GRANT WOOD AREA EDUCATION AGENCY 10
Cedar Rapids, Iowa

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FINDINGS AND QUESTIONED COSTS
June 30, 2006

TABLE OF CONTENTS

		PAGE
OFFICIALS		2
INDEPENDENT AUDITOR'S REPORT		3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		5
BASIC FINANCIAL STATEMENTS:	**Exhibit**	
Agency - Wide Financial Statements:		
Statement of Net Assets - Governmental Activities	A	12
Statement of Activities	B	13
Governmental Fund Financial Statements:		
Balance Sheet	C	14
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	15
Statement of Revenues, Expenditures and Changes in Fund Balances	E	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Net Assets	G	19
Notes to Financial Statements		20
REQUIRED SUPPLEMENTARY INFORMATION:		
Statement of Revenue, Expenditures, and Changes in Balances - Budget and Actual - All Governmental Funds		33
Note to Required Supplementary Information - Budgetary Reporting		34
OTHER SUPPLEMENTARY INFORMATION:	**Schedule**	
Nonmajor Funds:		
Combining Balance Sheet	1	36
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	37
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Funds	3	38
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	39
Schedule of Expenditures of Federal Awards	5	41
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		43

PAGE

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 45

Schedule of Findings and Questioned Costs 47
Summary Schedule of Prior Federal Audit Findings 50

Audit Staff 51

GRANT WOOD AREA EDUCATION AGENCY 10

Officials

Name	Title	Term Expires
Board of Directors:		
Randall W. Jordison	Member	2006
Sue Gates	Member	2006
Morris Greenfield	Member	2006
Dr. Lynne Cannon	President	2007
James C. Green	Vice President	2007
Janet Martin	Member	2007
Marlene L. Hill	Member	2008
Robert Schneider	Member	2008
Mary Meisterling	Member	2008
Agency:		
Ronald S. Fielder	Chief Administrator	
Barbara Harms	Business Manager/Treasurer	
Kim Martin	Board Secretary	

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Grant Wood Area Education Agency 10 as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Grant Wood Area Education Agency 10 as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006 on our consideration of Grant Wood Area Education Agency 10's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Offices in 15 states and Washington, DC

Member of HLB International

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grant Wood Area Education Agency 10's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
November 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Grant Wood Area Education Agency 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, 2006. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund Revenues increased from $36,121,069 in fiscal year 2005 (FY05) to $38,411,642 in fiscal year 2006 (FY06), while General Fund Expenditures increased from $35,474,636 in FY05 to $37,886,675 in FY06. General Fund net change in fund balance decreased from $401,233 in FY05 to $253,821 in FY06. This resulted in an increase in the Agency's General Fund fund balance from $3,168,984 in FY05 to $3,481,434 in FY06.

- The increase in General Fund revenues was attributable to increased state aid and federal grant revenue in FY06. The increase in expenditures was due primarily to an increase in services provided to the local school districts.

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 Agency-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Grant Wood Area Education Agency 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 agency-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, and Supplementary Information provides detailed information about other items of interest.

REPORTING THE AGENCY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Agency-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 assets includes all of the Agency's assets and liabilities. 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 Agency-wide statements report the Agency's net assets and how they have changed. Net assets - the difference between the Agency's assets and liabilities - are one way to measure the Agency's financial health or position.

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

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

In the Agency-wide financial statements, there are two categories of activities:

- *Governmental activities:* Represent basic Agency services; such as regular and special education instructions, student and instructional staff support services and administration. Property taxes from local school districts, federal, and state aid finance most of these activities. All of Grant Wood Area Education Agency's services fall into this category.

- *Business-type activities:* Represent activities where the Agency charges fees to cover the costs of providing the service. The Agency has no activities that fall into this category.

The Fund Financial Statements

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

The Agency has two kinds of funds:

1) *Governmental funds* account for most 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 Agency-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, and 3) the Debt Service Fund.

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

2) *Fiduciary funds* account for assets held by the Agency as an agent for individuals, private organizations, or other governments that cannot be used to support their own governmental activities or programs. The fiduciary funds held by Grant Wood are agency fund types, held on a temporary, purely custodial basis, therefore, these activities are not included in the Agency's agency-wide financial statements.

   The fiduciary funds required financial statements include a statement of fiduciary net assets and a statement of changes in fiduciary net assets. However agency type funds do not have net assets, therefore, this statement is not prepared.

A summary reconciliation between the Agency-wide financial statements and the fund financial statements follows the fund financial statements.

AGENCY-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Grant Wood Area Education Agency's net assets at the end of fiscal year 2006 totaled approximately $8.9 million. This compared to approximately $8.9 million at the end of fiscal 2005. The analysis that follows focuses on the net assets and changes in net assets. The agency does not have business-type activities.

