

**NORTHWEST AREA EDUCATION AGENCY**

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

**June 30, 2014**

NORTHWEST AREA EDUCATION AGENCY

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NORTHWEST AREA EDUCATION AGENCY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
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BOARD OF DIRECTORS

Roger Brinkert	President	2017
Robert Rice	Vice President	2015
Creston Schubert	Member	2015
Glenda Den Herder	Member	2017
Tom Bjorge	Member	2015
Patricia Sutherland	Member	2015
Glen Coble	Member	2017
Keith Zylstra	Member	2015
Mike McAlpine	Member	2017

AGENCY

Tim Grieves	Chief Administrator	2014
Wayne Hess	Chief Financial Officer	2014
Gloria Miller	Board Secretary	2014
Steve Schermann	Treasurer/Business Manager	2014



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Northwest Area Education Agency

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Area Education Agency, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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



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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Area Education Agency, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10, Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual on pages 29 through 30 and Schedule of Funding Progress for the Retiree Health Plan on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northwest Area Education Agency's basic financial statements. The Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.



The Schedule of Revenues by Source, and Expenditures by Function - All Governmental Funds and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2015, on our consideration of Northwest Area Education Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Area Education Agency's internal control over financial reporting and compliance.

Sioux City, Iowa  
February 4, 2015

King, Keensch, Prosser & Co., L.L.P.

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

Northwest Area Education Agency provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

### **2014 Financial Highlights**

- General Fund revenues increased from approximately \$27.4 million in fiscal year 2013 to \$29.3 million in fiscal year 2014. The increase in General Fund revenues was attributable to an increase in federal grant revenue.
- General Fund expenditures were approximately \$27.7 million in both fiscal years 2013 and 2014.
- The Agency's General Fund had a decrease in fund balance from approximately \$4.4 million at the end of fiscal year 2013 to \$3.9 million at the end of fiscal year 2014, an 11 percent decrease. The Agency funded a portion of the current year General Fund services from the carryover fund balance.
- The Agency planned on using some of the fund balance from the General Fund in order to maintain staffing levels for another year. The Agency may reduce some staff through attrition each year but will continue to use some fund balance carryover to keep staffing levels as high as possible.

### **Using This Annual Report**

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-Wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Northwest Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to 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.
- 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 Position includes all of the Agency's assets, deferred outflow of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net position and how it has changed. Net position is one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position is an indicator of whether financial position is improving or deteriorating. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities consist of the following:

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

### *Fund Financial Statements*

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

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

The Agency has one kind of fund:

- Governmental funds account for the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near

future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund and 2) the Special Revenue Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

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

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of financial position. Northwest Area Education Agency's net position at the end of fiscal year 2014 totaled \$5.9 million compared to \$6.4 million at the end of fiscal year 2013. The analysis that follows focuses on the net position and changes in net position.

	<u>Condensed Statement of Net Position</u>	
	<u>Governmental Activities</u>	
	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 7,100,703	\$ 7,447,333
Capital assets	<u>2,573,362</u>	<u>2,612,886</u>
Total assets	<u>\$ 9,674,065</u>	<u>\$ 10,060,219</u>
Long-term liabilities	\$ 613,537	\$ 631,464
Other liabilities	<u>3,158,061</u>	<u>3,018,689</u>
Total liabilities	<u>\$ 3,771,598</u>	<u>\$ 3,650,153</u>
Net position:		
Net investment in capital assets	\$ 2,573,362	\$ 2,612,886
Restricted	819,924	918,468
Unrestricted	<u>2,509,181</u>	<u>2,878,712</u>
Total net position	<u>\$ 5,902,467</u>	<u>\$ 6,410,066</u>

The Agency's total net position decreased 8 percent, or \$507,599 from fiscal year 2013. The Agency planned on decreasing net position in order to maintain staffing levels for another year. The Agency may reduce some staff through attrition each year but will continue to decrease net position to keep staffing levels as high as possible.

