

**GRANT WOOD AREA EDUCATION AGENCY 10
CEDAR RAPIDS, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

Table of Contents

Officials	1	
Independent Auditor's Report	2-3	
Management's Discussion and Analysis (MD&A)	4-9	
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	10	
Statement of Activities.....	11	
Governmental Fund Financial Statements		
Balance Sheet.....	12	
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets ...	13	
Statement of Revenue, Expenditures and Changes in Fund Balances.....	14	
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	15	
Fiduciary Fund Statement		
Statement of Fiduciary Assets and Liabilities - Agency	16	
Notes to the Financial Statements	17-29	
Required Supplementary Information		
Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds.....	30	
Schedule of Funding Progress for the Retiree Health Plan	31	
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet.....	32	
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	33	
Schedule of Changes in Fiduciary Assets and Liabilities - Agency	34	
Schedule of Revenue by Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis).....	35	
Schedule of Expenditures of Federal Awards	36-37	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		38-39
Independent Auditor's 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		40-41
Schedule of Findings and Questioned Costs	42-44	

Officials

Name	Title	Term Expires
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Board of Directors

(Before September 30, 2011)

James C. Green	President	September 30, 2011
Dr. Lynne Cannon	Vice President	September 30, 2011
Sue Gates	Member	September 30, 2013
Morris Greenfield	Member	September 30, 2013
Marlene L. Hill	Member	September 30, 2011
Pamela Jacobs	Member	September 30, 2013
Mary Meisterling	Member	September 30, 2011
Robert Schneider	Member	September 30, 2011
Marilyn Wirtz	Member	September 30, 2013

(After September 30, 2011)

James C. Green	President	September 30, 2015
Dr. Lynne Cannon	Vice President	September 30, 2015
Sue Gates	Member	September 30, 2013
Morris Greenfield	Member	September 30, 2013
Marlene L. Hill	Member	September 30, 2015
Pamela Jacobs	Member	September 30, 2013
Mary Meisterling	Member	September 30, 2015
Robert Schneider	Member	September 30, 2015
Marilyn Wirtz	Member	September 30, 2013

Agency

Joe Crozier	Chief Administrator	Indefinite
Kim Martin	Board Secretary	Indefinite
Barbara Harms	Board Treasurer/Business Manager	Indefinite

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Grant Wood Area Education Agency 10 as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. 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 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 Grant Wood Area Education Agency 10 as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, 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 December 18, 2012 on our consideration of Grant Wood Area Education Agency 10's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, the budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 9 and pages 30 and 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary 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 Grant Wood Area Education Agency 10's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2011 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the nine years ended June 30, 2003 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements. The supplementary information on pages 32 through 37, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 18, 2012

GRANT WOOD AREA EDUCATION AGENCY 10 MANAGEMENT'S DISCUSSION AND ANALYSIS

Grant Wood Area Education Agency 10 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, 2012. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenue decreased from \$53,081,404 in fiscal year 2011 (FY11) to \$47,079,730 in fiscal year 2012 (FY12), a decrease of \$6,001,674. General Fund expenditures decreased from \$47,273,092 in FY11 to \$45,531,281 in FY12, a decrease of \$1,741,811. General Fund net change in fund balance decreased from \$5,355,688 in FY11 to (\$263,588) in FY12. This resulted in a decrease in the Agency's General Fund fund balance from \$13,975,996 in FY11 to \$13,712,408 in FY12.
- The decrease in General Fund revenue was due to a targeted reduction in state special education funding of \$2.3 million, as well as decreases in federal funding related to the American Recovery and Reinvestment Act (ARRA) of \$2.9 million. Additional cuts in federally funded programs totaled \$1 million. The Agency implemented staffing reductions to offset the ARRA funding cliff and other expenditures were held to very conservative levels.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Grant Wood Area Education Agency 10 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the Government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.
- Supplementary Information provides detailed information about the nonmajor funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the Agency.

Reporting the Agency'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 revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net 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 nonfinancial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

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

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Property taxes from local school districts, federal and state aid finance most of these activities.
- *Business-type activities:* This represents activities where the Agency charges fees to help cover the costs of certain services it provides. The Agency had no activities that fall into this category.

Fund Financial Statements

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

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

The Agency has two kinds of funds:

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

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

- Fiduciary funds are funds through which the Agency administers and accounts for certain federal and/or state grants as a fiscal agent.

The Agency is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

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

Reconciliations between the Government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Grant Wood Area Education Agency 10's net assets at the end of FY12 totaled approximately \$19.6 million. This compared to approximately \$19.1 million at the end of FY11. The analysis that follows provides a summary of the Agency's net assets at June 30, 2012. The Agency does not have business-type activities.

	Condensed Statement of Net Assets	
	Governmental Activities	
	June 30,	
	2012	2011
		(As Restated)
Current and other assets.....	\$ 19,567,919	\$ 20,272,797
Capital assets	6,042,704	5,832,917
Total Assets	<u>25,610,623</u>	<u>26,105,714</u>
Long-term obligations	469,557	1,797,821
Other liabilities	5,540,571	5,237,977
Total Liabilities	<u>6,010,128</u>	<u>7,035,798</u>
Net Assets		
Invested in capital assets, net of related debt	6,042,704	4,967,917
Restricted	1,494,068	1,461,794
Unrestricted	<u>12,063,723</u>	<u>12,640,205</u>
Total Net Assets	<u>\$ 19,600,495</u>	<u>\$ 19,069,916</u>

The Agency's net assets increased by 2.8%, or \$530,579, during FY12 primarily due to a decrease in liabilities related to the prepayment of outstanding debt of \$865,000. Liabilities also decreased for early retirement benefits payable due to the Board's decision to not offer a separation plan for fiscal year 2012.

