

**NORTHWEST AREA EDUCATION AGENCY**

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

**June 30, 2011**

NORTHWEST AREA EDUCATION AGENCY

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NORTHWEST AREA EDUCATION AGENCY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>BOARD OF DIRECTORS</u>		
Larry Petersen	President	2011
Adella Hulstein	Vice President	2013
Creston Schubert	Member	2011
Glenda Den Herder	Member	2013
Roger Brinkert	Member	2011
Patricia Sutherland	Member	2011
Robert Rice	Member	2013
Keith Zylstra	Member	2011
Thomas Bruegger	Member	2013

AGENCY

Tim Grieves	Chief Administrator	2011
Wayne Hess	Chief Financial Officer	2011
Gloria Miller	Board Secretary	2011
Steve Schermann	Treasurer/Business Manager	2011



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Northwest Area Education Agency

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Area Education Agency as of and for the year ended June 30, 2011, 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 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 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 Northwest Area Education Agency as of June 30, 2011, and the respective changes in financial position 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 February 28, 2012 on our consideration of Northwest Area Education Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9, Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual on pages 29 through 30 and Schedule of Funding Progress for the Retiree Health Benefit Plan on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northwest Area Education Agency's financial statements as a whole. The combining nonmajor fund financial statements and the Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor fund financial statements, the Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sioux City, Iowa  
February 28, 2012

*King Reensch Grosser & Co LLP*

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

Northwest 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, 2011. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

### **2011 Financial Highlights**

- General Fund revenues decreased from \$34,959,262 for fiscal year 2010 to \$31,362,608 in fiscal year 2011 while General Fund expenditures decreased from \$26,825,235 in fiscal year 2010 to \$25,996,185 in fiscal year 2011. Total other financing uses were \$2,370,690 including \$2,270,013 for Part B LEA flow-through in fiscal year 2011. Total other financing uses were \$7,284,566 including \$7,174,153 for Part B LEA flow-through in fiscal year 2010. This resulted in an increase in the Agency's General Fund balance from \$5,164,646 in fiscal year 2010 to \$8,160,379 in fiscal year 2011, a 58 percent increase.
- The main reason for the substantial decrease in the General Fund revenue was due to the LEA Part B ARRA flow-through funding decreasing from \$4,923,427 in fiscal year 2010 to zero in fiscal year 2011. The remainder of the General Fund revenue increased by \$1,326,773.
- The additional reductions in state aid beyond the permanent reduction of \$647,092 decreased from \$1,093,701 in fiscal year 2010 to \$213,065 in fiscal year 2011.
- Northwest AEA reduced one administrative position, one management position, and ten certified staff positions through attrition at the end of fiscal year 2010. The decision was made to not replace those positions, knowing that \$2.4 million in ARRA funds would not be available after fiscal year 2011. The Agency planned on increasing the fund balance during fiscal year 2011 and use fund balance dollars to help maintain staffing levels over the next year or two.

### **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 Northwest 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 government-wide statements by providing information about the most significant funds.

- The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, as well as presenting the Scheduling of Funding Progress for the Retiree Health Benefit Plan.
- Supplementary Information provides detailed information about the nonmajor funds and Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds. 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's 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 consist of the following:

- *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 more detailed information about the Agency's funds, focusing on its most significant "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 one kind of fund:

- Governmental funds account for 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. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, 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. Northwest Area Education Agency's net assets at the end of fiscal year 2011 totaled approximately \$10.4 million compared to approximately \$7.7 million at the end of fiscal year 2010. The analysis that follows focuses on the net assets and changes in net assets.

	<u>Condensed Statement of Net Assets</u>	
	<u>Governmental Activities</u>	
	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 11,129,922	\$ 8,667,793
Capital assets	<u>2,640,951</u>	<u>2,950,321</u>
Total assets	<u>\$ 13,770,873</u>	<u>\$ 11,618,114</u>
Long-term liabilities	\$ 659,104	\$ 681,326
Other liabilities	<u>2,758,315</u>	<u>3,265,213</u>
Total liabilities	<u>\$ 3,417,419</u>	<u>\$ 3,946,539</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 2,570,951	\$ 2,785,979
Restricted for:		
Debt service	51,672	51,666
Categorical funding	174,528	124,778
Media materials	862,425	797,231
Special education instruction	211,228	-
Unrestricted	<u>6,482,650</u>	<u>3,911,921</u>
Total net assets	<u>\$ 10,353,454</u>	<u>\$ 7,671,575</u>

The Agency's net assets increased 35 percent, or approximately \$2,682,000, from fiscal year 2010. There are several reasons for the substantial increase in net assets. Fiscal year 2011 was the second and final year for most of the ARRA funding which amounted to \$2,467,329 in fiscal year 2011 for Northwest AEA. Through retirements and resignations, the Agency reduced one administrative, one management, and ten certified positions going into fiscal year 2011. The decision to not replace any of these positions was made knowing the \$2.4 million in ARRA funds that Agency was receiving in fiscal year 2011 would be gone for the next fiscal year. The Agency also anticipated some cuts in state aid would continue into fiscal year 2011. Northwest AEA planned on increasing the fund balance during fiscal year 2011 for the purpose of maintaining staff levels for another year or two before further staff reductions would need to be made.

