

**WESTERN HILLS AREA EDUCATION AGENCY 12**

**Independent Auditors' Reports  
Basic Financial Statements and Supplementary Information  
Schedule of Findings and Questioned Costs**

**June 30, 2006**

WESTERN HILLS AREA EDUCATION AGENCY 12

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WESTERN HILLS AREA EDUCATION AGENCY 12

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>BOARD OF DIRECTORS</u> <u>(Before September 2005 Election)</u>		
Larry Petersen	President	2006
David Freese	Vice President	2005
Glenda Den Herder	Member	2006
Judy Burke	Member	2005
Patricia Sutherland	Member	2006
Robert Rice	Member	2006
Earl Kizzier	Member	2005
Tom Bruegger	Member	2006
Jim Ebel	Member	2006

BOARD OF DIRECTORS  
(After September 2005 Election)

Larry Petersen	President	2006
David Freese	Vice President	2006
Glenda Den Herder	Member	2006
Judy Burke	Member	2006
Patricia Sutherland	Member	2006
Robert Rice	Member	2006
Earl Kizzier	Member	2006
Tom Bruegger	Member	2006
Jim Ebel	Member	2006

AGENCY

Bruce E. Hopkins	Administrator	2006
Geneice Wagner	Board Secretary	2006
Steve Schermann	Treasurer/Business Manager	2006



KING, REINSCH, PROSSER & CO., L.L.P.  
Certified Public Accountants

Member Private Companies Practice Section of AICPA

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(712) 258-5550  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Western Hills Area Education Agency 12

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Hills Area Education Agency 12 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 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 Western Hills Area Education Agency 12, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2007 on our consideration of Western Hills Area Education Agency 12'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 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.



KING, REINSCH, PROSSER & CO., L.L.P.  
Certified Public Accountants

To the Board of Directors  
Western Hills Area Education Agency 12

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and page 27 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Western Hills Area Education Agency 12'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 three years ended June 30, 2005 (which are not presented herein), and expressed unqualified opinions on those financial statements. The other supplementary information included in Schedules 1 and 2, including the 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*, are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sioux City, Iowa  
January 11, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Western Hills Area Education Agency 12 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 \$17,214,960 in fiscal 2005 to \$18,022,944 in fiscal 2006, while General Fund expenditures increased from \$14,857,521 in fiscal 2005 to \$16,175,296 in fiscal 2006. General Fund other financing uses decreased from \$1,653,525 in fiscal 2005 to \$1,573,519 in fiscal 2006. This resulted in an increase in the Agency's General Fund balance from \$2,630,794 for fiscal 2005 to \$2,904,923 for fiscal 2006, a 10 percent increase.
- House File 882 of the 2005 General Assembly continued a temporary reduction in state aid to AEA's by \$11.8 million for Fiscal Year 2006. Western Hills Area Education Agency 12's portion of this is \$728,897. This reduction was offset by federal grant revenue and by containment of personnel and non-personnel expense.

### **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 assets and a statement of activities. These provide information about the activities of Western Hills Area Education Agency 12 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.
- Other Supplementary Information provides the Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types for the last five years. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

## Reporting the Agency's Financial Activities

### Government-Wide Financial Statements:

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net 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 government-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 government-wide financial statements, the Agency's activities are:

- *Governmental activities:* The Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.

### 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 only has governmental funds.

- Governmental funds account for the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Debt Service Fund.

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of financial position. Western Hills Area Education Agency 12's net assets at the end of fiscal 2006 totaled approximately \$4.4 million. This compared to approximately \$4.1 million at the end of fiscal 2005. The analysis that follows focuses on the net assets and changes in net assets.

	Condensed Statement of Net Assets	
	<u>Governmental Activities</u>	
	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 5,032,384	\$ 4,724,933
Capital assets	2,321,097	2,022,257
Total assets	<u>\$ 7,353,481</u>	<u>\$ 6,747,190</u>
Long-term liabilities	\$ 584,996	\$ 381,396
Other liabilities	2,401,926	2,263,548
Total liabilities	<u>\$ 2,986,922</u>	<u>\$ 2,644,944</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 2,078,971	\$ 1,941,132
Unrestricted	<u>2,287,588</u>	<u>2,161,114</u>
Total net assets	<u>\$ 4,366,559</u>	<u>\$ 4,102,246</u>

The Agency's net assets increased approximately \$264,000 from fiscal 2005.