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

	Changes in Net Assets	
	Governmental Activities	
	June 30,	
	2012	2011
		(As Restated)
Revenue		
Program Revenue		
Charges for service	\$ 6,799,243	\$ 6,631,556
Operating grants and contributions	19,522,354	23,990,816
General Revenue		
Property tax	11,387,722	11,259,663
State foundation aid	11,746,375	14,005,946
Other grants	879	—
Unrestricted investment earnings	24,116	44,770
Total Revenue	<u>49,480,689</u>	<u>55,932,751</u>
Program Expenses		
Instruction	3,580,058	3,315,536
Student support services	19,965,918	22,477,428
Instructional staff support services	13,740,133	14,019,774
General administration	1,781,137	1,922,920
Building administration	2,196,751	2,135,370
Business and central administration	3,869,342	3,577,566
Purchasing, distributing, printing, publishing and duplicating	778,333	869,658
Plant operations and maintenance	2,144,285	715,639
Central and other support services	4,847	25,015
Unallocated depreciation	156,232	156,659
Facilities acquisition and construction	—	679,018
Interest on long-term debt	21,907	49,990
Noninstructional programs	711,167	791,117
Total Expenses	<u>48,950,110</u>	<u>50,735,690</u>
Change in Net Assets	530,579	5,197,061
Net Assets - Beginning of Year	<u>19,069,916</u>	<u>13,872,855</u>
Net Assets - End of Year	<u>\$ 19,600,495</u>	<u>\$ 19,069,916</u>

Property tax and state foundation aid account for 46.8% of the total revenue while operating grants and contributions from local, state and federal sources account for 39.5% of the total revenue. The Agency's expenses primarily relate to student and instruction staff support services, which account for 68.9% of total expenses.

Decreases in federal ARRA funding and other federal programs, as well as the cut in AEA state special education dollars account for the decrease in total revenue. The decrease in total expenses is primarily in student support services, which reflects reductions in staffing that were implemented for fiscal year 2012 to match the lower anticipated revenue.

INDIVIDUAL FUND ANALYSIS

As previously noted, Grant Wood Area Education Agency 10 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$14,027,348, which is a decrease from the beginning of the year fund balances of \$14,783,519. The decrease was primarily related to the prepayment of debt issues, which eliminated the Debt Service fund balance. There were also small decreases in the General Fund and Off-Site Program fund balances due to expenditure levels exceeding actual revenue.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its budget once to reflect lower state revenue and to adjust expenditures based on actual staffing levels and compensation settlements.

The Agency's total revenue was \$318,042 less than total budgeted revenue, a variance of 0.6%. Total expenditures were \$532,559 less than budgeted, a variance of 1%.

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, 2012, the Agency had invested \$6,042,704, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, computers, equipment, intangibles and an extensive library/media collection. This is a net increase of \$209,787 from the beginning of the year and is due to the annual depreciation/amortization expense being less than the cost of new assets purchased.

Grant Wood Area Education Agency 10 reported depreciation/amortization expense of \$1,008,741 in FY12 and total accumulated depreciation/amortization of \$10,776,623 at June 30, 2012. More detailed information about capital assets is available in Note 3 to the financial statements.

Long-Term Liabilities

At June 30, 2012, the Agency had \$469,557 in long-term liabilities outstanding compared to \$1,797,821 at June 30, 2011. The long-term liabilities are in the form of compensated absences, OPEB liability and early retirement benefit payable. More detailed information about the Agency's long-term liabilities is available in Note 4 to the financial statements.

ECONOMIC FACTORS BEARING ON THE AGENCY'S FUTURE

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:

- Due to the impact of the national economy, state and federal funding levels continue to be a significant area of concern. Growth in state aid to schools and AEAs has been at historic lows. The Agency received allowable growth of 2% for FY11, 0% for FY12 and 2% for FY13. The Governor's initial state budget reflects his recommendation of 0% allowable growth for both FY14 and FY15. The statewide AEA system also received a targeted \$20 million reduction for FY12 and FY13, which equates to a funding cut of \$2,590,760 for the Agency. This reduction is also included in the Governor's budget. Federal funding reductions are also likely pending action on sequestration and deficit reduction. The Agency plans to utilize available fund balance to offset the impact of these state and federal funding cuts.
- Future enrollment stability is a critical element in maintaining a sound financial foundation. After a number of years of increasing enrollment, the Agency experienced an overall decline in students served between 2007 and 2009. Enrollment counts for October, 2010 through 2012 reflect modest increases again (0.03%, 0.11% and 0.67%, respectively).
- Growth in employee wages related to salary schedule movement and increased benefit costs are anticipated to outpace the increase in state-controlled funding. This relationship has profound effects on the General Fund budget as approximately 70% of all expenditures are related to staff salaries and benefits.
- For three consecutive years (FY09 – FY11), the Agency had no increases in health insurance premiums. Medical claims expenses have been trending upward though, and despite adjustments in plan design, premiums increased by 4% for FY12 and 2.4% for FY13. Preliminary rates for FY14 indicate an increase between 2.9% and 5.9%. Health insurance rates and the impact of Health Care Reform requirements will continue to be a key budget factor that will be closely monitored.
- During June 2008, the City of Cedar Rapids experienced an unprecedented flood event. The flood damaged an estimated 5,390 homes, as well as 1,133 businesses and 486 nonprofit entities. The total documented damaged for the Agency's main facility and contents is over \$3.68 million. The Agency qualified for Public Assistance benefits under guidelines established by the Federal Emergency Management Agency (FEMA). Due to the magnitude of flood and storm damages in the State of Iowa, the Agency submitted reimbursement requests to FEMA for 90% of eligible losses with the State of Iowa paying 10% of all qualifying damages incurred. A flood insurance penalty totaling \$695,055 was deducted by FEMA from the claims. Delays in receiving reimbursement from FEMA and the State have also been an ongoing cash flow concern.
- The Agency has been looking at our facility needs for several years and is currently in discussion with Kirkwood Community College to be a partner in their planned Johnson County Regional Center. This project and other building maintenance issues require careful planning and forecasting, since AEAs have no funding sources outside the General Fund for capital expenditures.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Grant Wood Area Education Agency 10, 4401 - 6th Street, SW, Cedar Rapids, Iowa 52404.

