ 6,834,162
Liabilities	
Accounts Payable	128,641
Claims Payable	440,000
Unearned Revenue	7,035
Total Liabilities	575,676
Net Position	
Unrestricted	$ 6,258,486
Total Net Position	$ 6,258,486

See accompanying notes to the financial statements.

Heartland Area Education Agency 11
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2018

	Governmental Activities Internal Service
Operating revenues	
Charges for Services	$ 7,768,949
Operating expenses	
Purchased Services	325,913
Claims and Administration	6,936,432
Supplies	20,898
Total Operating expenses	7,283,243
Operating income	$ 485,706
Net position, beginning of year	5,772,780
Net position, end of year	$ 6,258,486

See accompanying notes to the financial statements.

Exhibit I

Heartland Area Education Agency 11
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018

	Governmental Activities Internal Service
Cash flows from operating activities	
Receipts from customers and users	$ 7,841,856
Payments to suppliers	(302,389)
Claims and administrative costs paid	(6,888,432)
Net cash provided by operating activities	$ 651,035
Net increase in cash and cash equivalents	$ 651,035
Cash and cash equivalents, beginning of year	6,183,127
Cash and cash equivalents, end of year	$ 6,834,162
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 485,706
Adjustments to reconcile operating income to net cash provided by operating activities	
Changes in assets and liabilities:	
Accounts receivable	79,946
Accounts payable	44,422
Claims payable	48,000
Unearned revenue	(7,039)
Net cash provided by operating activities	$ 651,035

See accompanying notes to the financial statements.

Heartland Area Education Agency 11
Statement of Assets and Liabilities
Agency Fund
June 30, 2018

Exhibit J

	Agency Fund
Assets	
Due from other government	$ 304,378
Liabilities	
Accounts payable	$ 304,378

See accompanying notes to the financial statements.

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Note 1. Summary of Significant Accounting Policies

Heartland Area Education Agency 11 is an intermediate school corporation between the State Department of Education and the local school districts in its area as provided by Chapter 273 of the Code of Iowa. The Agency provides programs and support services necessary to meet the identified educational needs in the local school districts to enable them to operate efficiently and effectively. The Agency serves 53 school districts and 30 accredited non-public schools in an eleven-county area. A Board of Directors, whose members are elected on a non-partisan basis, governs the Agency.

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

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

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

The Agency reports the following major governmental fund:

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

The Agency reports the following non-major governmental funds:

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

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

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

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

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

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

Fiduciary fund types are used to account for net position and changes in net position. The Agency has one fiduciary fund which is considered an Agency Fund. The CTE Agency Fund is to account for the distribution of the state match for the Perkins awards to local education agencies through the Region 11 Career and Technical Education Partnership. The Agency is a member and the fiscal agent of the partnership.

Note 1. Summary of Significant Accounting Policies (continued)

C. Use of Estimates

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

E. Budgets and Budgetary Accounting

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

F. Assets, Liabilities and Fund Equity

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, and intangibles are reported in the governmental column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of $3,000 and estimated useful lives in excess of two years.

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

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

Unearned revenue: Proprietary funds defer revenue recognition in connection with resources that have been received, but not earned. Unearned revenue in governmental funds arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue. Unearned revenue in the governmental funds consists of class and registration fees of $384,380 collected for programs and services that will be provided in the next fiscal year.

Compensated Absences - Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Position representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2018. The compensated absences liability attributable to the governmental activities will be paid by the General and Special Revenue Funds.

Long-term Liabilities - In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the Governmental Activities column in the Statement of Net Position.

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

Note 1. Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources - Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments and the unamortized change in assumptions for OPEB.

Fund Balances – In the Governmental Fund financial statements, fund balances are classified as follows:

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

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

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

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

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

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

Note 2. Cash, Pooled Investments and Cash Equivalents

The Agency's deposits in banks at June 30, 2018 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Agency had investments in the Iowa Schools Joint Investment Trust Direct Government Obligation Portfolio, which are valued at an amortized cost of $2,023,430 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAm by Standard & Poor's Financial Services. There was no limitation or restriction on withdrawals of the investment. The Agency does not have a separate credit risk policy from state statutes.