The following analysis details the changes in net assets of the Agency's activities.

	<u>Changes in Net Assets</u>	
	<u>Governmental Activities</u>	
	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for service	\$ 685,922	\$ 478,021
Operating grants and contributions	8,146,799	7,870,985
General revenues:		
Property tax	4,434,507	4,347,470
State Foundation Aid	5,255,635	5,023,435
Unrestricted investment earnings	124,027	54,221
Miscellaneous	81,686	121,148
Total revenues	<u>\$ 18,728,576</u>	<u>\$ 17,895,280</u>
Program expenses:		
Instruction	\$ 689,979	\$ 685,118
Student support services	8,108,082	8,117,514
Instructional staff support services	4,242,187	3,892,083
General administration	1,139,496	806,495
School administration	872,267	-
Business administration	118,038	214,622
Printing, delivery services and coop support services	411,251	342,510
Plant operations and maintenance	320,449	275,343
Central and other support services	697,019	1,150,689
Long-term debt interest	5,036	4,534
LEA flow through	1,729,484	1,635,917
Depreciation unallocated	115,413	110,887
Loss on disposal of capital assets	15,562	31,635
Total expenses	<u>\$ 18,464,263</u>	<u>\$ 17,267,347</u>
Increase in net assets	\$ 264,313	\$ 627,933
Net assets beginning of year, restated	<u>4,102,246</u>	<u>3,474,313</u>
Net assets end of year	<u>\$ 4,366,559</u>	<u>\$ 4,102,246</u>

Operating grants and contributions from local, state and federal sources account for 43 percent of the total revenue. The Agency's expenses primarily relate to student support services and instructional staff support services, which accounts for 67 percent of the total expenses.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Western Hills Area Education Agency 12 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$2,904,923, more than last year's ending fund balances of \$2,630,794. The primary reason for the increase in combined fund balances in fiscal 2006 was due to containment of personnel and non-personnel expense.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Agency amended its budget one time to reflect adjustments to funding sources and reclassifications among expenditures. 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 \$2,321,097, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net increase of approximately \$299,000 from last year. This increase was primarily due to the purchase of a voice over internet protocol system.

Western Hills Area Education Agency 12 had depreciation expense of \$522,244 in fiscal 2006 and total accumulated depreciation of \$5,919,682 at June 30, 2006. More detailed information about capital assets is available in Note 3 to the financial statements.

### **Long-Term Debt**

At June 30, 2006, the Agency had \$859,461 in long-term debt outstanding compared to \$550,805 at June 30, 2005. More detailed information about the Agency's long-term liabilities is available in Note 4 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

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

- House File 2797 of the 2006 General Assembly reduced state aid to AEA's by \$8 million for Fiscal Year 2007. Northwest Area Education Agency's portion of this is \$681,807. This reduction is \$3.8 million less than the Fiscal Year 2006 statewide reduction of \$11.8 million resulting in a restoration of \$315,196 of state aid to Northwest AEA.

It is important to recognize the nature of the political climate, funding levels and regional perspectives, which impact Western Hills Area Education Agency 12. The impact of the legislative cuts and declining student numbers is evident throughout the document. As a result of those activities, Western Hills Area Education Agency 12 and Area Education Agency 4 have received approval to create a new merged Agency effective July 1, 2006.

### **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 Manager's Office of Western Hills Area Education Agency 12, Sioux City, Iowa.