Basic Financial Statements

Statement of Net Assets

As of June 30, 2012

Assets

Cash and pooled investments	\$ 10,852,732
Receivables	
Accounts.....	3,948
Due from other governments	8,650,241
Inventories.....	60,649
Prepaid expenses.....	349
Capital assets, net of accumulated depreciation/amortization.....	<u>6,042,704</u>

Total Assets **\$ 25,610,623**

Liabilities

Accounts payable	\$ 2,616,365
Salaries and benefits payable.....	2,664,916
Accrued liabilities.....	240,175
Deferred Revenue	
Federal	10,258
State.....	8,857
Long-Term Liabilities	
Portion Due or Payable Within One Year	
Compensated absences	78,958
Early retirement benefits.....	5,527
Portion Due or Payable After One Year	
Early retirement benefits payable.....	6,300
Net OPEB liability	<u>378,772</u>
Total Liabilities	<u>6,010,128</u>

Net Assets

Invested in capital assets, net of related debt	6,042,704
Restricted For	
Categorical funding.....	606,314
Media materials	572,814
Off-site programs.....	185,575
Special education transportation.....	129,365
Unrestricted.....	<u>12,063,723</u>
Total Net Assets	<u>19,600,495</u>

Total Liabilities and Net Assets **\$ 25,610,623**

Statement of Activities

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue		Net Revenue, (Expenses) and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction.....	\$ 3,580,058	\$ 1,921,955	\$ 2,506,388	\$ 848,285
Student support services	19,965,918	152,369	14,254,826	(5,558,723)
Instructional staff support services	13,740,133	2,661,827	2,200,704	(8,877,602)
General administration	1,781,137	51,998	—	(1,729,139)
Building administration	2,196,751	—	—	(2,196,751)
Business and central administration	3,869,342	1,647,415	408,113	(1,813,814)
Purchasing, distributing, printing, publishing and duplicating	778,333	190,232	—	(588,101)
Plant operations and maintenance	2,144,285	19,579	—	(2,124,706)
Central and other support services	4,847	—	—	(4,847)
Unallocated depreciation	156,232	—	—	(156,232)
Interest on long-term debt.....	21,907	—	—	(21,907)
Noninstructional programs.....	711,167	153,868	152,323	(404,976)
Total Governmental Activities	\$ 48,950,110	\$ 6,799,243	\$ 19,522,354	(22,628,513)
General Revenue				
Property taxes levied for general purposes				11,387,722
State foundation aid.....				11,746,375
Other grants				879
Unrestricted investment earnings				24,116
Total General Revenue				23,159,092
Change in Net Assets.....				530,579
Net Assets - Beginning of Year, as previously reported.....				19,193,671
Prior period adjustment (Note 13)				(123,755)
Net Assets - Beginning of Year, as Restated.....				19,069,916
Net Assets - End of Year				\$ 19,600,495

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

As of June 30, 2012

	General	Special Revenue		Nonmajor Governmental Funds	Total
		Off-Site Programs	Disaster Recovery		
Assets					
Cash and pooled investments.....	\$ 10,661,821	\$ —	\$ —	\$ 190,911	\$ 10,852,732
Receivables					
Accounts.....	—	—	—	3,948	3,948
Due from other governments.....	5,704,238	1,743,083	1,202,920	—	8,650,241
Due from other funds.....	2,496,021	—	—	—	2,496,021
Inventories.....	60,649	—	—	—	60,649
Prepaid expenditures	349	—	—	—	349
Total Assets	<u>\$ 18,923,078</u>	<u>\$ 1,743,083</u>	<u>\$ 1,202,920</u>	<u>\$ 194,859</u>	<u>\$ 22,063,940</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable.....	\$ 2,444,299	\$ 172,032	\$ —	\$ 34	\$ 2,616,365
Salaries and benefits payable.....	2,517,339	82,117	—	65,460	2,664,916
Accrued liabilities	240,175	—	—	—	240,175
Due to other funds.....	—	1,303,359	1,192,662	—	2,496,021
Deferred Revenue					
Federal	—	—	10,258	—	10,258
Local	8,857	—	—	—	8,857
Total Liabilities	<u>5,210,670</u>	<u>1,557,508</u>	<u>1,202,920</u>	<u>65,494</u>	<u>8,036,592</u>
Fund Balances					
Nonspendable					
Inventories	60,649	—	—	—	60,649
Prepaid expenditures	349	—	—	—	349
Restricted For					
Categorical funding	606,314	—	—	—	606,314
Media materials	572,814	—	—	—	572,814
Off-site programs.....	—	185,575	—	—	185,575
Special education transportation	—	—	—	129,365	129,365
Committed for equipment replacement...	152,000	—	—	—	152,000
Assigned For					
Professional leave	192,169	—	—	—	192,169
Local projects	89,821	—	—	—	89,821
Encumbrances.....	107,774	—	—	—	107,774
Unassigned	11,930,518	—	—	—	11,930,518
Total Fund Balances	<u>13,712,408</u>	<u>185,575</u>	<u>—</u>	<u>129,365</u>	<u>14,027,348</u>
Total Liabilities and Fund Balances....	<u>\$ 18,923,078</u>	<u>\$ 1,743,083</u>	<u>\$ 1,202,920</u>	<u>\$ 194,859</u>	<u>\$ 22,063,940</u>

See accompanying notes to the financial statements.

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

As of June 30, 2012

Total Fund Balances for Governmental Funds (Page 12)....	\$ 14,027,348
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
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 \$16,819,327 and the accumulated depreciation/amortization is \$10,776,623.	6,042,704
Long-term liabilities, including compensated absences, early retirement benefits and other postemployment benefits payable are not due and payable in the current year and, therefore, are not reported in the governmental funds.....	<u>(469,557)</u>
Net Assets of Governmental Activities (Page 10)	<u>\$ 19,600,495</u>