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

	<u>Changes in Net Assets</u>	
	<u>Governmental Activities</u>	
	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Charges for service	\$ 1,048,791	\$ 1,045,710
Operating grants and contributions	14,618,199	19,306,402
General revenues:		
Property taxes	7,158,904	7,031,517
State foundation aid	8,725,498	7,666,679
Interest	9,488	33,007
Miscellaneous	<u>655,248</u>	<u>709,959</u>
Total revenues	<u>\$ 32,216,128</u>	<u>\$ 35,793,274</u>
Expenses:		
Instruction	\$ 1,117,548	\$ 1,240,568
Student support services	10,465,407	11,265,628
Instructional staff support services	8,696,951	8,068,898
General administration	1,150,635	1,256,468
Business administration	1,841,739	1,943,161
Building administration	2,607,967	2,607,813
Printing, delivery services and co-op support services	647,581	669,933
Plant operations and maintenance	607,394	590,673
Student transportation	-	326
Interest on long-term debt	6,335	11,014
LEA flow-through	2,270,013	7,174,153
Depreciation (unallocated)	<u>122,679</u>	<u>122,834</u>
Total expenses	<u>\$ 29,534,249</u>	<u>\$ 34,951,469</u>
Increase in net assets	\$ 2,681,879	\$ 841,805
Net assets beginning of year	<u>7,671,575</u>	<u>6,829,770</u>
Net assets end of year	<u>\$ 10,353,454</u>	<u>\$ 7,671,575</u>

Property taxes and state foundation aid account for 49 percent of the total revenue while operating grants and contributions from local, state and federal sources account for 45 percent of the total revenue. The Agency's expenses primarily relate to student support services and instructional staff support services, which account for 65 percent of the total expenses.

### **Individual Fund Analysis**

As previously noted, Northwest 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 \$8,371,607, above last year's ending fund balances of \$5,402,580. There are two primary reasons for the large increase in the combined fund balances in fiscal year 2011. One was the substantial amount of revenue from the American Recovery and Reinvestment Act. The amount of ARRA funding for Northwest AEA in fiscal year 2011 was \$2,467,329. The Agency reduced twelve positions through attrition prior to fiscal year 2011. The combination of the substantial ARRA funding and the decrease in expenditures through staff reductions allowed the fund balance to increase. Northwest AEA planned on increasing the fund balance during fiscal year 2011 for the purpose of maintaining staffing levels for another year or two before further staff reductions would need to be made.

### **Budgetary Highlights**

Over the course of the year, the Agency amended its budget one time in order to reflect adjustments to funding sources and to reflect expenditure adjustments due to staff reductions. Some reclassifications among expenditures were also made.

The Agency's total revenues were \$120,323 less than total budgeted revenues, a variance of 0.37 percent. Total expenditures were \$1,452,497 less than budgeted, a variance of 5.1 percent.

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, 2011, the Agency had invested \$2,640,951, net of accumulated depreciation, in a broad range of capital assets, including land, land improvements, buildings and improvements, furniture and equipment and media materials. This is a net decrease of approximately \$309,000 from last year. Total additions to capital assets totaled \$170,924.

Northwest Area Education Agency had depreciation expense of \$480,294 in fiscal year 2011 and total accumulated depreciation of \$7,422,235 at June 30, 2011. More detailed information about capital assets is available in Note 4 to the financial statements.

### Long-Term Debt

At June 30, 2011, the Agency had \$70,000 in long-term debt outstanding compared to \$164,342 at June 30, 2010. More detailed information about the Agency's long-term debt 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 funding through the American Recovery and Reinvestment Act ended but during the two full years of ARRA funding, the Agency was able to increase the fund balance to help offset the funding cliff created by the loss of that funding.
- During the current fiscal year 2012, the AEAs state-wide are receiving a reduction in state funding of \$20 million. This amounts to a cut of \$1,704,516 beyond the permanent cut of \$647,092 for Northwest AEA. The governor and legislature are currently looking at continuing the \$20 million state-wide cut next year. We are expecting the state-wide cut for fiscal year 2013 to be between \$10 million and \$20 million.