# **BASIC FINANCIAL STATEMENTS**

WESTERN HILLS AREA EDUCATION AGENCY 12STATEMENT OF NET ASSETSJUNE 30, 2006

## ASSETS:

Cash and pooled investments (Note 2)	\$ 3,967,123
Receivables:	
Accounts	44,070
Due from other governmental agencies	978,763
Inventories	42,428
Capital assets (net of accumulated depreciation) (Note 3)	2,321,097
	<hr/>
Total assets	\$ 7,353,481

## LIABILITIES:

Accounts payable	\$ 441,014
Salaries and benefits payable	1,233,931
Deferred revenues:	
Federal	336,833
Miscellaneous	115,683
Long-term liabilities (Note 4):	
Portion due or payable within one year:	
Capital lease	36,391
Notes payable	32,789
Early retirement benefits	205,285
Portion due or payable after one year:	
Capital lease	156,012
Notes payable	16,934
Early retirement benefits	264,765
Compensated absences	147,285
	<hr/>
Total liabilities	\$ 2,986,922

## NET ASSETS:

Invested in capital assets, net of related debt	\$ 2,078,971
Unrestricted	2,287,588
	<hr/>
Total net assets	\$ 4,366,559

## WESTERN HILLS AREA EDUCATION AGENCY 12

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction	\$ 689,979	\$ -	\$ -	\$ (689,979)
Student support services	8,108,082	-	6,417,315	(1,690,767)
Instructional staff support services	4,242,187	685,922	-	(3,556,265)
General administration	1,139,496	-	-	(1,139,496)
Business administration	118,038	-	-	(118,038)
School administration	872,267	-	-	(872,267)
Printing, delivery services and coop support services	411,251	-	-	(411,251)
Plant operations and maintenance	320,449	-	-	(320,449)
Central and other support services	697,019	-	-	(697,019)
Interest on long-term debt	5,036	-	-	(5,036)
LEA flow through	1,729,484	-	1,729,484	-
Depreciation unallocated	115,413	-	-	(115,413)
Loss on disposal of capital assets	15,562	-	-	(15,562)
Total governmental activities	<u>\$ 18,464,263</u>	<u>\$ 685,922</u>	<u>\$ 8,146,799</u>	\$ (9,631,542)
GENERAL REVENUES:				
Taxes:				
Property tax				4,434,507
State Foundation Aid				5,255,635
Unrestricted investment earnings				124,027
Miscellaneous				81,686
Change in net assets				\$ 264,313
Net assets beginning of year, restated				<u>4,102,246</u>
Net assets end of year				<u>\$ 4,366,559</u>

WESTERN HILLS AREA EDUCATION AGENCY 12BALANCE SHEETGOVERNMENTAL FUNDSJUNE 30, 2006

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and pooled investments (Note 2)	\$ 3,818,695	\$ 148,428	\$ 3,967,123
Receivables:			
Accounts	44,070	-	44,070
Due from other governments	978,763	-	978,763
Inventories	42,428	-	42,428
	<u>42,428</u>	<u>-</u>	<u>42,428</u>
Total assets	<u>\$ 4,883,956</u>	<u>\$ 148,428</u>	<u>\$ 5,032,384</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
Accounts payable	\$ 440,159	\$ 855	\$ 441,014
Salaries and benefits payable	1,202,041	31,890	1,233,931
Deferred revenue:			
Federal	336,833	-	336,833
Miscellaneous	-	115,683	115,683
Total liabilities	<u>\$ 1,979,033</u>	<u>\$ 148,428</u>	<u>\$ 2,127,461</u>
Fund balances:			
Reserved for:			
Inventories	42,428	-	42,428
Unreserved:			
Undesignated	2,862,495	-	2,862,495
Total fund balances	<u>\$ 2,904,923</u>	<u>\$ -</u>	<u>\$ 2,904,923</u>
Total liabilities and fund balances	<u>\$ 4,883,956</u>	<u>\$ 148,428</u>	<u>\$ 5,032,384</u>

WESTERN HILLS AREA EDUCATION AGENCY 12

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL

FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006

TOTAL GOVERNMENTAL FUND BALANCES (PAGE 12) \$ 2,904,923

*Amounts reported for governmental activities in the Statement of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore are not reported in the funds. The cost of assets is \$8,240,779 and accumulated depreciation is \$5,919,682. 2,321,097

Long-term liabilities, including capital lease, notes payable, early retirement benefits, compensated absences, and claims and judgments, are not due and payable in the current period and therefore are not reported in the funds. (859,461)

NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 10) \$ 4,366,559

## WESTERN HILLS AREA EDUCATION AGENCY 12

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

## GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
REVENUES:			
Local sources	\$ 5,715,829	\$ -	\$ 5,715,829
State sources	4,936,732	705,632	5,642,364
Federal sources	7,370,383	-	7,370,383
Total revenues	<u>\$ 18,022,944</u>	<u>\$ 705,632</u>	<u>\$ 18,728,576</u>
EXPENDITURES:			
Current:			
Instruction	\$ 22,881	\$ 662,090	\$ 684,971
Student support services	8,114,541	-	8,114,541
Instructional staff support services	4,237,649	-	4,237,649
General administration	945,553	9,188	954,741
School administration	998,925	34,354	1,033,279
Business administration	184,983	-	184,983
Printing, delivery services, and coop support services	392,836	-	392,836
Plant operations and maintenance	495,500	-	495,500
Central and other support services	782,428	-	782,428
Debt service	-	46,159	46,159
Total Expenditures	<u>\$ 16,175,296</u>	<u>\$ 751,791</u>	<u>\$ 16,927,087</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,847,648	\$ (46,159)	\$ 1,801,489
OTHER FINANCING SOURCES (USES):			
Proceeds from capital leases	202,124	-	202,124
LEA flow through	(1,729,484)	-	(1,729,484)
Transfers in	-	46,159	46,159
Transfers out	(46,159)	-	(46,159)
Total other financing sources and (uses)	<u>\$ (1,573,519)</u>	<u>\$ 46,159</u>	<u>\$ (1,527,360)</u>
NET CHANGE IN FUND BALANCES	\$ 274,129	\$ -	\$ 274,129
FUND BALANCES BEGINNING OF YEAR	<u>2,630,794</u>	<u>-</u>	<u>2,630,794</u>
FUND BALANCES END OF YEAR	<u>\$ 2,904,923</u>	<u>\$ -</u>	<u>\$ 2,904,923</u>

## WESTERN HILLS AREA EDUCATION AGENCY 12

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES ANDCHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESYEAR ENDED JUNE 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (PAGE 14)	\$	274,129
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*Amounts reported for governmental activities in the Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay expenditures exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$	836,646	
Depreciation expense		<u>(522,244)</u>	314,402

Governmental funds report the proceeds from sales of capital assets as increases in fund balance while governmental activities report the difference between sales proceeds and the net book value (cost less accumulated depreciation) of the related capital assets as a gain or loss:

Sales proceeds	\$	-	
Net loss on sale		(15,562)	(15,562)

A capital asset acquired this year was financed with a capital lease. The amount financed by the lease is reported in the government funds as a source of financing. The capital lease is not revenue in the statement of activities, but rather constitutes long-term liabilities in the statement of net assets.

(202,124)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

41,123

Compensated absences, early retirement expense, and claims and judgments 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.

(147,655)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES  
(PAGE 11)

\$ 264,313

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Western Hills Area Education Agency 12 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 24 school districts and several private schools in a six-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Western Hills Area Education Agency 12 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. Western Hills Area Education Agency 12 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-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 non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

*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.

*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, which 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 as general revenues.

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

The Agency 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.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement Focus and Basis of Accounting

The government-wide financial statements 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 (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 non-negotiable certificates of deposits 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.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 or business-type activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair 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 the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Building improvements	5,000
Furniture and equipment	1,000
Library books	Aggregated annual purchases

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20
Building improvements	20
Furniture and equipment	5-7
Library books	5

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 funding source over accrued expenditures at year end.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Compensated Absences - Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets 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, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Obligations - 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 assets.