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

Year Ended June 30, 2012

	General	Special Revenue		Nonmajor Govern- mental Funds	Total
		Off-Site Programs	Disaster Recovery		
Revenue					
Local sources	\$ 16,349,473	\$ 1,726,667	\$ 200	\$ 12	\$ 18,076,352
State sources	14,193,906	64,035	—	609,366	14,867,307
Federal sources	<u>16,536,351</u>	<u>—</u>	<u>679</u>	<u>—</u>	<u>16,537,030</u>
Total Revenue	<u>47,079,730</u>	<u>1,790,702</u>	<u>879</u>	<u>609,378</u>	<u>49,480,689</u>
Expenditures					
Current					
Instruction	1,277,565	1,769,467	—	554,676	3,601,708
Student support services	20,048,381	—	—	—	20,048,381
Instructional staff support services	14,293,448	—	—	—	14,293,448
General administration	1,596,547	—	—	—	1,596,547
Building administration	2,101,645	72,915	—	36,020	2,210,580
Business and central administration.....	3,980,072	—	—	—	3,980,072
Purchasing, distributing, printing, publishing and duplicating	775,251	—	—	—	775,251
Plant operation and maintenance.....	737,988	5,795	3	—	743,786
Central and other support services	4,847	—	—	—	4,847
Facilities acquisition and construction....	—	—	73,157	1,306,639	1,379,796
Debt service	—	—	—	886,907	886,907
Noninstructional programs	<u>715,537</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>715,537</u>
Total Expenditures	<u>45,531,281</u>	<u>1,848,177</u>	<u>73,160</u>	<u>2,784,242</u>	<u>50,236,860</u>
Revenue Over (Under) Expenditures ..	<u>1,548,449</u>	<u>(57,475)</u>	<u>(72,281)</u>	<u>(2,174,864)</u>	<u>(756,171)</u>
Other Financing Sources (Uses)					
Transfers in	—	—	177,366	1,634,671	1,812,037
Transfers out	<u>(1,812,037)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,812,037)</u>
Total Other Financing Sources (Uses)	<u>(1,812,037)</u>	<u>—</u>	<u>177,366</u>	<u>1,634,671</u>	<u>—</u>
Net Change in Fund Balances	<u>(263,588)</u>	<u>(57,475)</u>	<u>105,085</u>	<u>(540,193)</u>	<u>(756,171)</u>
Fund Balances - Beginning of Year, as previously reported	13,975,996	243,050	—	688,228	14,907,274
Prior period adjustment (Note 13)	<u>—</u>	<u>—</u>	<u>(105,085)</u>	<u>(18,670)</u>	<u>(123,755)</u>
Fund Balances - Beginning of Year, as Restated	<u>13,975,996</u>	<u>243,050</u>	<u>(105,085)</u>	<u>669,558</u>	<u>14,783,519</u>
Fund Balances - End of Year	<u>\$ 13,712,408</u>	<u>\$ 185,575</u>	<u>\$ —</u>	<u>\$ 129,365</u>	<u>\$ 14,027,348</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012

Change in Fund Balances - Total Governmental Funds (Page 14) \$ (756,171)

Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlays.....	\$ 1,219,023	
Loss on disposal	(495)	
Depreciation/amortization expense	<u>(1,008,741)</u>	209,787

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		865,000
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Compensated absences, early retirement benefit expense and other postemployment benefits payable reported in the statement of activities does not require the use of current financial resources; and therefore, were not reported as expenditures in the governmental funds.		<u>211,963</u>
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Change in Net Assets of Governmental Activities (Page 11) \$ 530,579

Statement of Fiduciary Assets and Liabilities - Fiduciary Funds - Agency —

As of June 30, 2012

Assets

Cash and pooled investments	\$ 380,636
Accounts receivable	<u>309,633</u>
Total Assets	<u>\$ 690,269</u>

Liabilities

Accounts payable	\$ 53,588
Salaries payable	347
Due to other governments	28,742
Deposits held in custody of others	<u>607,592</u>
Total Liabilities	<u>\$ 690,269</u>

(1) Summary of Significant Accounting Policies and Other Matters

Organization and Function

Grant Wood Area Education Agency 10 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 54 school districts and private schools in a seven-county area. The Agency is governed by a Board of Directors whose members are elected on a nonpartisan basis.

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

Reporting Entity

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

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by intergovernmental revenue.

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation/amortization 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.

(1) Summary of Significant Accounting Policies and Other Matters

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

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 funds:

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

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

The Special Revenue - Disaster Recovery Fund is used to account for the cost of building clean-up, repairs and contents, as well as temporary facilities costs for the historic flood of June, 2008.

The Agency also reports the following fiduciary fund:

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

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. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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

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

Under the terms of the grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 revenue.

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

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.

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, equipment and intangibles, are reported 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 cost of normal maintenance and repair 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.

Asset Class	Amount
Land.....	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment	1,000
Computers and portable devices.....	400
Library books and other media materials.....	Cost
Intangibles.....	200,000

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

All capital assets except library books and other media materials are depreciated/amortized using the straight-line method of depreciation/amortization and library books and other media materials are depreciated using the composite method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 Years
Improvements other than buildings	20 Years
Furniture and equipment	5 Years
Computers and portable devices.....	5 Years
Library books and other media materials.....	10 Years
Intangibles.....	15 Years

Salaries and Benefits Payable

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

Deferred Revenue

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

Compensated Absences

Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund noncurrent compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-Term Liabilities

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

Fund Balances

In the governmental fund financial statements, fund balances are classified for amounts 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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

Assigned - Amounts the Board of Directors intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted.

Subsequent Events

Management has evaluated subsequent events through December 18, 2012, the date which the financial statements were available to be issued.

(2) Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

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

Credit Risk

The Agency had investments in the Iowa Schools Joint Investment Trust Direct Government Obligation Portfolio which are valued at an amortized cost of \$4,524 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

Notes to the Financial Statements

(3) Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated/Amortized				
Land.....	\$ 260,155	\$ —	\$ —	\$ 260,155
Intangible assets in development	605,247	106,098	711,345	—
Total Capital Assets Not Being Depreciated/Amortized	<u>865,402</u>	<u>106,098</u>	<u>711,345</u>	<u>260,155</u>
Capital Assets Being Depreciated/Amortized				
Buildings	5,944,794	—	—	5,944,794
Improvements other than buildings.....	611,686	—	—	611,686
Furniture and equipment	5,319,754	718,701	401,095	5,637,360
Library books and other media materials	3,485,778	394,224	588,067	3,291,935
Intangibles.....	<u>362,052</u>	<u>711,345</u>	<u>—</u>	<u>1,073,397</u>
Total Capital Assets Being Depreciated/Amortized	<u>15,724,064</u>	<u>1,824,270</u>	<u>989,162</u>	<u>16,559,172</u>
Less Accumulated Depreciation/Amortization For				
Buildings	3,194,240	118,896	—	3,313,136
Improvements other than buildings.....	263,354	30,584	—	293,938
Furniture and equipment	4,105,985	482,189	400,600	4,187,574
Intangibles.....	24,137	47,879	—	72,016
Library books and other medial materials	<u>3,168,833</u>	<u>329,193</u>	<u>588,067</u>	<u>2,909,959</u>
Total Accumulated Depreciation/Amortization .	<u>10,756,549</u>	<u>1,008,741</u>	<u>988,667</u>	<u>10,776,623</u>
Total Capital Assets Being Depreciated/Amortized, Net	<u>4,967,515</u>	<u>815,529</u>	<u>495</u>	<u>5,782,549</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 5,832,917</u>	<u>\$ 921,627</u>	<u>\$ 711,840</u>	<u>\$ 6,042,704</u>