	Condensed Statement of Net Assets (In Thousands)	
	Governmental Activities	
	2006	2005
Current and other assets	$ 9,795	$ 9,347
Capital assets	6,629	7,077
Total assets	16,424	16,424
Long-term obligations	1,845	2,050
Other liabilities	5,687	5,425
Total liabilities	7,532	7,475
Net assets:		
Invested in capital assets, net of related debt	4,784	5,027
Restricted	1,279	1,243
Unrestricted	2,829	2,679
Total net assets	$ 8,892	$ 8,949

The following analysis details the changes in net assets of Grant Wood Area Education Agency's activities.

	Changes in Net Assets (In Thousands)			
	Governmental Activities			
	2006	%	2005	%
Revenues:				
Program revenues:				
Charges for services	$ 4,649	11%	$ 4,330	11%
Operating grants and contributions	16,530	40%	15,859	40%
General revenues:				
Property taxes passed through district	9,242	23%	8,850	23%
State foundation aid	10,182	25%	9,542	25%
Unrestricted investment earnings	90	1%	50	1%
Total revenues	40,693	100%	38,631	100%
Program expenses:				
Instruction	2,864	7%	2,896	7%
Student support services	16,339	40%	21,845	57%
Instructional staff support services	12,469	31%	5,567	14%
General administration	1,347	3%	1,352	3%
Building administration	1,613	4%	1,400	4%
Business administration	3,894	9%	1,177	3%
Plant operations and maintenance	669	1%	898	2%
Central and other support services	230	1%	2,998	8%
Non-instructional programs	1,069	2%	59	1%
Capital outlay	-	-	2	-
Unallocated	74	1%	81	1%
Long-term debt interest	85	1%	125	1%
Total expenses	40,653	100%	38,400	100%
Change in net assets	40		231	
Net assets, beginning of year, as previously reported	8,949		8,718	
Cumulative effect of change in accounting principle, termination benefits	(155)		-	
Prior period adjustment to correct an error in recording a grant receivable	58		-	
Net asset, beginning of year as restated	8,852		8,718	
Net assets, end of year	$ 8,892		$ 8,949	

Governmental Activities

Revenues for governmental activities were $40,692,623 in FY06 and $38,631,027 in FY05 and expenses were $40,653,072 in FY06 and $38,399,596 in FY05. In a difficult budget year with unstable future funding sources, the Agency was able to implement cost saving measures to keep the revenues and operating expenditures relatively balanced.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

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

The Agency's Governmental Funds reported combined fund balances of $4,357,970, above last year's ending fund balances of $4,023,469.

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 an increase in federal funding and adjustments to revenue and expenditures associated with the services needed and provided to the 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, 2006, the Agency had invested $6.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, equipment, and an extensive library/media collection. This is a net decrease of approximately $448,000 from last year.

Grant Wood Area Education Agency had depreciation expense of $1,028,282 in FY06 and total accumulated depreciation of $8,327,781 at June 30, 2006. More detailed information about capital assets is available in Note 3 to the financial statements.

Debt

At June 30, 2006, the Agency had $1,845,000 in long-term debt outstanding compared to $2,050,000 at June 30, 2005. The long-term debt is in the form of capital lease purchase agreements. More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

- The Agency has experienced an increase in the number of students being served by its programs in the past three years. A slight increase in enrollment is expected and included in the FY07 budget.

- The State of Iowa has recently experienced increasing revenue levels as compared to estimated revenues. Therefore cuts in state aid should not occur in FY07, and it is hoped that some of the previous funding reductions may be restored.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Grant Wood Area Education Agency, 4401 6th Street SW, Cedar Rapids, Iowa 52404.

BASIC FINANCIAL STATEMENTS

GRANT WOOD AREA EDUCATION AGENCY 10 **Exhibit A**

STATEMENT OF NET ASSETS

GOVERNMENTAL ACTIVITIES

June 30, 2006

ASSETS	
Cash and pooled investments	$ 4,546,384
Receivables:	
Accounts	1,454,792
Due from other governments	3,704,388
Inventories	52,971
Prepaid expenses	36,031
Capital assets, net of accumulated depreciation	6,628,969
Total assets	16,423,535
LIABILITIES	
Accounts payable	1,583,239
Salaries and benefits payable	1,936,708
Early retirement benefits payable	180,500
Agency fund payable	422,360
Warrants in excess of bank balance	708,658
Accrued other	427,485
Deferred revenue:	
Local	428,055
Long-term liabilities:	
Portion due or payable within one year:	
Certificates of participation	205,000
Portion due or payable after one year:	
Certificates of participation	1,640,000
Total liabilities	7,532,005
NET ASSETS	
Invested in capital assets, net of related debt	4,783,969
Restricted for:	
Media materials	502,170
Educational service projects	360,858
Special education instruction	198,849
Debt service	216,990
Unrestricted	2,828,694
Total net assets	$ 8,891,530

The accompanying notes are an integral part of the financial statements.