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

Restricted Net Assets - In the government-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.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The Agency's deposits in banks 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. 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 district.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 - CASH AND POOLED INVESTMENTS (CONTINUED):

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

<u>Type</u>	<u>Fair Value</u>
Money Market	<u>\$ 3,967,123</u>

NOTE 3 - CAPITAL ASSETS:

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

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 118,785	\$ -	\$ -	\$ 118,785
Capital assets being depreciated:				
Land improvements	\$ 2,998	\$ -	\$ -	\$ 2,998
Buildings	332,459	-	-	332,459
Building improvements	2,447,347	188,308	-	2,635,655
Furniture and equipment	2,004,310	562,053	(293,829)	2,272,534
Library books	2,813,864	86,285	(21,801)	2,878,348
Total capital assets being depreciated	<u>\$ 7,600,978</u>	<u>\$ 836,646</u>	<u>\$ (315,630)</u>	<u>\$ 8,121,994</u>
Less accumulated depreciation for:				
Land improvements	\$ 125	\$ 150	\$ -	\$ 275
Buildings	224,714	10,424	-	235,138
Building improvements	1,542,422	104,840	-	1,647,262
Furniture and equipment	1,496,222	260,408	(278,267)	1,478,363
Library books	2,434,023	146,422	(21,801)	2,558,644
Total accumulated depreciation	<u>\$ 5,697,506</u>	<u>\$ 522,244</u>	<u>\$ (300,068)</u>	<u>\$ 5,919,682</u>
Total capital assets being depreciated, net	<u>\$ 1,903,472</u>	<u>\$ 314,402</u>	<u>\$ (15,562)</u>	<u>\$ 2,202,312</u>
Governmental activities capital assets, net	<u>\$ 2,022,257</u>	<u>\$ 314,402</u>	<u>\$ (15,562)</u>	<u>\$ 2,321,097</u>

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 3 - CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction	\$ 4,413
Student support services	32,921
Instructional staff support services	236,096
General administration	1,478
Business administration	2,654
Printing, delivery services and coop support services	18,415
Plant operations and maintenance	4,156
Central and other support services	106,698
Unallocated depreciation	<u>115,413</u>

Total governmental activities depreciation expense \$ 522,244

NOTE 4 - 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	Due Within One Year
Capital lease	\$ -	\$ 202,124	\$ 9,721	\$ 192,403	\$ 36,391
Notes payable	81,125	-	31,402	49,723	32,789
Early retirement benefits	241,856	289,735	61,541	470,050	205,285
Compensated absences	152,824	-	5,539	147,285	-
Claims and judgments (ISEBA assessment)	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 550,805</u>	<u>\$ 491,859</u>	<u>\$ 183,203</u>	<u>\$ 859,461</u>	<u>\$ 274,465</u>

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 4 - CHANGES IN LONG-TERM LIABILITIES (CONTINUED):

Capital Lease

Capital lease obligation at June 30, 2006:

	<u>2006</u>
Capital lease obligation, monthly payment of \$3,850, imputed interest rate of 5.58 percent, final payment March 2011	\$ 192,403
Less current portion	<u>36,391</u>
Total	<u>\$ 156,012</u>

Scheduled repayments on the capital lease obligation are as follows:

Year Ending	
<u>June 30,</u>	
2007	\$ 46,206
2008	46,206
2009	46,206
2010	46,206
2011	<u>34,652</u>
	\$ 219,476
Less amount representing interest under capital lease obligation	<u>27,073</u>
Total	<u>\$ 192,403</u>

Notes Payable

The Agency is obligor with respect to a School Remodeling Project Note dated October 1, 2002 for the original amount of \$140,000. The note calls for semi-annual payments of \$17,304 including interest at the coupon rate of 4.37 percent per annum through October 1, 2007.

The scheduled maturities with respect to this note follows:

Year Ending			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 32,789	\$ 1,819	\$ 34,608
2008	<u>16,934</u>	<u>370</u>	<u>17,304</u>
	<u>\$ 49,723</u>	<u>\$ 2,189</u>	<u>\$ 51,912</u>

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 4 - CHANGES IN LONG-TERM LIABILITIES (CONTINUED):

Early Retirement Benefits

The Agency provides early retirement benefits to eligible personnel based on the financial condition of the Agency. The Agency pays a certain amount of the retiring employees' health insurance premiums until they become eligible for Medicare. The benefit amount is based on the agreement in effect on the employees' retirement date.