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

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,136,985	$ -	$ -	$ 1,136,985
Construction-in-progress	-	-	-	-
Total capital assets, not being depreciated	1,136,985	-	-	1,136,985
Capital assets, being depreciated:				
Buildings	6,106,443	-	-	6,106,443
Improvements other than buildings	6,247,711	34,378	-	6,282,089
Furniture and equipment	4,256,377	152,234	89,281	4,319,330
Intangibles	2,784,872	14,805	-	2,799,677
Library/media collection	2,516,368	65,731	164,227	2,417,872
Total capital assets, being depreciated	21,911,771	267,148	253,508	21,925,411
Accumulated depreciation:				
Buildings	2,150,017	122,129	-	2,272,146
Improvements other than buildings	2,221,403	248,549	-	2,469,952
Furniture and equipment	3,653,567	227,158	89,281	3,791,444
Intangibles	2,237,131	150,853	-	2,387,984
Library/media collection	2,467,886	241,787	164,227	2,545,446
Total accumulated depreciation	12,730,004	990,476	253,508	13,466,972
Total capital assets, being depreciated, net	9,181,767	(723,328)	-	8,458,439
Governmental activities capital assets, net	$ 10,318,752	$ (723,328)	$ -	$ 9,595,424

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

Governmental Activities:	
Instruction	$ 2,447
Student support services	35,555
Instructional staff support services	287,090
General administration	1,343
Regional administration	8,243
Business services	273,894
Plant operations and maintenance	11,227
Unallocated	370,677
Total Governmental Activities Depreciation Expense	$ 990,476

Note 4. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	2017	Additions	Deletions	2018	Due Within One Year
Compensated absences	$ 517,461	$ 557,630	$ 517,461	$ 557,630	$ 557,630
Total OPEB liability	2,537,640	-	293,469	2,244,171	-
Net pension liability	37,231,907	1,904,818	-	39,136,725	-
	$ 40,287,008	$ 2,462,448	$ 810,930	$ 41,938,526	$ 557,630

Compensated absences, OPEB liability and Net Pension liability are liquidated from the General Fund and special revenue funds.

Note 5. Operating Leases

The Agency has leased various facilities within the area to house staff of the Agency. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2018 and June 30, 2022. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms of one year or more as of June 30, 2018:

Year Ended June 30,	
2019	$ 101,827
2020	61,712
2021	32,940
2022	15,600
Total	$ 212,079

Total rental expenditures for the year ended June 30, 2018 for all operating leases, except those with terms of a month or less that were not renewed, were $118,044.

Note 6. Pension and Retirement Benefits

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

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

Note 6. Pension and Retirement Benefits (continued)

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

- A multiplier based on years of service
- The member's highest five-year average salary, except members with service before June 30, 2012, will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

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

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

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

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

In fiscal year 2018, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Agency contributed 8.93 percent for a total rate of 14.88 percent.

The Agency's contributions to IPERS for the year ended June 30, 2018 were $4,153,368.

Note 6. Pension and Retirement Benefits (continued)

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the Agency reported a liability of $39,136,725 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2017, the Agency's proportion was 0.5875269 percent, which was a decrease of 0.004084 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Agency recognized pension expense of $5,470,299. At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 359,313	$ 339,090
Changes of assumptions	6,800,158	-
Net difference between projected and actual earnings on pension plan investments	-	408,770
Changes in proportion and differences between Agency contributions and proportionate share of contributions	255,831	175,774
Agency contributions subsequent to the measurement date	4,153,368	-
Total	$ 11,568,670	$ 923,634

$4,153,368 reported as deferred outflows of resources related to pensions resulting from the Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2019	$ 1,035,525
2020	3,073,888
2021	1,767,923
2022	163,718
2023	450,614
Thereafter	-
Total	$ 6,491,668

There were no non-employer contributing entities to IPERS.

Note 6. Pension and Retirement Benefits (continued)

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2017)	2.60 percent per annum
Salary Increases (effective June 30, 2017)	3.25 percent to 16.25 percent average, including inflation. Rates vary by membership group.
Investment rate of return (effective June 30, 2017)	7.00 percent per annum, compounded annually, net of pension plan, investment expense, including inflation
Wage growth (effective June 30, 2017)	3.25 percent per annum, based on 2.60 percent inflation and 0.65 percent real wage inflation

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience study dated March 24, 2017.