Exhibit B

GRANT WOOD AREA EDUCATION AGENCY 10
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

		Program revenues		Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
FUNCTIONS / PROGRAMS				
Governmental activities:				
Instruction	$ 2,863,378	$ 2,189,439	$ 1,268,659	$ 594,720
Student support services	16,339,336	202,734	13,036,899	(3,099,703)
Instructional staff support services	12,469,072	780,480	1,472,649	(10,215,943)
General administration	1,347,421	115,353	19,328	(1,212,740)
Building administration	1,612,866	958	-	(1,611,908)
Business administration	3,893,790	143,316	34,391	(3,716,083)
Plant operations and maintenance	669,143	4,975	-	(664,168)
Central and other support services	230,368	1,179,922	250,097	1,199,651
Noninstructional programs	1,068,827	-	-	(1,068,827)
Unallocated	73,632	31,898	447,896	406,162
Debt Service	85,239	-	-	(85,239)
Total governmental activities	40,653,072	4,649,075	16,529,919	(19,474,078)
GENERAL REVENUES				
Property taxes passed through from districts				9,241,729
State foundation aid				10,182,207
Unrestricted investment earnings				89,693
Total general revenues				19,513,629
CHANGE IN NET ASSETS				39,551
NET ASSETS, BEGINNING OF YEAR, as previously reported				8,948,850
Cumulative effect of change in accounting principle, termination benefits				(155,500)
Prior year adjustment to correct an error in recording a grant receivable				58,629
NET ASSETS, BEGINNING OF YEAR, as restated				8,851,979
NET ASSETS, END OF YEAR				$ 8,891,530

The accompanying notes are an integral part of the financial statements.

Exhibit C

GRANT WOOD AREA EDUCATION AGENCY 10
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Special Revenue Off-Site Programs	Nonmajor	Total
ASSETS				
Cash and pooled investments	$ 3,651,218	$ -	$ 895,166	$ 4,546,384
Receivables:				
Accounts	381,546	1,073,246	-	1,454,792
Due from other governments	3,704,388	-	-	3,704,388
Inventories	52,971	-	-	52,971
Prepaid expenses	36,031	-	-	36,031
Total assets	$ 7,826,154	$ 1,073,246	$ 895,166	$ 9,794,566
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 1,481,213	$ 100,848	$ 1,178	$ 1,583,239
Salaries and benefits payable	1,769,443	64,891	32,465	1,866,799
Agency fund payable	422,360	-	-	422,360
Warrants in excess of bank balance	-	708,658	-	708,658
Accrued other	427,485	-	-	427,485
Deferred revenue:				
Local	244,219	-	183,836	428,055
Total liabilities	4,344,720	874,397	217,479	5,436,596
Fund balances:				
Reserved for:				
Encumbrances	943,944	-	-	943,944
Inventories	52,972	-	-	52,972
Debt Service	-	-	216,990	216,990
Unreserved:				
Designated for subsequent years expenditures	1,238,905	-	-	1,238,905
Undesignated, reported in:				
General fund	1,245,613	-	-	1,245,613
Special revenue funds	-	198,849	181,849	380,698
Debt service fund	-	-	278,848	278,848
Total fund balances	3,481,434	198,849	677,687	4,357,970
Total liabilities and fund balances	$ 7,826,154	$ 1,073,246	$ 895,166	$ 9,794,566

The accompanying notes are an integral part of the financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10

Exhibit D

RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances of governmental funds (page 14)	$ 4,357,970
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	6,628,969
Long-term liabilities, including certificates of participation, compensated absences and early retirement benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds	(2,095,409)
Net assets of governmental activities (page 13)	$ 8,891,530

The accompanying notes are an integral part of the financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	General	Special Revenue Off-Site Programs	Nonmajor	Total
REVENUE				
Local sources	$ 12,374,036	$ 1,604,630	$ 4,619	$ 13,983,285
State sources	10,525,734	-	652,639	11,178,373
Federal sources	15,511,872	-	-	15,511,872
Total revenues	38,411,642	1,604,630	657,258	40,673,530
EXPENDITURES				
Instruction	622,023	1,587,198	652,639	2,861,860
Student support services	16,334,283	-	-	16,334,283
Instructional staff support services	12,251,021	-	-	12,251,021
General administration	1,282,735	-	-	1,282,735
Building administration	1,612,866	-	-	1,612,866
Business administration	3,866,531	-	-	3,866,531
Plant operations and maintenance	661,940	-	-	661,940
Central and other support services	190,256	-	-	190,256
Noninstructional programs	1,065,020	-	-	1,065,020
Debt service	-	-	290,239	290,239
Total expenditures	37,886,675	1,587,198	942,878	40,416,751
Excess (deficiency) of revenues over (under) expenditures	524,967	17,432	(285,620)	256,779
OTHER FINANCING SOURCES (USES)				
Transfers in	19,093	-	290,239	309,332
Transfers out	(290,239)	-	-	(290,239)
Total other financing sources (uses)	(271,146)	-	290,239	19,093
Excess of revenues and other financing sources over expenditures	253,821	17,432	4,619	275,872