### 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 Northwest Area Education Agency, Sioux City, Iowa.

# **BASIC FINANCIAL STATEMENTS**

NORTHWEST AREA EDUCATION AGENCYSTATEMENT OF NET ASSETSJUNE 30, 2011

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and pooled investments	\$ 8,092,148
Receivables:	
Accounts	20,591
Due from other governments	2,800,676
Inventories	110,817
Prepaid expenses	105,690
Capital assets (net of accumulated depreciation)	<u>2,640,951</u>
Total assets	<u>\$ 13,770,873</u>
<b>Liabilities:</b>	
Accounts payable	\$ 491,527
Salaries and benefits payable	2,095,933
Unearned revenue:	
Federal	36,478
Miscellaneous	134,377
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease obligations	70,000
Portion due or payable after one year:	
Compensated absences	208,383
Net OPEB obligation	<u>380,721</u>
Total liabilities	<u>\$ 3,417,419</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	\$ 2,570,951
Restricted for:	
Debt service	51,672
Categorical funding	174,528
Media materials	862,425
Special education instruction	211,228
Unrestricted	<u>6,482,650</u>
Total net assets	<u>\$ 10,353,454</u>

NORTHWEST AREA EDUCATION AGENCYSTATEMENT OF ACTIVITIESYEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>for Services</u>	<u>Grants and</u>	<u>Changes in Net</u>
			<u>Contributions</u>	<u>Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction	\$ 1,117,548	\$ 23,328	\$ 57,894	\$ (1,036,326)
Student support services	10,465,407	422,725	12,216,610	2,173,928
Instructional staff support services	8,696,951	297,091	73,682	(8,326,178)
General administration	1,150,635	-	-	(1,150,635)
Business administration	1,841,739	-	-	(1,841,739)
Building administration	2,607,967	-	-	(2,607,967)
Printing, delivery services and co-op support services	647,581	305,647	-	(341,934)
Plant operations and maintenance	607,394	-	-	(607,394)
Interest on long-term debt	6,335	-	-	(6,335)
LEA flow-through	2,270,013	-	2,270,013	-
Depreciation (unallocated)*	<u>122,679</u>	<u>-</u>	<u>-</u>	<u>(122,679)</u>
Total governmental activities	<u>\$ 29,534,249</u>	<u>\$ 1,048,791</u>	<u>\$ 14,618,199</u>	<u>\$ (13,867,259)</u>
General revenues:				
Property taxes				7,158,904
State foundation aid				8,725,498
Interest				9,488
Miscellaneous				<u>655,248</u>
Total general revenues				<u>\$ 16,549,138</u>
Change in net assets				\$ 2,681,879
Net assets beginning of year				<u>7,671,575</u>
Net assets end of year				<u>\$ 10,353,454</u>

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

See notes to financial statements.

## NORTHWEST AREA EDUCATION AGENCY

## BALANCE SHEET

## GOVERNMENTAL FUNDS

JUNE 30, 2011

	<u>General</u>	<u>Nonmajor</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash and pooled investments	\$ 7,773,657	\$ 318,491	\$ 8,092,148
Receivables:			
Accounts	20,591	-	20,591
Due from other governments	2,783,028	17,648	2,800,676
Inventories	110,817	-	110,817
Prepaid expenditures	<u>105,690</u>	<u>-</u>	<u>105,690</u>
Total assets	<u>\$ 10,793,783</u>	<u>\$ 336,139</u>	<u>\$ 11,129,922</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 491,276	\$ 251	\$ 491,527
Salaries and benefits payable	2,057,429	38,504	2,095,933
Deferred revenue:			
Federal	36,478	-	36,478
Miscellaneous	<u>48,221</u>	<u>86,156</u>	<u>134,377</u>
Total liabilities	<u>\$ 2,633,404</u>	<u>\$ 124,911</u>	<u>\$ 2,758,315</u>
<b>Fund balances:</b>			
<b>Nonspendable:</b>			
Inventories	\$ 110,817	\$ -	\$ 110,817
Prepaid expenditures	105,690	-	105,690
<b>Restricted for:</b>			
Debt service	51,672	-	51,672
Categorical funding	174,528	-	174,528
Media materials	862,425	-	862,425
Special education instruction	-	211,228	211,228
<b>Assigned to:</b>			
Special education	1,341,216	-	1,341,216
Special purpose	276,878	-	276,878
Unassigned	<u>5,237,153</u>	<u>-</u>	<u>5,237,153</u>
Total fund balances	<u>\$ 8,160,379</u>	<u>\$ 211,228</u>	<u>\$ 8,371,607</u>
Total liabilities and fund balances	<u>\$ 10,793,783</u>	<u>\$ 336,139</u>	<u>\$ 11,129,922</u>

NORTHWEST AREA EDUCATION AGENCY

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL

FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2011

Total Governmental Fund Balances (Page 12) \$ 8,371,607

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 governmental funds. The cost of assets is \$10,063,186 and the accumulated depreciation is \$7,422,235. 2,640,951

Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the governmental funds:

Capital lease obligations	\$ (70,000)	
Compensated absences	(208,383)	
Net OPEB obligation	<u>(380,721)</u>	<u>(659,104)</u>

Net Assets of Governmental Activities (Page 10) \$ 10,353,454

## NORTHWEST AREA EDUCATION AGENCY

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

## GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Nonmajor</u>	<u>Total Governmental Funds</u>
Revenues:			
Local sources	\$ 8,932,476	\$ 20,312	\$ 8,952,788
State sources	9,606,513	833,208	10,439,721
Federal sources	<u>12,823,619</u>	<u>-</u>	<u>12,823,619</u>
Total revenues	<u>\$ 31,362,608</u>	<u>\$ 853,520</u>	<u>\$ 32,216,128</u>
Expenditures:			
Current:			
Instruction	\$ 281,533	\$ 831,284	\$ 1,112,817
Student support services	10,430,234	-	10,430,234
Instructional staff support services	8,564,954	-	8,564,954
General administration	1,134,959	15,483	1,150,442
Business administration	1,777,607	-	1,777,607
Building administration	2,559,588	33,459	2,593,047
Printing, delivery services, and co-op support services	645,504	-	645,504
Plant operations and maintenance	601,806	-	601,806
Debt service	<u>-</u>	<u>100,677</u>	<u>100,677</u>
Total expenditures	<u>\$ 25,996,185</u>	<u>\$ 980,903</u>	<u>\$ 26,977,088</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 5,366,423</u>	<u>\$ (127,383)</u>	<u>\$ 5,239,040</u>
Other financing sources (uses):			
LEA flow-through	\$ (2,270,013)	\$ -	\$ (2,270,013)
Transfers in	-	100,677	100,677
Transfers out	<u>(100,677)</u>	<u>-</u>	<u>(100,677)</u>
Total other financing sources (uses)	<u>\$ (2,370,690)</u>	<u>\$ 100,677</u>	<u>\$ (2,270,013)</u>
Net change in fund balances	\$ 2,995,733	\$ (26,706)	\$ 2,969,027
Fund balances beginning of year	<u>5,164,646</u>	<u>237,934</u>	<u>5,402,580</u>
Fund balances end of year	<u>\$ 8,160,379</u>	<u>\$ 211,228</u>	<u>\$ 8,371,607</u>

See notes to financial statements.

NORTHWEST AREA EDUCATION AGENCYRECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES ANDCHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESYEAR ENDED JUNE 30, 2011

Net Change in Fund Balances - Total Governmental Funds (Page 14)	\$ 2,969,027
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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. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Expenditures for capital assets	\$ 170,924	
Depreciation	<u>(480,294)</u>	(309,370)

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.

94,342

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Decrease in compensated absences	\$ 17,601	
Increase in other postemployment benefits	<u>(89,721)</u>	<u>(72,120)</u>

Change in Net Assets of Governmental Activities (Page 11)	<u>\$ 2,681,879</u>
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NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Northwest Area Education 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 36 public school districts and 33 accredited private schools in a ten-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 Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Northwest Area Education Agency has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading. 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. Northwest Area Education Agency 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.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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 the following 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 attributable 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 - Separate 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.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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

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

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

D. Assets, Liabilities and Fund Equity

Cash and Pooled Investments - 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 deposits which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

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 and media materials, are reported in the governmental 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 and improvements	\$ 5,000
Furniture and equipment	\$ 2,000
Media materials	Aggregated annual purchases

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

Buildings and improvements	20 years
Furniture and equipment	3-7 years
Media materials	5 years

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

Deferred Revenue and Unearned Revenue - Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets were not collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue also consists of unspent grant proceeds.

Unearned revenue in the Statement of Net Assets consists of unearned grant proceeds.

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, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, fund balances are classified as follows:

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

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

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Assigned - Amounts the Agency intends to use for specific purposes determined pursuant to constraints imposed by the Board of Directors or an official the Board of Directors has delegated authority to.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The Agency's deposits in banks at June 30, 2011 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.