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

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core Plus Fixed Income	27.0%	2.25%
Domestic Equity	24.0%	6.25%
International Equity	16.0%	6.71%
Private Equity	11.0%	11.15%
Private Real Assets	7.5%	4.18%
Public Real Assets	7.0%	3.27%
Public Credit	3.5%	3.46%
Private Credit	3.0%	4.25%
Cash	1.0%	-0.31%
Total	100%	

Note 6. Pension and Retirement Benefits (continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate.

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Agency's proportionate share of the net pension liability	$ 64,481,622	$ 39,136,725	$ 17,842,142

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan – At June 30, 2018, the Agency reported payables to the defined benefit pension plan of $355,353 for legally required employer contributions and $236,769 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description – The Agency's defined benefit OPEB plan, Heartland Area Education Agency 11 Postemployment Plan Other Than Pensions (the Plan), provides postemployment benefits for eligible participants enrolled in its plans. The Plan is a single employer defined benefit OPEB plan administered by the Agency. Under Chapter 509A.13 of the Code of Iowa, "Group Insurance for Public Employees," if a governing body has procured insurance for its employees, the governing body shall allow its employees who retired before the age of sixty-five years of age to continue participation in the group plan at the employee's own expense until the employee attains sixty-five years of age. The Agency allows retirees to stay on the plan past age 65 at the group contract rate with Medicare coordination. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75.

Benefits provided: Employees who attain age 58 with at least 15 years of continuous service are eligible for the Agency's early retirement benefits until age 65. These include Agency-paid life, medical and dental insurance. Medical and dental premiums paid by the Agency are frozen at the level of the least expensive single premium in the year of retirement. After June 2016, this benefit was closed to any future retirees. Retirees who are not eligible for the subsidy benefit are required to contribute 100% of the premium cost in order to continue coverage.

Note 7. Other Postemployment Benefits (OPEB) (continued)

The full monthly premium rates as of July 1, 2017 for each plan are as shown below:

	Health			
Rate Tier	$750 HMO	$1,500 HMO	$750 AS	Dental
Retiree Only	$ 618	$ 540	$ 640	$ 35
Retiree & Family	1,544	1,351	1,600	108

<u>Employees covered by benefit terms</u>: At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	55
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	708
	763

Total OPEB Liability

The Agency's total OPEB liability of $2,244,171 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2018.

Actuarial assumptions and other inputs: The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified.

Inflation	3.00% per annum
Salary increases	3.50% per annum
Discount rate	3.87% per annum
Retirees' share of benefit-related costs	100.00%
Health care cost trend rate	3.00%

The discount rate was based on the Bond Buyer 20-Bond GO index.

Morality rates were based on the RP-2014 generational table scaled using MP 2017 and applied on a gender-specific basis.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period 2010-2017.

Note 7. Other Postemployment Benefits (OPEB) (continued)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	$ 2,537,640
Changes for the year:	
Service cost	122,679
Interest	93,744
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(34,291)
Benefit payments	(475,601)
Net changes	(293,469)
Balance at June 30, 2018	$ 2,244,171

There were no changes as a result of changes in benefit terms or differences between expected and actual experience. Changes of assumptions or other inputs reflect a change in the discount rate from 3.58% per annum in 2017 to 3.87% per annum in 2018.

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the total OPEB liability of the Agency, as well as what the Agency's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
	(2.87%)	(3.87%)	(4.87%)
Total OPEB liability	$ 2,366,000	$ 2,244,171	$ 2,132,000

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates: The following presents the total OPEB liability of the Agency, as well as what the Agency's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1-percentage point higher than the current healthcare cost trend rates.

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(2.00%)	(3.00%)	(4.00%)
Total OPEB liability	$ 2,064,000	$ 2,244,171	$ 2,527,000

For the year ended June 30, 2018, the Agency recognized OPEB expense of $213,101. At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions or other inputs	-	(30,970)
Net difference between projected and actual investments	-	-
Total	$ -	$ (30,970)

Note 7. Other Postemployment Benefits (OPEB) (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:		
2019	$	(3,321)
2020		(3,321)
2021		(3,321)
2022		(3,321)
2023		(3,321)
Thereafter		(14,365)
Total	$	(30,970)