Notes to the Financial Statements

(3) Capital Assets

Depreciation/amortization expense was charged as follows:

Governmental Activities	
Instruction	\$ 1,494
Student support services.....	14,144
Instructional staff support services	489,250
General administration	193,057
Business and central administration	105,883
Plant operation and maintenance.....	35,233
Purchasing, distributing, printing, publishing and duplicating	13,448
Unallocated.....	<u>156,232</u>
Total Governmental Activities Depreciation Expense	<u>\$ 1,008,741</u>

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Early retirement benefits	\$ 524,034	\$ —	\$ 512,207	\$ 11,827	\$ 5,527
Compensated absences	122,649	78,958	122,649	78,958	78,958
Certificates of participation	865,000	—	865,000	—	—
Net OPEB liability	<u>286,138</u>	<u>92,634</u>	<u>—</u>	<u>378,772</u>	<u>—</u>
	<u>\$ 1,797,821</u>	<u>\$ 171,592</u>	<u>\$ 1,499,856</u>	<u>\$ 469,557</u>	<u>\$ 84,485</u>

Certificates of Participation

The Agency had sold certificates of participation for land, facilities and improvements. The certificates of participation represented an ownership interest of the certificate holder in a lease purchase agreement. The certificates were paid off in the current year.

Payments for the certificates of participation for the year ended June 30, 2012, including interest, totaled \$886,907.

Early Retirement Benefits Payable

In 2009, Grant Wood Area Education Agency 10 adopted a Transition Separation Plan for its employees. The retirement benefit is calculated using rates ranging between 20% and 35% of the average annual pay of the employee's highest three fiscal years. Early retirement benefits paid to 23 participants during the year ended June 30, 2012 totaled \$512,207. For employees who separated prior to July 1, 2009, the Agency will continue to provide health and life insurance benefits for 30 participants through June, 2016. Actual expenditures for health and life insurance benefits for the year ended June 30, 2012 totaled \$61,825.

Notes to the Financial Statements

(4) Long-Term Liabilities

The following is a schedule by years of future estimated minimum early retirement benefits payments required:

Year Ending June 30,	
2013	\$ 5,527
2014	3,391
2015	2,088
2016	821
Total	<u>\$ 11,827</u>

(5) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 was as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue - Off-Site Programs	\$ 1,303,359
General	Special Revenue - Disaster Recovery	1,192,662
		<u>\$ 2,496,021</u>

The Special Revenue - Off-site Programs Fund is repaying the General Fund for special education billings not received prior to the current year end. The balance is expected to be paid by September 30, 2012.

The Special Revenue - Disaster Recovery Fund is repaying the General Fund for grant amounts not yet received. The balance is expected to be repaid by June 30, 2013.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 was as follows:

Transfer to	Transfer From	Amount
Debt Service	General	\$ 328,032
Special Revenue - Disaster Recovery	General	177,366
Capital Projects	General	1,306,639
Total		<u>\$ 1,812,037</u>

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

Notes to the Financial Statements

(7) Operating Leases

The Agency leases office equipment and various facilities within the area to house the different programs of the Agency. These leases have been classified as operating leases and, accordingly, all rents are recorded as expenditures as incurred. The leases expire between July, 2012 and March, 2016. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties and equipment. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by years of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2012.

Year Ending June 30,	
2013	\$ 191,118
2014	172,681
2015	148,110
2016	94,120
Total	<u>\$ 606,029</u>

Total rental expenditures for the year ended June 30, 2012 for all operating leases, except those with terms of a month or less that were not renewed, was \$389,410.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the Agency is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$2,129,521, \$1,990,569 and \$1,906,023, respectively, which was equal to the required contribution for the years.

(9) Other Postemployment Benefits (OPEB)

Plan Description

The Agency participates in an Agent Multiple Employer Defined Benefit Health Care Plan called the Metro Interagency Insurance Program (MIIP). This plan provides medical and prescription drug benefits for employees and retirees and their spouses. There are 392 active and 57 retired members in the plan. Retirees must be age 55 or older at retirement.

Notes to the Financial Statements

(9) Other Postemployment Benefits (OPEB)

The postemployment medical and prescription benefits are provided through the MIIP plans. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit subsidy of an OPEB liability. MIIP issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing to MIIP, 4401 - 6th Street, SW, Cedar Rapids, Iowa 52404.

Funding Policy

The contribution requirements of plan members and the Agency are established and may be amended by the MIIP Board of Trustees. MIIP members receiving benefits contribute a monthly amount that varies depending on the health plan selected and coverage of the employee at the time of requirement. The Agency currently finances the retiree benefits on a pay-as-you go basis.

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution.....	\$ 207,806
Interest on net OPEB obligation.....	7,153
Adjustment to annual required contribution.....	<u>(17,115)</u>
Annual OPEB Cost	197,844
Contributions made	<u>(105,210)</u>
Increase in Net OPEB Obligation	92,634
Net OPEB Obligation - Beginning of Year.....	<u>286,138</u>
Net OPEB Obligation - End of Year	<u>\$ 378,772</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the Agency contributed \$105,210 to the medical plan. Plan members eligible for benefits contributed \$350,472, or 77%, of the premium costs.

Notes to the Financial Statements

(9) Other Postemployment Benefits (OPEB)

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, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 236,339	59.0%	\$ 199,236
June 30, 2011	203,721	57.3	286,138
June 30, 2012	197,844	53.2	378,772

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period of July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$1,642,382, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,642,382. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$26,700,000 and the ratio of the UAAL to the covered payroll was 6.2%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions

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

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

As of the July 1, 2010 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions included a 2.5% discount rate and an annual healthcare cost trend rate of 6% per year.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2009 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are \$275 per month per active employee. The UAAL is being amortized as a level percentage of projected payroll expense over 30 years.