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

	<u>Changes in Net Position</u>	
	<u>Governmental Activities</u>	
	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Revenues:		
Program revenues:		
Charges for service	\$ 1,160,772	\$ 1,216,076
Operating grants and contributions	12,985,952	11,453,426
General revenues:		
Property taxes	7,484,175	7,337,614
State foundation aid	8,059,571	7,349,220
Interest	1,984	4,608
Miscellaneous	<u>364,433</u>	<u>796,773</u>
Total revenues	<u>\$ 30,056,887</u>	<u>\$ 28,157,717</u>
Expenses:		
Instruction	\$ 1,023,572	\$ 1,175,081
Student support services	9,971,413	9,780,938
Instructional staff support services	10,215,561	10,352,117
General administration	1,207,868	1,111,093
Business administration	1,841,381	2,109,527
Building administration	2,835,329	2,751,399
Printing, delivery services and co-op support services	654,957	667,665
Plant operations and maintenance	650,368	592,443
LEA flow-through	2,040,788	2,240,340
Depreciation (unallocated)	<u>123,249</u>	<u>123,186</u>
Total expenses	<u>\$ 30,564,486</u>	<u>\$ 30,903,789</u>
Decrease in net position	\$ (507,599)	\$ (2,746,072)
Net position beginning of year	<u>6,410,066</u>	<u>9,156,138</u>
Net position end of year	<u>\$ 5,902,467</u>	<u>\$ 6,410,066</u>

Property taxes and state foundation aid account for 52 percent of the total revenue while operating grants and contributions from local, state and federal sources account for 43 percent of the total revenue. The Agency's expenses primarily relate to student support services and instructional staff support services, which account for 66 percent of the total expenses.

## **Individual Fund Analysis**

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

The Agency's governmental funds reported combined fund balances of \$3,942,642, below last year's ending fund balances of \$4,428,644. The Agency planned on using some of the fund balance from the General Fund in order to maintain staffing levels for another year. The Agency may reduce some staff through attrition each year but will continue to use some fund balance carryover to keep staffing levels as high as possible. However, the Agency does not want to reduce the General Fund balance amount below 10 percent of the expenditures for one year.

## **Budgetary Highlights**

Over the course of the year, the Agency amended its budget once to reflect adjustments to revenue and expenditure amounts. The budgeted state aid revenue was decreased by \$1,104,790 to reflect the cut made by the legislature after original budgets were approved. The budgeted Part B revenue amount was increased by \$1,534,369 and the amount of revenue budgeted for operating the State IELDA program was decreased by \$453,000. Other minor adjustments were made to budgeted revenue amounts. The overall change from the original budgeted revenue to the amended budgeted revenue was a decrease of \$34,783. Some of the major adjustments to budgeted expenditures were a decrease in the amount budgeted for operating the State IELDA program of \$316,770, a decrease in the amount budgeted for contracting with instructional coaches of \$145,000 and a decrease in the amount for LEA Part B flow-through of \$199,552. The total amended expenditure budget was a decrease of \$818,807 from the original budget.

## **Capital Assets**

At June 30, 2014, the Agency had invested \$2,573,362, net of accumulated depreciation, in a broad range of capital assets, including land, land improvements, buildings and improvements, furniture and equipment and media materials. Total additions to capital assets were \$322,296.

Northwest Area Education Agency had depreciation expense of \$361,281 in fiscal year 2014 and total accumulated depreciation of \$7,951,954 at June 30, 2014. Detailed information about capital assets is presented in Note 3 to the financial statements.

## **Economic Factors and Next Year's Budget**

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

- During this current fiscal year 2015, the AEAs state-wide are receiving a reduction in state funding amounting to \$15 million. That amounts to a cut of \$1,278,388 beyond the permanent cut of \$647,092 for Northwest AEA. The Governor is currently budgeting to continue the \$15 million state-wide cut again for fiscal year 2016.

- The state allowable growth factor has not been set for fiscal year 2016 or fiscal year 2017. The Governor's budget is calling for just 1.25 percent for fiscal year 2016 and 2.45 percent for fiscal year 2017.
- We are still uncertain about federal funding for the next year and the Iowa Department of Education staff are recommending we budget for flat funding for fiscal year 2016.