Note 8. Risk Management

As of July 1, 2013, the Agency has a self-funded health and dental insurance plan. The Agency purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125 percent of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of $75,000 in insured claims for any one covered individual. Settled claims have not exceeded the aggregate stop-loss coverage in the current year or commercial insurance in the previous three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for incurred but unpaid claims. Changes in the claims liability amounts for the years ended June 30, 2018 and 2017 were as follows:

	Self-Insurance Fund	
	2018	2017
Claims payable, beginning of year	$ 392,000	$ 510,000
Incurred claims (including IBNR and changes in estimates)	6,125,250	5,102,487
Claim payments	6,077,250	5,220,487
Claims payable, end of year	$ 440,000	$ 392,000

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

Note 9. New Governmental Accounting Standards Board (GASB) Statements

The Agency adopted the following statements during the year ended June 30, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*: This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*: The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82, *Pension Issues* – an amendment of GASB Statements No. 67, No. 68, and No.73: This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 85, *Omnibus 2017*: The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)).

GASB Statement No. 86, *Certain Debt Extinguishment Issues*: The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The implementation of the above statements did not have a material impact to the Agency's financial statements except for GASB Statement No. 75 which required the Agency to change the accounting and reporting of OPEB benefit expense, total OPEB liability, and the related deferred inflows of resources and deferred outflows of resources. As a result, the Agency's financial statements required a restatement as stated in Note 7. In addition, the new standards required new note disclosures and new required supplementary information schedules.

As of June 30, 2018, GASB had issued several statements not yet required to be implemented by the Agency. The Statements which might impact the Agency are as follows:

Note 9. New Governmental Accounting Standards Board (GASB) Statements (continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016, will be effective for the Agency beginning with its fiscal year ending June 30, 2019. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

GASB Statement No. 84, *Fiduciary Activities*, issued January 2017, will be effective for the Agency beginning with its fiscal year ending June 30, 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the identification criteria established by the Statement is on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported as a fiduciary fund in the basic financial statements. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the Agency beginning with its fiscal year ending June 30, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, issued April 2018, will be effective for the Agency beginning with its fiscal year ending June 30, 2019. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The Agency's management has not yet determined the effect these Statements will have on the Agency's financial statements.

Note 10. Restatement

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented as of the beginning of the year ended June 30, 2018. The revised requirements establish new financial reporting requirements for state and local government employers that provide postemployment benefits other than pensions, including additional note disclosures and required supplementary information. Statement No. 75 establishes standards for recognizing expense/expenditures. Beginning net position for governmental activities was restated to retroactively report the beginning net OPEB liability and, if applicable, deferred outflows of resources related to contributions made after the measurement date of the beginning total OPEB liability but before the beginning of the Agency's fiscal year.

	Governmental Activities
Net position June 30, 2017, as previously reported	$ 2,037,987
Net OPEB obligation	(1,307,897)
Total OPEB liability	(2,537,640)
Net position June 30, 2017, as restated	$ (1,807,550)

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Heartland Area Education Agency 11
Required Supplementary Information
Budgetary Comparison Schedule-All Governmental Funds
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final budget-
	Original	Final	Actual	Positive (Negative)
Revenues				
Local Sources	$ 28,033,730	$ 28,901,197	$ 29,305,419	$ 404,222
State Sources	39,552,354	36,327,837	36,597,714	269,877
Federal Sources	31,455,066	31,096,896	30,126,499	(970,397)
Total Revenues	$ 99,041,150	$ 96,325,930	$ 96,029,632	$ (296,298)
Expenditures				
Instruction	$ 3,958,910	$ 3,895,588	$ 3,547,369	$ 348,219
Student Support Services	41,107,666	38,219,801	38,659,883	(440,082)
Instructional Staff Support Services	29,272,529	29,806,611	28,096,202	1,710,409
General Administration	4,060,871	3,918,950	4,294,004	(375,054)
Regional Administration	5,122,652	5,005,742	5,046,884	(41,142)
Business Administration	1,508,851	1,522,796	1,515,484	7,312
Central and Other Support Services	5,444,562	5,214,064	4,635,885	578,179
Printing and Delivery	1,047,165	1,120,060	1,106,914	13,146
Plant Operations and Maintenance	1,456,086	1,409,024	1,141,432	267,592
Student Transportation	4,253	3,853	66	3,787
Management Services	8,199	89,175	90,042	(867)
Community Services Operations	232,133	230,544	180,235	50,309
LEA Part B Flowthrough	6,562,379	6,634,858	6,634,858	-
Facilities Improvements	-	35,760	34,378	1,382
Total Expenditures	$ 99,786,256	$ 97,106,826	$ 94,983,636	$ 2,123,190
Excess (Deficiency) of Revenues Over Expenditures	$ (745,106)	$ (780,896)	$ 1,045,996	$ 1,826,892
OTHER FINANCING SOURCES (USES)				
Other	-	-	19,244	(19,244)
Transfers In	-	35,760	34,378	1,382
Transfers Out	-	(35,760)	(34,378)	(1,382)
Sale of Equipment	60,000	60,000	84,641	(24,641)
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources (Uses)	$ (685,106)	$ (720,896)	$ 1,149,881	$ 1,783,007