Notes to the Financial Statements

(10) Risk Management

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

(11) Commitments and Contingencies

Employee Benefits

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

(12) Early Childhood Iowa County Area Board

The Grant Wood Area Education Agency 10 is the fiscal agent for the Early Childhood Iowa County Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. The Area Board receives state grants to administer early childhood and school ready programs. Financial transactions of the Area Board are included in the Agency's financial statements as an Agency Fund because of the Agency's fiduciary relationship with the organization. The Area Board's financial data for the year ended June 30, 2012 is as follows:

	Early Childhood	School Ready	Total
Revenue			
State Grants			
Early childhood	\$ 15,168	\$ —	\$ 15,168
Family support and parent education	—	58,913	58,913
Preschool support for low-income families	—	32,085	32,085
Quality improvement	—	46,694	46,694
Allocation for administration	798	5,139	5,937
Other grant programs	—	7,190	7,190
Total Revenue	<u>15,966</u>	<u>150,021</u>	<u>165,987</u>
Expenditures			
Program Services			
Early childhood	15,175	—	15,175
Family support and parent education	—	55,431	55,431
Preschool support for low-income families	—	39,055	39,055
Quality improvement	—	37,993	37,993
Other program services	—	7,190	7,190
Total Program Services	<u>15,175</u>	<u>139,669</u>	<u>154,844</u>
Administration	<u>798</u>	<u>5,900</u>	<u>6,698</u>
Total Expenditures	<u>15,973</u>	<u>145,569</u>	<u>161,542</u>
Net Change in Fund Balance	(7)	4,452	4,445
Fund Balance - Beginning of Year	<u>7</u>	<u>26,267</u>	<u>26,274</u>
Fund Balance - End of Year	<u>\$ —</u>	<u>\$ 30,719</u>	<u>\$ 30,719</u>

Notes to the Financial Statements

(13) Prior Period Adjustments

During the year ended June 30, 2012, management determined that a reimbursement of a portion of flood expenses it had recorded as receivable in the prior year had been overstated. As a result, a prior period adjustment has been made to decrease the Special Revenue - Disaster Recovery Fund balance as of June 30, 2011 by \$105,085.

Additionally, during the year ended June 30, 2012, management determined that the prior year accrued payroll benefits for the Juvenile Home had been understated by \$18,670. As a result, a prior period adjustment has been made to decrease the Special Revenue - Juvenile Home Fund balance as of June 30, 2011 by \$18,670.

These prior period adjustments also decreased the Agency-wide net assets as of June 30, 2011 by \$123,755. There was no effect on any other fund balances, nor any effect on the changes in net assets or fund balances for the year ended June 30, 2012.

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds

Year Ended June 30, 2012

	<u>Actual</u>	<u>Budget Amount</u>		<u>Over (Under) Budget</u>
	<u>Governmental Fund Types</u>	<u>Original</u>	<u>Final</u>	
Revenue				
Local sources	\$ 18,076,352	\$ 17,043,772	\$ 17,721,203	\$ 355,149
State sources	14,867,307	17,029,450	14,854,316	12,991
Federal sources.....	16,537,030	16,020,000	17,223,212	(686,182)
Total Revenue.....	<u>49,480,689</u>	<u>50,093,222</u>	<u>49,798,731</u>	<u>(318,042)</u>
Expenditures				
Current				
Instruction	3,601,708	3,306,856	3,449,550	152,158
Student support services.....	20,048,381	22,416,000	20,117,408	(69,027)
Instructional staff support services	14,293,448	15,500,000	14,625,252	(331,804)
General administration.....	1,596,547	1,845,000	1,665,040	(68,493)
Building administration.....	2,210,580	2,278,926	2,280,230	(69,650)
Business and central administration	3,980,072	3,691,000	4,123,277	(143,205)
Purchasing, distributing, printing, publishing and duplicating	775,251	899,000	849,509	(74,258)
Plant operations and maintenance	743,786	1,006,550	691,114	52,672
Central and other support services	4,847	7,300	9,600	(4,753)
Facilities acquisition and construction	1,379,796	—	1,351,200	28,596
Debt service.....	886,907	275,703	886,907	—
Noninstructional programs	715,537	827,000	720,332	(4,795)
Total Expenditures	<u>50,236,860</u>	<u>52,053,335</u>	<u>50,769,419</u>	<u>(532,559)</u>
Revenue Under Expenditures.....	<u>(756,171)</u>	<u>(1,960,113)</u>	<u>(970,688)</u>	<u>214,517</u>
Other Financing Uses, Net.....	<u>—</u>	<u>(49,000)</u>	<u>(272,000)</u>	<u>272,000</u>
Revenue Over (Under)Expenditures and Other Financing Uses.....	<u>(756,171)</u>	<u>(2,009,113)</u>	<u>(1,242,688)</u>	<u>486,517</u>
Balance - Beginning of Year, as Restated	<u>14,783,519</u>	<u>10,340,351</u>	<u>14,907,278</u>	<u>(123,759)</u>
Balance - End of Year.....	<u>\$ 14,027,348</u>	<u>\$ 8,331,238</u>	<u>\$ 13,664,590</u>	<u>\$ 362,758</u>

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

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America for all funds except Agency Funds. Although the budget document presents functional 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, 2012, the Agency's expenditures did not exceed the approved budget.

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

Year Ended June 30, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	7-1-08	\$—	\$2,139,000	\$2,139,000	0.0%	\$28,024,000	7.6%
2011	7-1-10	—	1,642,382*	1,642,382*	0.0	28,904,000	5.7
2012	7-1-10	—	1,642,382	1,642,382	0.0	26,700,000	6.2

See Note 9 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

* Less than unfunded actuarial accrued liability as of June 30, 2010 because of fiscal year 2010/2011 actuarial loss due to pay-as-you go funding with increase in future normal costs offset by assumed trend and “aging” retired employees.

Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds ---

As of June 30, 2012

	<u>Special Revenue</u>		Total
	Juvenile Home	Special Education Transportation	
Assets			
Cash and pooled investments	\$ 61,546	\$ 129,365	\$ 190,911
Receivables			
Accounts	<u>3,948</u>	<u>—</u>	<u>3,948</u>
Total Assets	<u>\$ 65,494</u>	<u>\$ 129,365</u>	<u>\$ 194,859</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 34	\$ —	\$ 34
Salaries and benefits payable	<u>65,460</u>	<u>—</u>	<u>65,460</u>
Total Liabilities	<u>65,494</u>	<u>—</u>	<u>65,494</u>
 Fund Balances			
Restricted For			
Special education transportation	<u>—</u>	<u>129,365</u>	<u>129,365</u>
Total Liabilities and Fund Balances	<u>\$ 65,494</u>	<u>\$ 129,365</u>	<u>\$ 194,859</u>

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

Year Ended June 30, 2012

	<u>Special Revenue</u>				Total
	Juvenile Home	Special Education Transportation	Capital Projects	Debt Service	
Revenue					
Local sources	\$ —	\$ —	\$ —	\$ 12	\$ 12
State sources	609,366	—	—	—	609,366
Total Revenue.....	<u>609,366</u>	<u>—</u>	<u>—</u>	<u>12</u>	<u>609,378</u>
Expenditures					
Current					
Instruction	554,676	—	—	—	554,676
Building administration.....	36,020	—	—	—	36,020
Facilities acquisition and construction.....	—	—	1,306,639	—	1,306,639
Debt service.....	—	—	—	886,907	886,907
Total Expenditures...	<u>590,696</u>	<u>—</u>	<u>1,306,639</u>	<u>886,907</u>	<u>2,784,242</u>
Revenue Over (Under) Expenditures	<u>18,670</u>	<u>—</u>	<u>(1,306,639)</u>	<u>(886,895)</u>	<u>(2,174,864)</u>
Other Financing Sources					
Transfers in	—	—	1,306,639	328,032	1,634,671
Net Change in Fund Balances	<u>18,670</u>	<u>—</u>	<u>—</u>	<u>(558,863)</u>	<u>(540,193)</u>
Fund Balances - Beginning of Year, as Previously Reported.....	—	129,365	—	558,863	688,228
Prior period adjustment (Note 13).....	(18,670)	—	—	—	(18,670)
Fund Balances - Beginning of Year, as Restated	(18,670)	129,365	—	558,863	669,558
Fund Balances - End of Year	<u>\$ —</u>	<u>\$ 129,365</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 129,365</u>

Schedule of Changes in Fiduciary Assets and Liabilities - Agency

Year Ended June 30, 2012

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash and pooled investments	\$ 348,205	\$ 380,636	\$ 348,205	\$ 380,636
Accounts receivable	435,755	309,633	435,755	309,633
Due from other governments	<u>25,065</u>	<u>—</u>	<u>25,065</u>	<u>—</u>
Total Assets	<u>\$ 809,025</u>	<u>\$ 690,269</u>	<u>\$ 809,025</u>	<u>\$ 690,269</u>
Liabilities				
Accounts payable	\$ 276,780	\$ 53,588	\$ 276,780	\$ 53,588
Salaries payable	9,271	347	9,271	347
Due to other governments	5,309	28,742	5,309	28,742
Deposits held in custody of others.....	<u>517,665</u>	<u>607,592</u>	<u>517,665</u>	<u>607,592</u>
Total Liabilities	<u>\$ 809,025</u>	<u>\$ 690,269</u>	<u>\$ 809,025</u>	<u>\$ 690,269</u>