The liability related to these benefits as of June 30, 2006 is estimated at \$275,976, and is recorded on the Government-Wide Statement of Net Assets. The current portion of \$71,285 is due within one year and the long-term portion of \$204,691 extends beyond one year. The estimate is based on the number of people who had accepted the benefits as of June 30, 2006, their ages as of June 30, 2006, and the current health insurance premiums with an inflation rate of 10 percent per year and a discount rate of 5 percent taken into consideration. Currently, 13 retirees are receiving these benefits. The benefit payments for the year ended June 30, 2006 totaled \$61,541.

In addition, the Agency entered into an early retirement agreement with an administrator providing for total payments of \$200,000. The termination benefits will be paid in installments with the final installment due April 15, 2009. The liability is recorded in the government-wide statements using a discount rate of 5 percent. The amount due within one year is \$134,000 and the long-term portion is \$60,074.

NOTE 5 - PENSION AND RETIREMENT BENEFITS:

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined 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 percent of their annual covered salary and the Agency is required to contribute 5.75 percent 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 \$566,290, \$546,488 and \$542,841, respectively, equal to the required contributions for each year.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 6 - OPERATING LEASES:

The Agency has leased 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 are generally for one-year terms and are renewable for additional periods. Some of the leases also require the payment of normal maintenance and utilities on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

Total rental expenditures for the year ended June 30, 2006, for all operating leases totaled \$19,748.

In April 2004, the Agency entered into a pool plan lease arrangement with Xerox calling for monthly payments of \$14,089 for the use of certain copying equipment.

The Agency paid \$183,044 pursuant to the arrangement for the year ended June 30, 2006. The future noncancellable payments under this arrangement are as follows:

<u>Year Ending June 30,</u>	<u>Noncancellable</u>
	<u>Payments</u>
2007	<u>\$ 42,267</u>

NOTE 7 - RISK MANAGEMENT:

Western Hills Area Education Agency 12 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 8 - SUBSEQUENT EVENT:

Western Hills Area Education Agency 12 and Area Education Agency 4 received State Board of Education approval on August 11, 2005 to create a new organization to better meet the needs of schools and children. The new AEA will be named Northwest AEA. The voluntary Reorganization Plan will be effective July 1, 2006.

WESTERN HILLS AREA EDUCATION AGENCY 12

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 9 - ACCOUNTING CHANGE:

Governmental Accounting Standards Board (GASB) Statement 47 - Accounting for Termination Benefits was implemented during the year ended June 30, 2006. The statement establishes guidance on involuntary termination benefits and provides clarification on measurement issues concerning all termination benefits.

The Government-wide beginning net assets amount for governmental activities has been restated for the early retirement benefit liability at July 1, 2005 caused by the implementation of GASB 47.

Net assets - beginning of year, as previously reported	\$ 4,117,539
GASB 47 adjustment - early retirement benefit liability	<u>(15,293)</u>
Net assets - beginning of year, as restated	<u>\$ 4,102,246</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

WESTERN HILLS AREA EDUCATION AGENCY 12

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

IN BALANCES - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

	<u>Actual</u>	<u>Budget Amount</u>		<u>Final to Actual</u>
		<u>Original</u>	<u>Final</u>	<u>Variance</u>
REVENUES:				
Local sources	\$ 5,715,829	\$ 5,413,499	\$ 5,618,424	\$ 97,405
State sources	5,642,364	6,165,664	5,525,289	117,075
Federal sources	<u>7,370,383</u>	<u>7,499,793</u>	<u>7,644,122</u>	<u>(273,739)</u>
Total revenues	<u>\$ 18,728,576</u>	<u>\$ 19,078,956</u>	<u>\$ 18,787,835</u>	<u>\$ (59,259)</u>
EXPENDITURES				
Current:				
Instruction	\$ 684,971	\$ 762,160	\$ 752,133	\$ 67,162
Student support services	8,114,541	9,707,882	8,490,614	376,073
Instructional staff support services	4,237,649	4,294,346	5,041,684	804,035
General administration	954,741	861,563	847,587	(107,154)
School administration	1,033,279	37,425	677,854	(355,425)
Business administration	184,983	342,950	574,040	389,057
Printing, delivery services and coop support services	392,836	430,910	373,434	(19,402)
Plant operations and maintenance	495,500	402,500	560,781	65,281
Central and other support services	782,428	938,244	-	(782,428)
Noninstructional programs	-	-	85,192	85,192
Debt service	<u>46,159</u>	<u>34,610</u>	<u>34,608</u>	<u>(11,551)</u>
Total expenditures	<u>\$ 16,927,087</u>	<u>\$ 17,812,590</u>	<u>\$ 17,437,927</u>	<u>\$ 510,840</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ 1,801,489	\$ 1,266,366	\$ 1,349,908	\$ 451,581
OTHER FINANCING SOURCES (USES), NET	<u>(1,527,360)</u>	<u>(1,832,895)</u>	<u>(1,729,484)</u>	<u>202,124</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 274,129	\$ (566,529)	\$ (379,576)	\$ 653,705
BALANCE BEGINNING OF YEAR	<u>2,630,794</u>	<u>1,166,700</u>	<u>2,638,422</u>	<u>(7,628)</u>
BALANCE END OF YEAR	<u>\$ 2,904,923</u>	<u>\$ 600,171</u>	<u>\$ 2,258,846</u>	<u>\$ 646,077</u>