See Notes to Required Supplementary Information.

Heartland Area Education Agency 11

Required Supplementary Information
Schedule of Changes in the Agency's Total OPEB
Liability and Related Ratios
Year ending June 30, 2018 *

	2018
Total OPEB liability	
Changes for the year:	
Service cost	$ 122,679
Interest	93,744
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(34,291)
Benefit payments	(475,601)
Net changes in total OPEB liability	(293,469)
Total OPEB liability - beginning	2,537,640
Total OPEB liability - ending	$ 2,244,171
Covered employee payroll	$ 44,904,589
Total OPEB liability as a percentage of covered employee payroll	5%

Notes to Schedule:

Changes of benefit terms:
There were no changes as a result of changes in benefit terms or differences between expected and actual experience.

Changes of assumption:
Changes of assumptions or other inputs reflect a change in the discount rate from 3.58% per annum in 2017 to 3.87% per annum in 2018. The following are the discount rates used in each period:

2018	3.87%
2017	3.58%

No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75

Note: The schedule is intended to present information for ten years.
Information prior to 2018 is not available.

See Notes to Required Supplementary Information

Heartland Area Education Agency 11

Required Supplementary Information
Schedule of the Agency's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
Last Four Fiscal Years
(In Thousands)

	2018*	2017*	2016*	2015*
Agency's proportion of the net pension liability	0.5875%	0.5916%	0.5960%	0.5877%
Agency's proportionate share of the net pension liability	$ 39,137	$ 37,232	$ 29,629	$ 23,784
Agency's covered-employee payroll	$ 43,856	$ 42,456	$ 41,085	$ 39,253
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	89.24%	87.70%	72.12%	60.59%
Plan fiduciary net pension as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

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

Note: The schedule is intended to present information for ten years. Information prior to 2015 is not available.

See Notes to Required Supplementary Information.

Heartland Area Education Agency 11

Required Supplementary Information
Schedule of Agency Contributions
Iowa Public Employees' Retirement System
Last Ten Fiscal Years

	2018	2017	2016	2015
Statutorily required contribution	$ 4,153	$ 3,916	$ 3,791	$ 3,669
Contributions in relation to the statutorily required contribution	$ (4,153)	$ (3,916)	$ (3,791)	$ (3,669)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Agency's covered-employee payroll	$ 46,510	$ 43,856	$ 42,456	$ 41,085
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%

Note: Amounts in thousands

See Notes to Required Supplementary Information.

2014	2013	2012	2011	2010	2009
$ 3,505	$ 3,276	$ 3,053	$ 2,603	$ 2,514	$ 2,371
$ (3,505)	$ (3,276)	$ (3,053)	$ (2,603)	$ (2,514)	$ (2,371)
$ -	$ -	$ -	$ -	$ -	$ -
$ 39,253	$ 37,781	$ 37,835	$ 37,453	$ 37,804	$ 37,333
8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

Note 1. Budgets and Budgetary Information

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles for all funds except the internal service fund. Although the budget document presents function expenditures/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 budget was amended once during the year to decrease revenues and other financing sources $2,655,220 and decrease expenditures $2,679,430. For the year ended June 30, 2018, the Agency's expenditures/expenses did not exceed the approved budget.