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

For the Last Ten Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenue										
Local sources	\$ 18,076,352	\$ 17,938,412	\$ 17,206,139	\$ 17,030,516	\$ 16,038,177	\$ 15,041,418	\$ 13,983,285	\$ 13,132,227	\$ 13,037,224	\$ 12,209,133
State sources	14,867,307	17,188,524	15,277,092	16,486,116	14,749,636	12,264,922	11,178,373	10,603,900	10,300,970	11,591,250
Federal sources.....	<u>16,537,030</u>	<u>20,805,815</u>	<u>28,598,201</u>	<u>19,520,136</u>	<u>15,202,341</u>	<u>14,987,496</u>	<u>15,511,872</u>	<u>14,908,419</u>	<u>13,003,285</u>	<u>10,971,592</u>
Total Revenue	<u>\$ 49,480,689</u>	<u>\$ 55,932,751</u>	<u>\$ 61,081,432</u>	<u>\$ 53,036,768</u>	<u>\$ 45,990,154</u>	<u>\$ 42,293,836</u>	<u>\$ 40,673,530</u>	<u>\$ 38,644,546</u>	<u>\$ 36,341,479</u>	<u>\$ 34,771,975</u>
Expenditures										
Current										
Instruction	\$ 3,601,708	\$ 3,306,263	\$ 3,410,085	\$ 4,478,567	\$ 3,431,606	\$ 3,218,572	\$ 2,861,860	\$ 2,895,016	\$ 2,935,981	\$ 2,552,239
Student support services.....	20,048,381	22,374,649	29,381,578	22,105,572	19,216,300	17,612,480	16,334,283	21,842,877	20,282,887	19,352,674
Instructional staff support services	14,293,448	14,053,374	13,828,831	12,258,544	12,361,673	11,276,485	12,251,021	5,320,170	4,792,394	4,671,453
General administration	1,596,547	1,822,184	2,097,285	1,987,993	1,444,593	1,781,740	1,282,735	1,330,034	1,052,261	1,169,882
Building administration	2,210,580	2,123,953	2,331,166	2,288,356	1,990,916	1,937,768	1,612,866	1,400,136	1,413,081	1,262,465
Business and central administration...	3,980,072	3,687,540	3,178,880	3,152,350	4,402,141	3,887,997	3,866,531	1,176,309	1,006,928	1,131,737
Purchasing, distributing, printing, publishing and duplicating	775,251	869,658	897,708	900,666	—	—	—	—	—	—
Plant operations and maintenance	743,786	685,943	1,115,925	1,426,833	1,712,287	757,681	661,940	894,915	891,464	1,022,349
Central and other support services.....	4,847	3,433	9,030	7,279	9,432	10,979	190,256	2,898,370	3,377,635	2,806,745
Facilities acquisition and construction.....	1,379,796	677,291	164,998	1,633,129	—	1,151,924	1,065,020	59,409	678	31,145
Debt service	886,907	279,990	206,065	258,865	271,023	279,755	290,239	1,464,930	287,408	288,311
Noninstructional programs.....	<u>715,537</u>	<u>787,483</u>	<u>909,035</u>	<u>1,041,533</u>	<u>1,412,006</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>51,996</u>	<u>95,641</u>
Total Expenditures	<u>\$ 50,236,860</u>	<u>\$ 50,671,761</u>	<u>\$ 57,530,586</u>	<u>\$ 51,539,687</u>	<u>\$ 46,251,977</u>	<u>\$ 41,915,381</u>	<u>\$ 40,416,751</u>	<u>\$ 39,282,166</u>	<u>\$ 36,092,713</u>	<u>\$ 34,384,641</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education - Indirect		
Pass-Through From Iowa Department of Education		
Special Education Cluster (IDEA)		
Special Education - Grants to States		
IDEA Part B Section 611	84.027	\$ 9,678,442
Information Management Systems	84.027	407,843
Parent Educator Connection	84.027	152,323
IDEA - Flowthrough to LEA	84.027	<u>3,495,873</u>
Total Special Education - Grants to States		<u>13,734,481</u>
Special Education - Preschool Grants - Section 619.....	84.173	<u>316,514</u>
Total Special Education Cluster (IDEA)		<u>14,050,995</u>
Career and Technical Education - Basic Grants to States	84.048	<u>264,811</u>
Early Intervention Services (IDEA) Cluster		
Special Education - Grants for Infants and Families -		
Part C - Infant and Toddler	84.181	382,492
ARRA - Special Education - Grants for Infants and		
Families, Recovery Act - Part C	84.393	<u>17,790</u>
Total Early Intervention Service (IDEA) Cluster		<u>400,282</u>
Safe and Drug-Free Schools and Communities -		
National Programs	84.184	<u>127,174</u>
Educational Technology State Grants Cluster		
Educational Technology State Grants	84.318	<u>141,861</u>
ARRA - Educational Technology State Grants,		
Recovery Act	84.386	<u>1,344,445</u>
Total Educational Technology State Grants Cluster		<u>1,486,306</u>
ARRA - State Fiscal Stabilization Fund (SFSF) -		
Innovation Fund, Recovery Act	84.396	<u>10,300</u>
Special Education - State Personnel Development	84.323	<u>54,632</u>
Reading First State Grants	84.357	<u>131,836</u>
Total U.S. Department of Education		<u>16,526,336</u>
Corporation for National and Community Services - Indirect		
Pass-Through From Iowa Department of Education		
Learn and Serve America - School and Community Based		
Programs	94.004	<u>745</u>
U.S. Department of Homeland Security - Indirect		
Pass-Through From Iowa Homeland Security and Emergency		
Management		
Disaster Grants - Public Assistance (Presidentially		
Declared Disasters)	97.036	<u>678</u>
Total Federal Financial Assistance		<u>\$ 16,527,759</u>

Schedule of Expenditures of Federal Awards ---

Year Ended June 30, 2012

Basis of Presentation

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

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Grant Wood Area Education Agency 10 as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 18, 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

The management of Grant Wood Area Education Agency 10 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Grant Wood Area Education Agency 10's internal control over financial reporting 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 our opinion on the effectiveness of Grant Wood Area Education Agency 10's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Grant Wood Area Education Agency 10's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

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

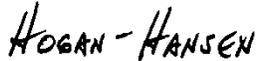
Compliance and Other Matters

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

Comments involving statutory and other legal matters about Grant Wood Area Education Agency 10's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Grant Wood Area Education Agency 10. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Grant Wood Area Education Agency 10'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 Grant Wood Area Education Agency 10's response and, accordingly, we express no opinion on it.

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



HOGAN - HANSEN

Mason City, Iowa
December 18, 2012

HOGAN ♦ HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

Independent Auditor's 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

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

Compliance

We have audited Grant Wood Area Education Agency 10's compliance, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Grant Wood Area Education Agency 10'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 Grant Wood Area Education Agency 10's management. Our responsibility is to express an opinion on Grant Wood Area Education Agency 10's compliance based on our audit.

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

In our opinion, Grant Wood Area Education Agency 10 complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

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

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of Grant Wood Area Education Agency 10's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Grant Wood Area Education Agency 10's compliance but not to provide an opinion on the effectiveness of Grant Wood Area Education Agency 10's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Grant Wood Area Education Agency 10's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 18, 2012

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part I: Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? yes no

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

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

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

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

Identification of major programs:

CFDA Numbers

84.027, 84.173

84.318, 84.386

Name of Federal Program or Cluster

Special Education Cluster (IDEA)

Educational Technology State Grants Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$495,833

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no internal control deficiencies reported.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no internal control deficiencies reported.

Part IV: Other Findings Related to Statutory Reporting

- 12-IV-A Certified Budget** - Total expenditures during the year ended June 30, 2012 did not exceed the amount budgeted.
- 12-IV-B Questionable Expenditures** - We noted no expenditures which did not appear to meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979.
- 12-IV-C Travel Expenses** - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 12-IV-D Business Transactions** - No business transactions between the Agency and Agency officials or employees were noted.
- 12-IV-E Bond Coverage** - Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 12-IV-F Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.
- 12-IV-G Deposits and Investments** - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Agency's investment policy.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2012

12-IV-H Certified Annual Report

Finding - The Certified Annual Report was certified timely to the Iowa Department of Education, but we noted a prior period adjustment related to accrued wages that was not included in the report.

Auditor's Recommendation - The Certified Annual Report should be reconciled with accounting records and reviewed by a member of management.

Agency's Response - The Agency is now using a payroll system which more accurately tracks accrued wages and will insure the accuracy of the accounting records prior to filing the Certified Annual Report.

Auditor's Conclusion - Response accepted.

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

12-IV-J **Early Childhood Iowa County Area Board** - The Agency is the fiscal agent for the Early Childhood Iowa County Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. Financial transactions of the Area Board are included in the Agency's financial statements as an Agency Fund because of the Agency's fiduciary relationship with the organization. No expenditures were noted that may not meet the purpose for which the grant funds were provided.