The Agency's investments at June 30, 2011 consisted of the following:

<u>Type</u>	<u>Fair Value</u>
Repurchase Agreement	<u>\$ 8,188,632</u>

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio, which are valued at an amortized cost of \$67,402 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2 - CASH AND POOLED INVESTMENTS (CONTINUED):

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

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

NOTE 3 - INTERFUND TRANSFERS AND BALANCES:

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Debt Service	General	<u>\$ 100,677</u>

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

NOTE 4 - CAPITAL ASSETS:

A summary of changes in the capital assets for the year ended June 30, 2011 is as follows:

	<u>Balance</u> <u>July 1,</u> <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2011</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 182,535	\$ -	\$ -	\$ 182,535
Capital assets being depreciated:				
Land improvements	\$ 2,998	\$ -	\$ -	\$ 2,998
Buildings and improvements	4,338,855	-	-	4,338,855
Furniture and equipment	2,038,935	100,509	(217,874)	1,921,570
Media materials	3,677,881	70,415	(131,068)	3,617,228
Total capital assets being depreciated	<u>\$ 10,058,669</u>	<u>\$ 170,924</u>	<u>\$ (348,942)</u>	<u>\$ 9,880,651</u>
Less accumulated depreciation:				
Land improvements	\$ 875	\$ 150	\$ -	\$ 1,025
Buildings and improvements	2,488,861	122,530	-	2,611,391
Furniture and equipment	1,670,587	173,855	(217,874)	1,626,568
Media materials	3,130,560	183,759	(131,068)	3,183,251
Total accumulated depreciation	<u>\$ 7,290,883</u>	<u>\$ 480,294</u>	<u>\$ (348,942)</u>	<u>\$ 7,422,235</u>
Total capital assets being depreciated, net	<u>\$ 2,767,786</u>	<u>\$ (309,370)</u>	<u>\$ -</u>	<u>\$ 2,458,416</u>
Governmental activities capital assets, net	<u>\$ 2,950,321</u>	<u>\$ (309,370)</u>	<u>\$ -</u>	<u>\$ 2,640,951</u>

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to the Agency's functions as follows:

Governmental activities:

Instruction	\$	972
Student support services		13,389
Instructional staff support services		218,506
Business administration		80,755
Building administration		10,068
Printing, delivery services and coop support services		6,499
Plant operations and maintenance		27,426
Unallocated depreciation		<u>122,679</u>
Total	\$	<u>480,294</u>

NOTE 5 - CHANGES IN LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2011, is as follows:

	Balance July 1, <u>2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2011</u>	Due Within <u>One Year</u>
Capital lease obligations	\$ 164,342	\$ -	\$ 94,342	\$ 70,000	\$ 70,000
Compensated absences	<u>225,984</u>	-	<u>17,601</u>	<u>208,383</u>	-
Total	<u>\$ 390,326</u>	<u>\$ -</u>	<u>\$ 111,943</u>	<u>\$ 278,383</u>	<u>\$ 70,000</u>

Capital Lease Obligations

The Agency is purchasing the Sioux Center building under a lease purchase agreement. The final lease payment of \$70,000 plus interest of \$3,010 is due in 2012. The capitalized cost of the building is \$899,275 and accumulated depreciation is \$143,884 at June 30, 2011.

Payments under capital lease agreements for the year ended June 30, 2011, including interest, were \$100,677.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 6 - 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 4.50 percent of their annual covered salary and the Agency is required to contribute 6.95 percent of annual covered salary. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$1,127,160, \$1,116,430 and \$1,048,674, respectively, equal to the required contributions for each year.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Plan Description - The Agency sponsors a single-employer health care plan which provides medical and prescription drug benefits for retirees and their families. There are 270 active and 35 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug coverage is provided through a combination of an insured plan with Wellmark and a self-insured plan administered by Three Rivers Benefit. Retirees under age 65 pay the same premium for the medical and prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

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

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

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED):

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 447,000
Interest on net OPEB obligation	13,000
Adjustment to annual required contribution	<u>(11,000)</u>
Annual OPEB cost	\$ 449,000
Contributions made	<u>(359,279)</u>
Increase in net OPEB obligation	\$ 89,721
Net OPEB obligation beginning of year	<u>291,000</u>
Net OPEB obligation end of year	<u>\$ 380,721</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the Agency contributed \$359,279 to the medical plan. Plan members eligible for benefits contributed \$87,046, or 20 percent of the premium costs.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 and the preceding years were as follows:

Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
6/30/11	\$ 449,000	80.02%	\$ 380,721
6/30/10	\$ 278,000	46.20%	\$ 291,000
6/30/09	\$ 277,000	51.06%	\$ 141,448

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$3.851 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.851 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$16.2 million and the ratio of the UAAL to covered payroll was 23.80 percent.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED):

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

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

As of the July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent discount rate based on the long-term investment yield on the investments used to finance the payment of benefits. The projected annual medical trend rate is 11 percent. The ultimate medical trend rate is 5 percent. The medical trend rate is reduced 0.5 percent each year until reaching the 5 percent ultimate trend rate.

Mortality rates are from the RP-2000 Health Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2009 and applying termination factors used in the IPERS Actuarial Reports as of June 30, 2009.