Exhibit E

	General	Special Revenue Off-Site Programs	Nonmajor	Total
FUND BALANCES, BEGINNING OF YEAR, as previously reported	$ 3,168,984	$ 181,417	$ 673,068	$ 4,023,469
Prior year adjustment to correct an error in recording a grant receivable	58,629	-	-	58,629
FUND BALANCES, BEGINNING OF YEAR, as restated	3,227,613	181,417	673,068	4,082,098
FUND BALANCES, END OF YEAR	$ 3,481,434	$ 198,849	$ 677,687	$ 4,357,970

The accompanying notes are an integral part of the financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Exhibit F

Net change in fund balances - total governmental funds (page 16)		$ 275,872
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, these costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 653,768	
Depreciation expense	(1,028,282)	
Loss on dispositions	(73,103)	(447,617)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities		205,000
Net compensated absences and early retirement benefit expenditures reported in the governmental funds were expensed in a prior year, therefore, were not reported as expenses in the Statement of Activities		6,296
Change in net assets of governmental activities (page 13)		$ 39,551

The accompanying notes are an integral part of the financial statements.

GRANT WOOD AREA EDUCATION AGENCY 10 **Exhibit G**

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS - AGENCY

June 30, 2006

ASSETS	
Accounts receivable	$ 33,697
Due from other governments	52,048
General fund receivable	422,360
Total assets	$ 508,105
LIABILITIES	
Accounts payable	$ 59,255
Salaries payable	19,313
Deposits held in custody of others	429,537
Total liabilities	$ 508,105

The accompanying notes are an integral part of the financial statements.

(1) Summary of Significant Accounting Policies

Grant Wood Area Education Agency 10 (Agency) is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 68 school districts and private schools in a seven-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Grant Wood Area Education Agency 10 has included all funds, organizations, account groups, 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. Grant Wood Area Education Agency 10 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Agency-wide financial statements - The Statement of Net Assets 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 Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt 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 assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

(1) **Summary of Significant Accounting Policies** (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program 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 that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. The major individual governmental fund is reported as a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

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

The Special Revenue - Off-site Programs fund is used to account for special education instruction costs held off-site. The actual costs of providing instructional services are billed to the individual school districts.

The Agency reports the following nonmajor governmental funds:

The Special Revenue - Pool Transportation Fund is used to account for the transportation costs shared by districts included in the special education pool.

The Special Revenue - Juvenile Home Fund is used to account for the special education instruction costs provided to the Juvenile Home. The actual costs of providing instructional services is billed to the State of Iowa.

The Debt Service Fund is used to account for the accumulation of resources for and the payment of long-term debt principal, interest and related costs.

(1) **Summary of Significant Accounting Policies** (continued)

B. Basis of Presentation (continued)

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

C. Measurement Focus and Basis of Accounting

The Agency-wide financial statements are reported using the economic resources measurement focus. The Agency-wide financial statements are reported using 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 (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

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

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - Cash includes amounts in demand deposits and money market funds. 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.

(1) **Summary of Significant Accounting Policies** (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

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

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental activities columns in the Agency-wide statement of net assets. 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 an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment	1,000
Library books and film	Cost

Property, furniture, and equipment are depreciated using the straight-line method of depreciation and library books are depreciated using the composite method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50
Improvements other than buildings	20
Furniture and equipment	5
Library books and film	10

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

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

(1) **Summary of Significant Accounting Policies** (continued)

D. Assets, Liabilities and Fund Equity (continued)

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 assets representing the Agency's commitment to fund non-current compensated balances. This liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Early Retirement Benefit Payable - In the Agency-wide statement of net assets, this account represents the present value of the expected health and life insurance costs payable on behalf of employees who elect to early retire.

Long-term Obligations - In the Agency-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 assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Agency-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

(2) **Cash and Pooled Investments**

The Agency's deposits in banks and brokerage firm at June 30, 2006 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. The 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 district.

(2) **Cash and Pooled Investments** (continued)

The Agency's investments at June 30, 2006 consisted of the following:

	Cost	Fair Value
Money market held at brokerage firm	$ 125,108	$ 125,108

The Agency had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of $91,882 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk. The investment in the Iowa Schools Joint Investment Trust is rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 242,350	$ -	$ -	$ 242,350
Capital assets being depreciated:				
Buildings	5,944,794	-	-	5,944,794
Leasehold improvements	611,686	-	-	611,686
Furniture and equipment	4,277,984	362,119	593,216	4,046,887
Library books and film	4,112,096	291,649	292,712	4,111,033
Total assets being depreciated	14,946,560	653,768	885,928	14,714,400
Less accumulated depreciation for:				
Buildings	2,480,865	118,896	-	2,599,761
Leasehold improvements	84,780	25,654	-	110,434
Furniture and equipment	2,491,424	472,629	520,113	2,443,940
Library books and film	3,055,255	411,103	292,712	3,173,646
Total accumulated depreciation	8,112,324	1,028,282	812,825	8,327,781
Total capital assets being depreciated, net	6,834,236	(374,514)	73,103	6,386,619
Governmental activities capital assets, net	$7,076,586	$ (374,514)	$ 73,103	$6,628,969