### **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 Agency's Business Office located in Sioux City, Iowa.

# **BASIC FINANCIAL STATEMENTS**

NORTHWEST AREA EDUCATION AGENCY

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Governmental Activities</u>
Assets:	
Cash and pooled investments	\$ 6,064,638
Accounts receivable	53,686
Due from other governments	867,328
Inventories	115,051
Capital assets, net of accumulated depreciation	<u>2,573,362</u>
Total assets	<u>\$ 9,674,065</u>
Liabilities:	
Accounts payable	\$ 441,714
Due to other governments	9,768
Salaries and benefits payable	2,306,553
Unearned revenue	400,026
Long-term liabilities:	
Portion due or payable after one year:	
Compensated absences	177,537
Net OPEB obligation	<u>436,000</u>
Total liabilities	<u>\$ 3,771,598</u>
Net position:	
Net investment in capital assets	\$ 2,573,362
Restricted for:	
Categorical funding	136,103
Media materials	683,821
Unrestricted	<u>2,509,181</u>
Total net position	<u>\$ 5,902,467</u>

NORTHWEST AREA EDUCATION AGENCY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>for Services</u>	<u>Grants and</u>	<u>Changes in Net</u>
			<u>Contributions</u>	<u>Position</u>
<u>Functions/Programs</u>				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction	\$ 1,023,572	\$ -	\$ -	\$ (1,023,572)
Student support services	9,971,413	553,593	10,896,449	1,478,629
Instructional staff support services	10,215,561	246,274	48,715	(9,920,572)
General administration	1,207,868	-	-	(1,207,868)
Business administration	1,841,381	-	-	(1,841,381)
Building administration	2,835,329	-	-	(2,835,329)
Printing, delivery services and co-op support services	654,957	360,905	-	(294,052)
Plant operations and maintenance	650,368	-	-	(650,368)
LEA flow-through	2,040,788	-	2,040,788	-
Depreciation (unallocated)*	123,249	-	-	(123,249)
Total governmental activities	<u>\$ 30,564,486</u>	<u>\$ 1,160,772</u>	<u>\$ 12,985,952</u>	\$ (16,417,762)
General revenues:				
Property taxes				\$ 7,484,175
State foundation aid				8,059,571
Interest				1,984
Miscellaneous				<u>364,433</u>
Total general revenues				<u>\$ 15,910,163</u>
Change in net position				\$ (507,599)
Net position beginning of year				<u>6,410,066</u>
Net position end of year				<u>\$ 5,902,467</u>

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

NORTHWEST AREA EDUCATION AGENCY

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2014

	<u>General</u>	<u>Nonmajor Juvenile Home</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash and pooled investments	\$ 5,959,639	\$ 104,999	\$ 6,064,638
Accounts receivable	53,338	348	53,686
Due from other governments	867,328	-	867,328
Inventories	<u>115,051</u>	<u>-</u>	<u>115,051</u>
Total assets	<u>\$ 6,995,356</u>	<u>\$ 105,347</u>	<u>\$ 7,100,703</u>
<b>Liabilities and fund balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 441,394	\$ 320	\$ 441,714
Due to other governments	9,768	-	9,768
Salaries and benefits payable	2,254,848	51,705	2,306,553
Unearned revenue	<u>346,704</u>	<u>53,322</u>	<u>400,026</u>
Total liabilities	<u>\$ 3,052,714</u>	<u>\$ 105,347</u>	<u>\$ 3,158,061</u>
<b>Fund balances:</b>			
<b>Nonspendable:</b>			
Inventories	\$ 115,051	\$ -	\$ 115,051
<b>Restricted for:</b>			
Categorical funding	136,103	-	136,103
Media materials	683,821	-	683,821
<b>Assigned to:</b>			
Special education	755,844	-	755,844
Special purpose	502,208	-	502,208
Unassigned	<u>1,749,615</u>	<u>-</u>	<u>1,749,615</u>
Total fund balances	<u>\$ 3,942,642</u>	<u>\$ -</u>	<u>\$ 3,942,642</u>
Total liabilities and fund balances	<u>\$ 6,995,356</u>	<u>\$ 105,347</u>	<u>\$ 7,100,703</u>