WESTERN HILLS AREA EDUCATION AGENCY 12

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 U.S. generally accepted accounting principles. Although the budget document presents function disbursements by fund, the legal level of control is at the total expenditure 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**

WESTERN HILLS AREA EDUCATION AGENCY 12

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	Special Revenue Juvenile Home	Debt Service	Total
<b>ASSETS:</b>			
Cash and pooled investments	\$ 148,428	\$ -	\$ 148,428
Total assets	<u>\$ 148,428</u>	<u>\$ -</u>	<u>\$ 148,428</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
Accounts payable	\$ 855	\$ -	\$ 855
Salaries and benefits payable	31,890	-	31,890
Deferred revenue	115,683	-	115,683
Total liabilities	<u>\$ 148,428</u>	<u>\$ -</u>	<u>\$ 148,428</u>
Fund balances:			
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 148,428</u>	<u>\$ -</u>	<u>\$ 148,428</u>

WESTERN HILLS AREA EDUCATION AGENCY 12

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GONVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	Special Revenue Juvenile Home	Debt Service	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
REVENUES:			
State sources	\$ 705,632	\$ -	\$ 705,632
Total revenues	<u>\$ 705,632</u>	<u>\$ -</u>	<u>\$ 705,632</u>
EXPENDITURES:			
Current:			
Instruction	\$ 662,090	\$ -	\$ 662,090
General administration	9,188	-	9,188
School administration	34,354	-	34,354
Debt service	-	46,159	46,159
Total expenditures	<u>\$ 705,632</u>	<u>\$ 46,159</u>	<u>\$ 751,791</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ (46,159)</u>	<u>\$ (46,159)</u>
OTHER FINANCING SOURCES:			
Transfers in	<u>\$ -</u>	<u>\$ 46,159</u>	<u>\$ 46,159</u>
NET CHANGE IN FUND BALANCES	\$ -	\$ -	\$ -
FUND BALANCES BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

WESTERN HILLS AREA EDUCATION AGENCY 12

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -

ALL GOVERNMENTAL FUND TYPES

FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2006	2005	2004	2003	2002
Revenues:					
Local	\$ 5,715,829	\$ 5,526,847	\$ 5,090,521	\$ 4,912,210	\$ 4,221,558
State	5,642,364	5,210,260	5,253,052	5,767,273	5,630,911
Federal	7,370,383	7,158,173	6,364,095	5,647,693	4,854,117
Total	<u>\$ 18,728,576</u>	<u>\$ 17,895,280</u>	<u>\$ 16,707,668</u>	<u>\$ 16,327,176</u>	<u>\$ 14,706,586</u>
Expenditures:					
Current:					
Instruction	\$ 684,971	\$ 680,235	\$ 723,635	\$ 666,392	\$ 647,384
Student support services	8,114,541	8,049,850	7,828,810	7,790,512	8,125,429
Instructional staff support services	4,237,649	3,915,634	3,944,384	3,747,843	3,379,581
General administration	954,741	804,761	745,393	742,414	759,791
School administration	1,033,279	-	-	-	-
Business administration	184,983	133,539	150,737	139,031	434,417
Printing, delivery services and coop support services	392,836	363,834	403,522	414,108	-
Plant operations and maintenance	495,500	356,920	286,968	237,888	274,336
Central and other support services	782,428	1,233,068	1,059,846	1,169,940	1,306,372
Debt service	46,159	34,608	34,608	79,655	90,564
Facilities acquisition and construction	-	-	-	264,295	-
Total	<u>\$ 16,927,087</u>	<u>\$ 15,572,449</u>	<u>\$ 15,177,903</u>	<u>\$ 15,252,078</u>	<u>\$ 15,017,874</u>