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

Governmental activities:	
Instruction	$ 3,488
Student support services	11,608
Instructional staff support services	500,914
General administration	148,601
Business administration	5,190
Plant operations and maintenance	16,547
Central and other support services	164,040
Noninstructional programs	8,746
Unallocated	169,148
Total governmental activities depreciation expense	$1,028,282

(4) Changes in Short-Term Liabilities

A summary of the changes in short-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year
Anticipatory warrants	$ -	$1,110,000	$1,110,000	$ -

The proceeds of the anticipatory warrants were used to cover temporary operating shortfalls.

(5) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year
Certificates of Participation	$2,050,000	$ -	$ 205,000	$1,845,000

Certificates of Participation

The Agency has sold certificates of participation for land, facilities and improvements. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of fifteen years with interest rates ranging from 2.55% to 5.15%. The following is a schedule by year of the future minimum payments required:

Year Ending June 30	Principal	Interest	Total
2007	$ 205,000	$ 78,266	$ 283,266
2008	200,000	71,024	271,024
2009	195,000	63,866	258,866
2010	150,000	56,066	206,066
2011	230,000	49,990	279,990
2012-2016	485,000	147,830	632,830
2017-2021	380,000	60,041	440,041
Total	$ 1,845,000	$ 527,083	$ 2,372,083

(5) **Changes in Long-Term Liabilities** (continued)

Payments for the certificates of participation for the year ended June 30, 2006, including interest, totaled $293,780.

Advance Refunding

On May 31, 2005, the Agency issued $1,075,000 in Certificates of Participation with interest rates ranging from 3.50% to 4.00%, to refund $1,160,000 of outstanding 1997 Certificates of Participation with interest rates ranging from 4.90% to 5.25%, prior to maturity. Net proceeds of $1,083,900 were received after payment of underwriting fees, insurance, and other issuance costs. As a result, the 1997 Certificates are considered to be in-substance defeased and the liability for those Certificates has been removed from the Agency-wide financial statements.

The Agency refunded the 1997 Certificates to reduce its total debt service payments over the next seven years by approximately $163,235 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $80,900. The outstanding balance of the debt defeased totaled $1,015,000 as of June 30, 2006.

(6) **Operating Leases**

The Agency has leased office equipment and various facilities within the area to house the different divisions 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 November 2006 and August 2010. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties and equipment. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2006:

Year Ending June 30	Amount
2007	$ 228,711
2008	222,887
2009	27,721
2010	1,764
Total	$ 481,083

(6) **Operating Leases** (continued)

The total rental expenditures for the year ended June 30, 2006 for all operating leases, except those with terms of a month or less that were not renewed, was $241,074.

(7) **Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were $1,344,916, $1,262,911, and $1,221,255, respectively, equal to the required contributions for each year.

(8) **Interfund Transfers**

Interfund transfers for the year ended June 30, 2006, consisted of the following:

Transfer to debt service fund from general fund for debt service payments	$ 290,239
Transfer to general fund from an agency fund for program balance	19,093
Total	$ 309,332

(9) **Risk Management**

Grant Wood Area Education Agency 10 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.

(10) **Commitments and Contingencies**

Employee benefits - Employees accumulate sick pay based upon months of service. Unused sick days may be carried forward until needed by the employee. Upon termination, retirement or death, unused days are forfeited; therefore no accrual is required.

(10) **Commitments and Contingencies** (continued)

Post employment benefits - The Agency has adopted an early retirement program for its employees. To be eligible, an employee must (1) have 20 years of continuous service, (2) not be receiving disability payments, and (3) be at least age 58. The employee must also elect to retire within three years upon first becoming eligible. The retirement benefit is equal to 50% of the average annual pay of the employee's highest three fiscal years. The retirement benefit shall be paid in one or two lump sum payments into the employee's account under the Special Pay Deferral 403(b) Plan. In the event of death of the employee prior to the payment of the retirement benefit, a lump sum payment of the amount due shall be made to the designated beneficiary. Early retirement benefits paid to eight participants during the year ended June 30, 2006 totaled $260,329.

The Agency will continue to provide life insurance benefits up to the age of 65 and contribute up to $140 of single coverage monthly premium cost toward the purchase of group medical, dental and/or vision insurance. The cost of retiree health care and life insurance benefits is recognized as claims and premiums are paid. Health care and life insurance claims and premiums paid for 36 participants totaled $44,949. After applying a discount rate of 5.15%, the present value of the Agency's early retirement benefits payable at June 30, 2006 totaled $180,500.

(11) **Prior Period Adjustment**

Beginning governmental activities net assets on the Statement of Activities and fund balance of the general fund on the Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds each increased by $58,629 to correct the accounting for a grant receivable not recorded at June 30, 2005.