NORTHWEST AREA EDUCATION AGENCY

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL

FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total Governmental Fund Balances (page 13)		\$	3,942,642
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$10,525,316 and the accumulated depreciation is \$7,951,954.			2,573,362
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the governmental funds:			
Compensated absences	\$	(177,537)	
Net OPEB obligation		<u>(436,000)</u>	<u>(613,537)</u>
Net Position of Governmental Activities (page 11)		\$	<u>5,902,467</u>

NORTHWEST AREA EDUCATION AGENCY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Nonmajor Juvenile Home</u>	<u>Total Governmental Funds</u>
Revenues:			
Local sources	\$ 9,105,512	\$ -	\$ 9,105,512
State sources	8,920,852	802,075	9,722,927
Federal sources	<u>11,226,387</u>	<u>-</u>	<u>11,226,387</u>
Total revenues	<u>\$ 29,252,751</u>	<u>\$ 802,075</u>	<u>\$ 30,054,826</u>
Expenditures:			
Current:			
Instruction	\$ 286,875	\$ 736,966	\$ 1,023,841
Student support services	9,980,223	-	9,980,223
Instructional staff support services	10,162,242	-	10,162,242
General administration	1,206,218	-	1,206,218
Business administration	1,861,431	-	1,861,431
Building administration	2,770,997	65,109	2,836,106
Printing, delivery services and co-op support services	652,189	-	652,189
Plant operations and maintenance	<u>777,790</u>	<u>-</u>	<u>777,790</u>
Total expenditures	<u>\$ 27,697,965</u>	<u>\$ 802,075</u>	<u>\$ 28,500,040</u>
Excess of revenues over expenditures	<u>\$ 1,554,786</u>	<u>\$ -</u>	<u>\$ 1,554,786</u>
Other financing sources (uses):			
LEA flow-through	<u>\$ (2,040,788)</u>	<u>\$ -</u>	<u>\$ (2,040,788)</u>
Net change in fund balances	\$ (486,002)	\$ -	\$ (486,002)
Fund balances beginning of year	<u>4,428,644</u>	<u>-</u>	<u>4,428,644</u>
Fund balances end of year	<u>\$ 3,942,642</u>	<u>\$ -</u>	<u>\$ 3,942,642</u>

NORTHWEST AREA EDUCATION AGENCY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES -

GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances - Total Governmental Funds (page 15) \$ (486,002)

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

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

Contribution of capital assets	\$ 2,600	
Expenditures for capital assets	319,696	
Depreciation	<u>(361,281)</u>	(38,985)

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

Proceeds from sale of capital assets	\$ -	
Loss on disposal of capital assets	<u>(539)</u>	(539)

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

Decrease in compensated absences	\$ 200	
Increase in other postemployment benefits	<u>17,727</u>	<u>17,927</u>

Change in Net Position of Governmental Activities (page 12) \$ (507,599)

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Northwest Area Education Agency is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 35 public school districts and 35 accredited private schools in a ten-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

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

*Restricted net position* results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The Agency reports the following major governmental fund:

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

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

D. Assets, Liabilities and Fund Equity

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

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

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

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

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

Land	No lower limit
Buildings and improvements	\$ 5,000
Furniture and equipment	\$ 2,000
Media materials	Aggregated annual purchases

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

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

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

Unearned Revenue - Grant proceeds and other funds which have been received by the Agency but will be spent in a succeeding fiscal year.

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 Position representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

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

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

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

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

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - CASH AND POOLED INVESTMENTS:

The Agency's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Agency's investments at June 30, 2014 consisted of the following:

<u>Type</u>	<u>Fair Value</u>
Repurchase Agreement	<u>\$ 6,554,745</u>

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio, which are valued at an amortized cost of \$67,422 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 and Poor's Financial Services.