WESTERN HILLS AREA EDUCATION AGENCY 12

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

<u>Project Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education - Grants to States	84.027		
IDEA - Part B		050612	\$ 6,280,313
Parent-Educator Connection		57412	85,192
Supplemental Support Services		4K72-12	52,858
Diagnostic Evaluation Program		5K71-12	8,988
Instructional Decision Making		5K79-12	58,770
Learning Supports		5K60-12	12,800
Para Educator Training		2K76-12	<u>13,187</u>
			<u>\$ 6,512,108</u>
Special Education - Preschool Grants	84.173	05619-12	<u>\$ 221,111</u>
Special Education - Grants for Infants and Families			
With Disabilities	84.181		
IDEA - Part C		C05-12	<u>\$ 235,468</u>
Tech-Prep Education	84.243	97-9212	<u>\$ 77,420</u>
English Language Acquisition Grants	84.365		<u>\$ 268,571</u>
Special Education - State Personnel Development	84.323		
SIG/Iowa Quality Preschool Program Standards Project		G-6PI3-12	<u>\$ 27,780</u>
Reading First State Grants	84.357		<u>\$ 27,925</u>
			<u>\$ 7,370,383</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Western Hills Area Education Agency 12 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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**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  
Western Hills Area Education Agency 12

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Hills Area Education Agency 12 as of and for the year ended June 30, 2006, which collectively comprise Western Hills Area Education Agency 12's basic financial statements and have issued our report thereon dated January 11, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Western Hills Area Education Agency 12's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

A material weakness is a reportable 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



KING, REINSCH, PROSSER & CO., L.L.P.  
Certified Public Accountants

To the Board of Directors  
Western Hills Area Education Agency 12

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Hills Area Education Agency 12'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 Western Hills Area Education Agency 12'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 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.

This report is intended solely for the information and use of the officials, management 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.

Sioux City, Iowa  
January 11, 2007



KING, REINSCH, PROSSER & CO., L.L.P.  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Western Hills Area Education Agency 12

**Compliance**

We have audited the compliance of Western Hills Area Education Agency 12, 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. Western Hills Area Education Agency 12's major federal programs are identified in Part I of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Western Hills Area Education Agency 12's management. Our responsibility is to express an opinion on Western Hills Area Education Agency 12's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 Government and Nonprofit 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 Western Hills Area Education Agency 12'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 Western Hills Area Education Agency 12's compliance with those requirements.

In our opinion, Western Hills Area Education Agency 12 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.



To the Board of Directors  
Western Hills Area Education Agency 12

### Internal Control Over Compliance

The management of Western Hills Area Education Agency 12 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 the Agency'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 reportable 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 is intended solely for the information and use of the officials, management 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.

Sioux City, Iowa  
January 11, 2007

WESTERN HILLS AREA EDUCATION AGENCY 12  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditors' Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.027 - Special Education - Grants to States
  - CFDA Number 84.173 - Special Education - Preschool Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (I) Western Hills Area Education Agency 12 qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Instances of Non-compliance:

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-compliance:

No matters were reported.

WESTERN HILLS AREA EDUCATION AGENCY 12  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part 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 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 were found that we believe should have been approved in the Board minutes but were not.
- IV-G-06      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.
- IV-H-06      Certified Annual Report - The Certified Annual Report was filed with the Department of Education and we noted no significant deficiencies in the amounts.