(12) **Change in Accounting Principle**

For the year ended June 30, 2006, the Agency implemented GASB 47, *Accounting for Termination Benefits*, for reporting on the Agency's early retirement benefit program. Beginning governmental activities net assets on the Statement of Activities has been adjusted for the discounted present value of the Agency's early retirement benefit of $155,500.

(13) **New Pronouncements**

As of June 30, 2006, the Governmental Accounting Standards Board had issued several statements not yet implemented by the Agency. The statements, which might impact the Agency, are as follows:

(13) **New Pronouncements** (continued)

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the Agency beginning with its year ending June 30, 2008. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB) and supercedes existing guidance.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Agency beginning with its year ending June 30, 2009. This Statement requires governments to report any liability associated with providing employees benefits other than pensions subsequent to their employment with the Agency that have not been fully funded.

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

REQUIRED SUPPLEMENTARY INFORMATION

GRANT WOOD AREA EDUCATION AGENCY 10
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ALL GOVERNMENTAL FUNDS
Year end June 30, 2006

	Actual	Budget Original	Budget Final	Final to Actual Variance - Favorable (Unfavorable)
REVENUES				
Local sources	$ 13,983,285	$ 13,642,460	$ 13,538,229	$ 445,056
State sources	11,178,373	11,118,013	11,288,957	(110,584)
Federal sources	15,511,872	16,824,108	16,100,045	(588,173)
Total revenues	40,673,530	41,584,581	40,927,231	(253,701)
EXPENDITURES				
Instruction	2,861,860	3,220,232	2,961,679	99,819
Student support services	16,334,283	23,914,749	12,153,258	(4,181,025)
Instructional staff support services	12,251,021	5,468,500	13,452,294	1,201,273
General administration	1,282,735	1,218,200	1,425,618	142,883
Building administration	1,612,866	1,479,900	1,488,662	(124,204)
Business administration	3,866,531	531,700	3,019,935	(846,596)
Plant operations and maintenance	661,940	1,036,100	945,147	283,207
Central and other support services	190,256	4,414,200	4,784,540	4,594,284
Noninstructional programs	1,065,020	1,000	981,098	(83,922)
Debt service	290,239	300,000	315,000	24,761
Total expenditures	40,416,751	41,584,581	41,527,231	1,110,480
Excess (deficiency) of revenues over (under) expenditures	256,779	-	(600,000)	856,779
OTHER FINANCING SOURCES, NET	19,093	-	-	19,093
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	275,872	-	(600,000)	875,872
FUND BALANCE, BEGINNING OF YEAR, as previously reported	4,023,469	3,162,422	4,007,222	16,247
Prior year adjustment to correct an error in recording a grant receivable	58,629	-	-	58,629
FUND BALANCE, BEGINNING OF YEAR, as restated	4,082,098	3,162,422	4,007,222	74,876
FUND BALANCE, END OF YEAR	$ 4,357,970	$ 3,162,422	$ 3,407,222	$ 950,748

See accompanying note to required supplementary information.

GRANT WOOD AREA EDUCATION AGENCY 10
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
June 30, 2006

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

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements 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.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

GRANT WOOD AREA EDUCATION AGENCY 10
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue			
	Pool Transpor-tation	Juvenile Home	Debt Service	Total
ASSETS				
Cash and pooled investments	$ 181,849	$ 217,479	$ 495,838	$ 895,166
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ -	$ 1,178	$ -	$ 1,178
Salaries and benefits payable	-	32,465	-	32,465
Deferred revenue	-	183,836	-	183,836
Total liabilities	-	217,479	-	217,479
Fund Balances				
Reserved:				
Debt service	-	-	216,990	216,990
Unreserved, undesignated	181,849	-	278,848	460,697
Total fund balances	181,849	-	495,838	677,687
Total liabilities and fund balances	$ 181,849	$ 217,479	$ 495,838	$ 895,166

GRANT WOOD AREA EDUCATION AGENCY 10 — Schedule 2

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2006

	Special Revenue			
	Pool Transpor-tation	Juvenile Home	Debt Service	Total
REVENUES				
Local sources	$ -	$ -	$ 4,619	$ 4,619
State sources	-	652,639	-	652,639
Total revenues	-	652,639	4,619	657,258
EXPENDITURES				
Instruction	-	652,639	-	652,639
Debt service	-	-	290,239	290,239
Total expenditures	-	652,639	290,239	942,878
Deficiency of revenues under expenditures	-	-	(285,620)	(285,620)
OTHER FINANCING SOURCES				
Transfers in	-	-	290,239	290,239
Excess of revenues and other financing sources over expenditures	-	-	4,619	4,619
FUND BALANCES, BEGINNING OF YEAR	181,849	-	491,219	673,068
FUND BALANCES, END OF YEAR	$ 181,849	$ -	$ 495,838	$ 677,687