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

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 3 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2014 is as follows:

	<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>End</u> <u>of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 182,535	\$ -	\$ -	\$ 182,535
Capital assets being depreciated:				
Land improvements	\$ 273,120	\$ -	\$ -	\$ 273,120
Buildings and improvements	4,417,213	113,984	-	4,531,197
Furniture and equipment	1,881,359	136,717	(199,028)	1,819,048
Media materials	<u>3,690,475</u>	<u>71,595</u>	<u>(42,654)</u>	<u>3,719,416</u>
Total capital assets being depreciated	<u>\$ 10,262,167</u>	<u>\$ 322,296</u>	<u>\$ (241,682)</u>	<u>\$ 10,342,781</u>
Less accumulated depreciation:				
Land improvements	\$ 14,890	\$ 13,656	\$ -	\$ 28,546
Buildings and improvements	2,837,203	109,593	-	2,946,796
Furniture and equipment	1,587,285	106,779	(198,489)	1,495,575
Media materials	<u>3,392,438</u>	<u>131,253</u>	<u>(42,654)</u>	<u>3,481,037</u>
Total accumulated depreciation	<u>\$ 7,831,816</u>	<u>\$ 361,281</u>	<u>\$ (241,143)</u>	<u>\$ 7,951,954</u>
Total capital assets being depreciated, net	<u>\$ 2,430,351</u>	<u>\$ (38,985)</u>	<u>\$ (539)</u>	<u>\$ 2,390,827</u>
Governmental activities capital assets, net	<u>\$ 2,612,886</u>	<u>\$ (38,985)</u>	<u>\$ (539)</u>	<u>\$ 2,573,362</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction	\$ 297
Student support services	12,462
Instructional staff support services	166,968
Business administration	25,693
Printing, delivery services and co-op support services	2,631
Plant operations and maintenance	29,981
Unallocated depreciation	<u>123,249</u>
Total depreciation expense - governmental activities	<u>\$ 361,281</u>

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 4 - LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Compensated absences	\$ 177,737	\$ -	\$ (200)	\$ 177,537	\$ -

NOTE 5 - PENSION AND RETIREMENT BENEFITS:

The Agency contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined 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 5.95 percent of their annual covered salary and the Agency is required to contribute 8.93 percent of annual covered salary. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$1,493,224, \$1,441,807, and \$1,291,291, respectively, equal to the required contributions for each year.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Plan Description - The Agency sponsors a single-employer health care plan which provides medical and prescription drug benefits for retirees and their families. There are 272 active and 21 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug benefits are provided through a combination of an insured plan with Wellmark and a self-insured plan administered by Three Rivers Benefit. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability. Benefits are available to age 65. In addition the Agency subsidizes the medical, prescription drug benefits, dental and life insurance premiums for 2 current retirees who retired under a previous agreement. The benefits related to these agreements ended on June 30, 2014.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Funding Policy - The contribution requirements of plan members are established and may be amended by the Agency. The plan does not issue a stand-alone financial report. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover the 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, 2014, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 263,000
Interest on net OPEB obligation	20,500
Adjustment to annual required contribution	<u>(21,500)</u>
Annual OPEB cost	\$ 262,000
Contributions made	<u>(279,727)</u>
Decrease in net OPEB obligation	\$ (17,727)
Net OPEB obligation beginning of year	<u>453,727</u>
Net OPEB obligation end of year	<u><u>\$ 436,000</u></u>

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, 2014.

For the year ended June 30, 2014, the Agency contributed \$279,727 to the medical plan. Plan members eligible for benefits contributed \$188,575, or 40.3 percent of the premium costs.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014 and the two preceding years were as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2012	\$ 438,000	97.26%	\$ 392,727
2013	\$ 266,000	77.07%	\$ 453,727
2014	\$ 262,000	78.24%	\$ 436,000

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability was \$2.5 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.5 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$16.6 million and the ratio of the UAAL to covered payroll was 14.78 percent.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, 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, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent discount rate based on the Agency's funding policy. The projected annual medical trend rate is 10 percent. The ultimate medical trend rate is 5 percent. The medical trend rate is reduced 0.5 percent each year until reaching the 5 percent ultimate trend rate.

Mortality rates are from the RP-2000 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 Report as of June 30, 2012 and applying termination factors used in the IPERS Actuarial Reports as of June 30, 2012.