Note 2. Iowa Public Employees' Retirement System Pension Liability

Changes of benefit terms:

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

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

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

Note 2. Iowa Public Employees' Retirement System Pension Liability (Continued)

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

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

Schedule 1

Heartland Area Education Agency 11
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue			
	Correctional Facilities	Shelter Care	Capital Projects	Total
Assets				
Cash and Cash Equivalents	$ -	$ 115,269	$ -	$ 115,269
Due from Other Governments	1,424	74,661	-	76,085
Total Assets	1,424	189,930	-	191,354
Liabilities and Fund Balance				
Liabilities				
Accounts Payable and Other Current Liabilities	-	189,930	-	189,930
Excess of Warrants Issued over Bank Balance	1,424	-	-	1,424
Total Liabilities	1,424	189,930	-	191,354
Fund Balance				
Restricted	-	-	-	-
Total Fund Balances	-	-	-	-
Total Liabilities and Fund Balances	$ 1,424	$ 189,930	$ -	$ 191,354

Heartland Area Education Agency 11
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue			
	Correctional Facilities	Shelter Care	Capital Projects	Total
Revenues				
Local Sources	$ 1,424	$ -	$ -	$ 1,424
State Sources	-	1,753,172	-	1,753,172
Federal Sources	-	74,661	-	74,661
Total Revenues	1,424	1,827,833	-	1,829,257
Expenditures				
Instruction	1,424	1,491,598	-	1,493,022
Student Support Services	-	2,320	-	2,320
Instructional Staff Support Services	-	138,706	-	138,706
General Administration	-	167,588	-	167,588
Central and Other Support Services	-	308	-	308
Plant Operations and Maintenance	-	27,247	-	27,247
Student Transportation	-	66	-	66
Facilities Improvements	-	-	34,378	34,378
Total Expenditures	1,424	1,827,833	34,378	1,863,635
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	-	-	(34,378)	(34,378)
Other Financing Sources				
Transfers In	-	-	34,378	34,378
Total Financing Sources	-	-	34,378	34,378
Net Change in Fund Balances	-	-	-	-
Fund Balances--Beginning	-	-	-	-
Fund Balances--Ending	$ -	$ -	$ -	$ -

Heartland Area Education Agency 11

Statement of Changes in Assets and Liabilities
Agency Fund
Year Ended June 30, 2018

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
CTE Agency Fund				
Assets				
Due from other government	$ 427,990	$ 318,973	$ 442,585	$ 304,378
Liabilities				
Accounts payable	$ 427,990	$ 318,973	$ 442,585	$ 304,378

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

	Modified Accrual Basis				
	For the years Ending June 30,				
	2018	2017	2016	2015	2014
Revenues					
Local sources	$ 29,305,419	$ 28,259,848	$ 27,151,205	$ 27,234,174	$ 25,145,991
State	36,597,714	34,747,403	34,250,148	33,144,661	30,830,729
Federal	30,126,499	30,099,222	28,896,989	28,048,105	27,719,516
Total Revenues	$ 96,029,632	$ 93,106,473	$ 90,298,342	$ 88,426,940	$ 83,696,236
Expenditures					
Instruction	$ 3,547,369	$ 3,644,248	$ 3,527,717	$ 3,300,903	$ 3,355,342
Student support services	38,659,883	36,433,639	34,963,013	34,357,580	32,719,004
Instructional staff support services	28,096,202	27,287,579	26,486,774	26,406,625	23,988,315
General administration	4,294,004	4,042,917	3,738,523	3,639,092	3,557,134
Regional administration	5,046,884	4,960,737	4,692,903	4,158,171	4,156,030
Business administration	1,515,484	1,510,494	1,474,058	1,587,326	1,592,811
Central & other support services	4,635,885	4,875,970	4,877,681	4,430,098	4,418,309
Printing and delivery services	1,106,914	1,067,712	1,017,461	952,488	938,652
Plant operations and maintenance	1,141,432	1,304,708	1,310,924	1,351,465	1,424,904
Student transportation	66	2,443	495	658	744
Management services	90,042	7,503	140,078	128,562	131,923
Community services	180,235	173,402	164,735	168,155	169,784
LEA Part B Flowthrough	6,634,858	6,562,379	6,494,137	6,445,956	6,380,761
Facilities improvements	34,378	1,018,906	275,911	88,134	2,022,255
Total Expenditures	$ 94,983,636	$ 92,892,637	$ 89,164,410	$ 87,015,213	$ 84,855,968

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Heatland Area Education Agency 11