Schedule 3

GRANT WOOD AREA EDUCATION AGENCY 10
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Accounts receivable	$ 234,974	$ 1,173,422	$ 1,374,699	$ 33,697
Due from other governments	35,460	107,455	90,867	52,048
General fund receivable	1,041,829	1,465,566	2,085,035	422,360
Equipment	8,690	-	8,690	-
Total assets	$ 1,320,953	$ 2,746,443	$ 3,559,291	$ 508,105
LIABILITIES				
Accounts payable	$ 321,660	$ 533,624	$ 796,029	$ 59,255
Salaries payable	24,514	660,699	665,900	19,313
Accrued other	-	121,442	121,442	-
Deposits held in custody of others	974,779	(53,981)	491,261	429,537
Total liabilities	$ 1,320,953	$ 1,261,784	$ 2,074,632	$ 508,105

GRANT WOOD AREA EDUCATION AGENCY 10
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
For the Last Seven Years Ended June 30

	2006 *	2005	2004	2003
REVENUES				
Local sources	$ 13,983,285	$ 13,132,227	$ 13,037,224	$ 12,209,133
State sources	11,178,373	10,603,900	10,300,970	11,591,250
Federal sources	15,511,872	14,849,789	13,003,285	10,971,592
Total revenues	$ 40,673,530	$ 38,585,916	$ 36,341,479	$ 34,771,975
EXPENDITURES				
Instruction	$ 2,861,860	$ 2,895,016	$ 2,935,981	$ 2,552,239
Student support services	16,334,283	21,842,877	20,282,887	19,352,674
Instructional staff support services	12,251,021	5,320,170	4,792,394	4,671,453
General administration	1,282,735	1,330,034	1,052,261	1,169,882
Building administration	1,612,866	1,400,136	1,413,081	1,262,465
Business administration	3,866,531	1,176,309	1,006,928	1,131,737
Plant operations and maintenance	661,940	894,915	891,464	1,022,349
Central and other support services	190,256	2,898,370	3,377,635	2,806,745
Noninstructional programs	1,065,020	59,409	678	31,145
Debt service	290,239	1,464,930	287,408	288,311
Capital outlay	-	-	51,996	95,641
Total expenditures	$ 40,416,751	$ 39,282,166	$ 36,092,713	$ 34,384,641

* Comparability between categories was affected by changes in the standard chart of accounts that is mandated by the State of Iowa.

2002	2001	2000
$ 11,696,661	$ 12,103,600	$ 11,668,431
12,315,824	11,676,799	11,119,744
8,943,745	7,402,194	6,240,063
$ 32,956,230	$ 31,182,593	$ 29,028,238
$ 2,118,616	$ 2,092,620	$ 1,710,317
17,854,011	16,197,220	15,306,517
4,964,877	4,776,570	4,514,023
1,339,004	1,465,115	1,148,793
1,261,330	1,370,224	1,183,169
1,058,055	1,013,489	922,158
844,929	665,166	556,307
3,534,387	2,714,479	2,682,164
32,558	238	717
415,756	393,507	204,024
1,383,963	322,156	12,564
$ 34,807,486	$ 31,010,784	$ 28,240,753

GRANT WOOD AREA EDUCATION AGENCY 10 **Schedule 5**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Direct:			
U.S. Department of Education:			
Research in Special Education			
Super Seniors - North	84.324	H324M010097	$ 209,138
Fund for the Improvement of Education			
Foundation for Learning	84.215H	Q215H050011	103,866
Safe and Drug-Free Schools and Communities_National Programs			
Prep Project	84.184E	Q184E050027	84,597
			397,601
Indirect:			
U.S. Department of Education:			
Iowa Department of Education:			
Special Education - Grants to States	84.027*		
Preschool Handicapped Program		0505-10	8,475,276
Learning Supports		05K60-10	59,703
Information management systems		5K70-IMS	184,683
Diagnostic and Evaluation Entitlement Program		5K71-10	3,684
Conflict Resolution and Mediation			11,428
Supplemental Support Services		5K72-10	179,438
Parent Educator Partnership		0574-10	133,544
Employment Preparation Study			7,900
Every Child Reads			5,084
IEP Transition			41,000
Training agreement			2,414
Paraeducator training project		5K76-10	22,258
Instructional Decision Making		5K9IDM-10	85,129
IDEA - Flowthrough to LEA		5KB2-10	3,475,943
			12,687,484
Special Education - Preschool Grants	84.173*	05619-10	403,886
Special Education - Grants for Infants and Families with Disabilities:	84.181		
Part C - Infant & Toddler		C05-10	302,555

(continued)