Projected claim costs of the medical plan are \$594 per month per retiree less than age 65. The salary increase rate was assumed to be 3.5 percent per year. The UAAL is being amortized over the maximum allowable period of 30 years for the implicit subsidy on an open basis and 4 years on a closed basis for the explicit subsidy.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 8 - OPERATING LEASES:

The Agency has leased various facilities within the area to house the different divisions of the Agency and also has lease agreements for copy machines, printers and a vehicle. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The leases expire between August 2012 and December 2015. Certain leases 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.

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, 2011.

<u>Year Ending June 30,</u>	<u>Noncancellable Payments</u>
2012	\$ 298,861
2013	282,330
2014	228,416
2015	<u>48,354</u>
	<u>\$ 857,961</u>

Total rental expenditures for the year ended June 30, 2011, for all operating leases totaled \$334,166.

NOTE 9 - RISK MANAGEMENT:

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

**REQUIRED SUPPLEMENTARY INFORMATION**

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH BENEFIT PLAN

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2011

<u>Year Ended June 30,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a)/c)</u>
2009	July 1, 2008	\$ -	\$ 3,184,000	\$ 3,184,000	0%	\$ 15,670,168	20.32%
2010	July 1, 2008	\$ -	\$ 3,184,000	\$ 3,184,000	0%	\$ 16,476,241	19.30%
2011	July 1, 2010	\$ -	\$ 3,851,000	\$ 3,851,000	0%	\$ 16,183,654	23.80%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost, Net OPEB Obligation, funded status and funding progress.

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

IN BALANCES - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

	<u>Actual</u>	<u>Budget Amount</u>		<u>Final to Actual</u>
		<u>Original</u>	<u>Final</u>	<u>Variance</u>
Revenues:				
Local sources	\$ 8,952,788	\$ 8,957,900	\$ 8,975,479	\$ (22,691)
State sources	10,439,721	10,547,529	10,451,384	(11,663)
Federal sources	<u>12,823,619</u>	<u>14,966,888</u>	<u>12,909,588</u>	<u>(85,969)</u>
Total revenues	<u>\$ 32,216,128</u>	<u>\$ 34,472,317</u>	<u>\$ 32,336,451</u>	<u>\$ (120,323)</u>
Expenditures:				
Current:				
Instruction	\$ 1,112,817	\$ 1,304,592	\$ 1,130,841	\$ 18,024
Student support services	10,430,234	11,753,462	10,722,248	292,014
Instructional staff support services	8,564,954	8,583,508	8,841,861	276,907
General administration	1,150,442	1,182,337	1,183,980	33,538
Business administration	1,777,607	2,023,428	1,914,611	137,004
Building administration	2,593,047	2,776,798	2,877,360	284,313
Printing, delivery services and co-op support services	645,504	661,249	703,076	57,572
Plant operations and maintenance	601,806	948,948	954,931	353,125
Debt service	<u>100,677</u>	<u>100,677</u>	<u>100,677</u>	<u>-</u>
Total expenditures	<u>\$ 26,977,088</u>	<u>\$ 29,334,999</u>	<u>\$ 28,429,585</u>	<u>\$ 1,452,497</u>
Excess of revenues over expenditures	<u>\$ 5,239,040</u>	<u>\$ 5,137,318</u>	<u>\$ 3,906,866</u>	<u>\$ 1,332,174</u>
Other financing sources (uses), net	<u>(2,270,013)</u>	<u>(4,722,438)</u>	<u>(2,271,716)</u>	<u>1,703</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 2,969,027</u>	<u>\$ 414,880</u>	<u>\$ 1,635,150</u>	<u>\$ 1,333,877</u>
Balance beginning of year	<u>5,402,580</u>	<u>4,887,042</u>	<u>5,402,580</u>	<u>-</u>
Balance end of year	<u>\$ 8,371,607</u>	<u>\$ 5,301,922</u>	<u>\$ 7,037,730</u>	<u>\$ 1,333,877</u>

NORTHWEST AREA EDUCATION AGENCY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY REPORTING

JUNE 30, 2011

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 expenditures 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.

For the year ended June 30, 2011, the Agency's expenditures did not exceed the approved budget.