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Program Title	Contract or Pass-Entity Identifying Number	Catalog of Federal Domestic Assistance Number	Pass-Through To Subrecipients	Expenditures	
U.S. Department of Education:					
Indirect:					
Pass-Through Iowa Department of Education:					
Special Education Cluster:					
Special Education Grants to States, I.D.E.A. Part B	FY18 4611	84.027	$12,928,190	$ 28,025,348	
Special Education -Preschool Grants	FY18 4641	84.173	167,598	517,300	
Special Education Cluster			13,095,788	28,542,648	
Special Education-Grants for Infants & Families	FY18 4671	84.181	165,239	755,643	
English Language Acquisition State Grants	FY18 4644	84.365	140,396	375,605	
Mathematics and Science Partnerships	FY18 4697	84.366B	-	38,640	
Title 1 Grants to Local Education Agencies	FY18 4717	84.010	6,352	317,060	(1)
Ames Community School District:					
Title 1 Grants to Local Education Agencies	FY18 4714	84.010	-	13,729	(1)
Des Moines Independent Public Schools:					
Title 1 Grants to Local Education Agencies	FY18 4715	84.010	-	63,269	(1)
Total U.S. Department of Education Programs			13,407,775	30,106,594	
Total Expenditure of Federal Awards			$ 13,407,775	$ 30,106,594	

(1) Total expenditures CFDA No. 84.010 $394,058

See Notes to Schedule of Expenditures of Federal Awards

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Heartland Area Education Agency 11

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (schedule) includes the federal grant activity of the Agency under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net position or cash flows of the entity.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue from federal awards is recognized when the Agency has done everything necessary to establish its right to the revenue. Pass-through entity identifying numbers are presented where available.

Note 3. Indirect Cost Rate

The Agency has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Heartland Area Education Agency 11

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Findings	Status	Corrective Action Plan or Other Explanation
None		

Bohnsack & Frommelt LLP
Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heartland Area Education Agency 11, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated October 31, 2018.

Our report included an emphasis of matter paragraph for the implementation of Governmental Accounting Standards Board Statement No. 75.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heartland Area Education Agency 11's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Heartland Area Education Agency 11's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Heartland Area Education Agency 11's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bohnsack & Frommelt LLP

Moline, Illinois
October 31, 2018

Bohnsack & Frommelt LLP
Certified Public Accountants

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

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

Report on Compliance for Each Major Federal Program

We have audited Heartland Area Education Agency 11's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Heartland Area Education Agency 11's major federal programs for the year ended June 30, 2018. Heartland Area Education Agency 11's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Heartland Area Education Agency 11's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Heartland Area Education Agency 11's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Heartland Area Education Agency 11's compliance.

Opinion on Each Major Federal Program

In our opinion, Heartland Area Education Agency 11 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Heartland Area Education Agency 11 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Heartland Area Education Agency 11's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Heartland Area Education Agency 11's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Bohnsack & Frommelt LLP

Moline, Illinois
October 31, 2018

Heartland Area Education Agency 11

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☑ No
- Significant deficiency identified? ☐ Yes ☑ None Reported
- Noncompliance material to financial statements noted? ☐ Yes ☑ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☑ No
- Significant deficiency identified? ☐ 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 2 CFR 200.516(a)? ☐ Yes ☑ No

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs: $903,197

Auditee qualified as low-risk auditee? ☑ Yes ☐ No

(Continued)

II. Findings Relating to the Basic Financial Statements

A. Internal Control

No matters reported.

B. Instances of Noncompliance

No matters reported.

III. Findings and Questioned Costs for Federal Awards

A. Internal Control for Federal Awards

No matters reported.

B. Instances of Noncompliance

No matters reported.

IV. Other Findings Related to the Required Statutory Reporting

IV-A-18
Certified Budget – Expenditures for the year ended June 30, 2018, did not exceed the amounts budgeted at year-end.

IV-B-18
Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-18
Travel Expense – No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-18
Business Transactions – Business transactions between the Agency and Agency officials are as follows:

Official	Transaction Description	Amount
Son of Board Member Earl Bridgewater President of Baker Group	Construction Services	$10,973

In accordance with the Attorney General's opinion dated November 9, 1976, the above transaction does not appear to represent a conflict of interest.

IV-E-18
Bond Coverage – Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-18
Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-18
Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Agency's investment policy were noted.

IV-H-18
Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-I-18
Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.