GRANT WOOD AREA EDUCATION AGENCY 10 **Schedule 5**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Perkins Vocational Education	84.048	05-06	299,332
Special Education - State Personnel Development			
SIG/IEP School improvement	84.323	G5PI3-10	24,414
Reading First State Grants	84.357	05-06	21,777
English Language Acquisition Grants	84.365	05-06	101,574
Education Technology State Grants	84.318X		
ESETP			42,102
E2T2			965,713
			1,007,815
Iowa Department of Corrections:			
Special Education - Grants to States			
Inmate Screening	84.027*	05-06	105,650
Iowa Public Television:			
Star Schools	84.203	Peitzman	58,596
		Eastman	16,440
			75,036
Corporation for National Community Service			
Iowa Deparment of Education			
Learn and Serve America-School and Community Based Programs	94.004		1,028
Total			$15,428,152

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

* Total expenditures for CFDA Number 84.027 were $12,793,134 and was tested as a major program along with CFDA Number 84.173. Special education cluster expenditures totaled $13,197,020.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Grant Wood Area Education Agency 10 as of and for the year ended June 30, 2006, which collectively comprise Grant Wood Area Education Agency 10's basic financial statements and have issued our report thereon dated November 17, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grant Wood Area Education Agency 10's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have reported to management of Grant Wood Area Education Agency 10 in a separate letter dated November 17, 2006.

Offices in 15 states and Washington, DC

Member of HLB International

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant Wood Area Education Agency 10's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Grant Wood Area Education Agency 10's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Grant Wood Area Education Agency 10. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Grant Wood Area Education Agency 10, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Grant Wood Area Education Agency 10 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Clifton Gunderson LLP

Cedar Rapids, Iowa
November 17, 2006

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of Grant Wood Area Education Agency 10 with the types of compliance requirements described in *the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Grant Wood Area Education Agency 10's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Grant Wood Area Education Agency 10's management. Our responsibility is to express an opinion on Grant Wood Area Education Agency 10's compliance based on our audit.

We conducted our audit of compliance 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Grant Wood Area Education Agency 10's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Grant Wood Area Education Agency 10's compliance with those requirements.

In our opinion, Grant Wood Area Education Agency 10 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Offices in 15 states and Washington, DC

Member of HLB International

Internal Control Over Compliance

The management of Grant Wood Area Education Agency 10 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Grant Wood Area Education Agency 10's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Grant Wood Area Education Agency 10, and other parties to whom Grant Wood Area Education Agency 10 may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Cedar Rapids, Iowa
November 17, 2006

GRANT WOOD AREA EDUCATION AGENCY 10
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued — Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes __X__ No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes __X__ None Reported

Noncompliance material to financial statements noted? _____ Yes __X__ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes __X__ No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes __X__ None Reported

Type of auditor's report issued on compliance for major programs — Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ Yes __X__ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
Cluster programs:	
84.027	Special Education - Grant to States
84.173	Special Education - Preschool Grants

Dollar threshold used to distinguish between type A and type B programs: $ 462,845

Auditee qualified as low-risk auditee? __X__ Yes _____ No

GRANT WOOD AREA EDUCATION AGENCY 10
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Section II: Findings Related to the Financial Statements:

No matters were reported.

Section III: Findings and Questioned Costs for Federal Awards:

No matters were reported.

GRANT WOOD AREA EDUCATION AGENCY 10
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Section IV - Other Findings Related to Required Statutory Reporting

IV-A-06 Budget - Expenditures during the year ended June 30, 2006 did not exceed the amount budgeted.

IV-B-06 Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-06 Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-06 Business Transactions - No business transactions between the Agency and Agency officials and/or employees were noted.

IV-E-06 Bond Coverage - Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - No transactions requiring Board approval were noted which had not been approved.

IV-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

IV-H-06 Certified Annual Report - The Certified Annual Report (CAR) was filed with the Department of Education timely and we noted no significant discrepancies in the amounts reported.

GRANT WOOD AREA EDUCATION AGENCY 10
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
Year Ended June 30, 2006

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation.

There were no prior year federal audit findings.

GRANT WOOD AREA EDUCATION AGENCY 10

Audit Staff

This audit was performed by:

Bill Vincent, CPA, Partner

Robert L. Poundstone, CPA, Partner

Michele M. Matt, CPA, Senior Manager

Tim Wood, CPA, Manager

Justin Zimmerman, CPA, Senior Associate

Megan McDermott, CPA, Senior Associate

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

In planning and performing our audit of the financial statements of Grant Wood Area Education Agency 10 for the year ended June 30, 2006, we considered the Agency's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control was only a part of our overall audit plan and was not intended to be a complete review of the Agency's accounting procedures, therefore, it would not necessarily disclose all reportable conditions or other comments for improvement. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

As a result of the procedures described above, we have the following comment and recommendation for improvement.

Administrator Credit Cards

We conducted a review of the Agency's credit card usage policy and noted that expenditures on an Administrator's credit card are not reviewed to ensure business purposes. We recommend that the Board of Directors or the Chief Administrator review credit card statements prior to payment and inquire of any questionable items that may occur.

These comments and suggestions are intended solely for the information and use of the Board of Directors, management and others within the organization and are not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to present these matters and are available to provide any assistance in implementing any of the recommendations.

Clifton Gunderson LLP

Cedar Rapids, Iowa
November 17, 2006