**SUPPLEMENTARY INFORMATION**

NORTHWEST AREA EDUCATION AGENCY

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2011

	<u>Special Revenue</u>			
		<u>Special Education</u>		
	<u>Juvenile Home</u>	<u>Instruction</u>	<u>Debt Service</u>	<u>Total</u>
<b>Assets:</b>				
Cash and pooled investments	\$ 107,263	\$ 211,228	\$ -	\$ 318,491
Due from other governments	<u>17,648</u>	<u>-</u>	<u>-</u>	<u>17,648</u>
Total assets	<u>\$ 124,911</u>	<u>\$ 211,228</u>	<u>\$ -</u>	<u>\$ 336,139</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 251	\$ -	\$ -	\$ 251
Salaries and benefits payable	38,504	-	-	38,504
Deferred revenue	<u>86,156</u>	<u>-</u>	<u>-</u>	<u>86,156</u>
Total liabilities	<u>\$ 124,911</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,911</u>
<b>Fund balances:</b>				
<b>Restricted for:</b>				
Special education instruction	\$ -	\$ 211,228	\$ -	\$ 211,228
Total liabilities and fund balances	<u>\$ 124,911</u>	<u>\$ 211,228</u>	<u>\$ -</u>	<u>\$ 336,139</u>

NORTHWEST AREA EDUCATION AGENCY

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2011

	<u>Special Revenue</u>			
		Special Education		
	<u>Juvenile Home</u>	<u>Instruction</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:				
Local sources	\$ 20,312	\$ -	\$ -	\$ 20,312
State sources	<u>833,208</u>	<u>-</u>	<u>-</u>	<u>833,208</u>
Total revenues	<u>\$ 853,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 853,520</u>
Expenditures:				
Current:				
Instruction	\$ 804,578	\$ 26,706	\$ -	\$ 831,284
General administration	15,483	-	-	15,483
Building administration	33,459	-	-	33,459
Debt service	<u>-</u>	<u>-</u>	<u>100,677</u>	<u>100,677</u>
Total expenditures	<u>\$ 853,520</u>	<u>\$ 26,706</u>	<u>\$ 100,677</u>	<u>\$ 980,903</u>
Deficiency of revenues under expenditures	<u>\$ -</u>	<u>\$ (26,706)</u>	<u>\$ (100,677)</u>	<u>\$ (127,383)</u>
Other financing sources:				
Transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,677</u>	<u>\$ 100,677</u>
Net change in fund balances	\$ -	\$ (26,706)	\$ -	\$ (26,706)
Fund balances beginning of year	<u>-</u>	<u>237,934</u>	<u>-</u>	<u>237,934</u>
Fund balances end of year	<u>\$ -</u>	<u>\$ 211,228</u>	<u>\$ -</u>	<u>\$ 211,228</u>

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -

ALL GOVERNMENTAL FUNDS

FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:					
Local	\$ 8,952,788	\$ 8,917,168	\$ 10,753,136	\$ 10,900,784	\$ 10,526,104
State	10,439,721	9,189,985	10,107,699	9,270,631	7,895,226
Federal	<u>12,823,619</u>	<u>17,686,121</u>	<u>11,245,821</u>	<u>9,927,147</u>	<u>10,168,522</u>
Total revenues	<u>\$ 32,216,128</u>	<u>\$ 35,793,274</u>	<u>\$ 32,106,656</u>	<u>\$ 30,098,562</u>	<u>\$ 28,589,852</u>
Expenditures:					
Current:					
Instruction	\$ 1,112,817	\$ 1,234,035	\$ 2,573,106	\$ 2,955,177	\$ 2,942,763
Student support services	10,430,234	11,211,317	11,708,001	11,055,486	10,676,882
Instructional staff support services	8,564,954	8,063,786	6,427,533	5,948,068	5,875,372
General administration	1,150,442	1,274,859	1,334,480	1,344,009	1,415,216
Business administration	1,777,607	1,941,305	1,822,169	1,621,451	1,376,280
Building administration	2,593,047	2,572,831	2,670,620	2,718,459	2,743,088
Printing, delivery services and co-op support services	645,504	659,902	662,540	614,313	611,100
Plant operations and maintenance	601,806	728,706	737,193	669,080	719,005
Student transportation	-	326	225,891	234,654	257,832
Debt service	<u>100,677</u>	<u>110,413</u>	<u>112,393</u>	<u>125,854</u>	<u>148,823</u>
Total expenditures	<u>\$ 26,977,088</u>	<u>\$ 27,797,480</u>	<u>\$ 28,273,926</u>	<u>\$ 27,286,551</u>	<u>\$ 26,766,361</u>

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

<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 Cluster (IDEA):			
Special Education - Grants to States:	84.027		
IDEA - Part B		101112	\$ 6,760,724
IDEA - Part B LEA Flow-Through		1KB2-12	2,270,013
Parent-Educator		07412	<u>109,133</u>
			\$ 9,139,870
ARRA - Special Education - Grants to States, Recovery Act:	84.391		
ARRA IDEA - Part B		RKB1-12	\$ 2,109,607
Special Education - Preschool Grants:	84.173		
Section 619		1011619-12	\$ 228,605
ARRA - Special Education - Preschool Grants, Recovery Act:			
ARRA Section 619	84.392	R619-12	<u>\$ 181,148</u>
Total Special Education Cluster (IDEA)			<u>\$ 11,659,230</u>
Early Intervention Services (IDEA) Cluster:			
Special Education - Grants for Infants and Families:	84.181		
IDEA - Part C		C10-12	\$ 297,518
ARRA - Special Education - Grants for Infants and Families, Recovery Act:	84.393		
ARRA IDEA - Part C		RD-12	<u>\$ 176,574</u>
Total Early Intervention Services (IDEA) Cluster			<u>\$ 474,092</u>
Special Education - State Personnel Development:	84.323		
SIG/Iowa Quality Preschool Program Standards Project		SPDG-12	\$ 43,500
English Language Acquisition Grants	84.365		\$ 452,488
Improving Teacher Quality State Grants	84.367		\$ 42,936
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048		\$ 132,991
Safe and Drug-Free Schools and Communities National Programs	84.184		<u>\$ 17,737</u>
Total Department of Education			<u>\$ 12,822,974</u>
Corporation for National and Community Service			
Passed-through Iowa Department of Education:			
Learn and Serve America School and Community Based Programs	94.004	11SLNWAEA	<u>\$ 645</u>
			<u>\$ 12,823,619</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Northwest Area Education Agency 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 presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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 of  
Northwest Area Education Agency

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Area Education Agency as of and for the year ended June 30, 2011, which collectively comprise Northwest Area Education Agency's basic financial statements and have issued our report thereon dated February 28, 2012. 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

Management of Northwest Area Education Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Northwest Area Education Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northwest Area Education Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northwest Area Education Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of Northwest Area Education Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### Compliance and Other Matters

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

Comments involving statutory and other legal matters about Northwest Area Education Agency's operations for the year ended June 30, 2011 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.

Northwest Area Education Agency's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the Agency's response, we did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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  
February 28, 2012

*King Reinach Parsney & Co. LLP*



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of  
Northwest Area Education Agency

Compliance

We have audited Northwest Area Education Agency's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Northwest Area Education Agency's major federal programs for the year ended June 30, 2011. Northwest Area Education Agency'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 grants applicable to each of its major federal programs is the responsibility of Northwest Area Education Agency's management. Our responsibility is to express an opinion on Northwest Area Education Agency'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; 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 Northwest Area Education Agency'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 Northwest Area Education Agency's compliance with those requirements.

In our opinion, Northwest Area Education Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.



### Internal Control Over Compliance

Management of Northwest Area Education Agency 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 to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northwest Area Education Agency's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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  
February 28, 2012

*King Reinick Rosser & Co LLP*

NORTHWEST AREA EDUCATION AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part I: Summary of the Independent Auditors' Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no 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:
  - Special Education Cluster (IDEA):
    - CFDA Number 84.027 Special Education - Grants to States
    - CFDA Number 84.173 Special Education - Preschool Grants
    - CFDA Number 84.391 ARRA - Special Education - Grants to States, Recovery Act
    - CFDA Number 84.392 ARRA - Special Education - Preschool Grants, Recovery Act
  - Early Intervention Services (IDEA) Cluster:
    - CFDA Number 84.181 Special Education - Grants for Infants and Families
    - CFDA Number 84.393 ARRA - Special Education - Grants for Infants and Families, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$384,709.
- (i) Northwest Area Education Agency did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Instances of Non-compliance:

No matters were noted.

Internal Control Deficiencies:

No material weaknesses in internal control over financial reporting were noted.

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2011

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-compliance:

No matters were noted.

Internal Control Deficiencies:

No material weaknesses in internal control over the major programs were noted.

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-11      Budget - Expenditures during the year ended June 30, 2011 did not exceed the amount budgeted.
- IV-B-11      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-11      Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-11      Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-11      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-11      Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-11      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency's investment policy were noted, except the Agency held deposits at an institution in excess of the maximum amount authorized by the Board of Directors.
- Recommendation - The Agency should review its procedures to ensure it is in compliance with all Board policies.

NORTHWEST AREA EDUCATION AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting (Continued)

Response - The Agency will monitor procedures to ensure that deposits made with qualified depositories are within the limits authorized by the Board.

Conclusion - Response accepted.

IV-H-11      Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-I-11      Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.

NORTHWEST AREA EDUCATION AGENCY

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

YEAR ENDED JUNE 30, 2011

U.S. Department of Education

Passed - through Iowa Department of Education

Special Education Cluster (IDEA):

CFDA 84.027: Special Education - Grants to States

CFDA 84.173: Special Education - Preschool Grants

CFDA 84.391: ARRA - Special Education - Grants to States, Recovery Act

CFDA 84.392: ARRA - Special Education - Preschool Grants, Recovery Act

Finding: III-A-10 - The Agency does not obtain semi-annual certifications for employees that are fully funded by a single federal cost objective.

Current Status: Corrective action taken.