Projected claim costs of the medical plan are \$819 per month for retirees less than age 65. The salary increase rate was assumed to be 3.5 percent per year. The UAAL is being amortized over the maximum allowable period of 30 years on an open basis for the implicit subsidy and 1 year on a closed basis for the explicit subsidies provided to grandfathered retirees.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 7 - OPERATING LEASES:

The Agency has lease agreements for copy machines, printers and a vehicle. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2014.

<u>Year Ending June 30,</u>	<u>Noncancellable Payments</u>
2015	\$ 169,116
2016	122,802
2017	110,778
2018	106,563
2019	<u>57,728</u>
	<u>\$ 566,987</u>

Total rental expenditures for the year ended June 30, 2014, for all operating leases totaled \$296,513.

NOTE 8 - 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 have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - PROSPECTIVE ACCOUNTING CHANGE:

The *Governmental Accounting Standards Board* has issued *Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

## **REQUIRED SUPPLEMENTARY INFORMATION**

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2014

<u>Year Ended June 30,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a)/c)</u>
2009	July 1, 2008	\$ -	\$ 3,184,000	\$ 3,184,000	0%	\$ 15,670,168	20.32%
2011	July 1, 2010	\$ -	\$ 3,851,000	\$ 3,851,000	0%	\$ 16,183,654	23.80%
2013	July 1, 2012	\$ -	\$ 2,452,000	\$ 2,452,000	0%	\$ 16,591,014	14.78%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

IN BALANCES - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2014

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual</u>
		<u>Original</u>	<u>Final</u>	<u>Variance</u>
Revenues:				
Local sources	\$ 9,105,512	\$ 9,439,990	\$ 9,033,860	\$ 71,652
State sources	9,722,927	10,765,345	9,733,616	(10,689)
Federal sources	<u>11,226,387</u>	<u>10,203,823</u>	<u>11,606,899</u>	<u>(380,512)</u>
Total revenues	<u>\$ 30,054,826</u>	<u>\$ 30,409,158</u>	<u>\$ 30,374,375</u>	<u>\$ (319,549)</u>
Expenditures:				
Current:				
Instruction	\$ 1,023,841	\$ 1,080,353	\$ 1,081,800	\$ 57,959
Student support services	9,980,223	10,269,012	10,130,272	150,049
Instructional staff support services	10,162,242	10,562,925	10,208,001	45,759
General administration	1,206,218	1,215,505	1,215,910	9,692
Business administration	1,861,431	2,117,993	1,993,568	132,137
Building administration	2,836,106	3,001,629	2,931,796	95,690
Printing, delivery services and co-op support services	652,189	708,251	708,301	56,112
Plant operations and maintenance	<u>777,790</u>	<u>919,989</u>	<u>986,754</u>	<u>208,964</u>
Total expenditures	<u>\$ 28,500,040</u>	<u>\$ 29,875,657</u>	<u>\$ 29,256,402</u>	<u>\$ 756,362</u>
Excess of revenues over expenditures	\$ 1,554,786	\$ 533,501	\$ 1,117,973	\$ 436,813
Other financing sources (uses), net	<u>(2,040,788)</u>	<u>(2,240,340)</u>	<u>(2,040,788)</u>	<u>-</u>
Net change in fund balances	\$ (486,002)	\$ (1,706,839)	\$ (922,815)	\$ 436,813
Balance beginning of year	<u>4,428,644</u>	<u>3,833,067</u>	<u>4,428,642</u>	<u>2</u>
Balance end of year	<u>\$ 3,942,642</u>	<u>\$ 2,126,228</u>	<u>\$ 3,505,827</u>	<u>\$ 436,815</u>

NORTHWEST AREA EDUCATION AGENCY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY REPORTING

JUNE 30, 2014

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

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents function expenditures by fund, the legal level of control is at the total expenditure level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2014, the Agency's expenditures did not exceed the approved budget.

## **SUPPLEMENTARY INFORMATION**

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -

ALL GOVERNMENTAL FUNDS

FOR THE LAST EIGHT YEARS

	Modified Accrual Basis							
	Years Ended June 30,							
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:								
Local	\$ 9,105,512	\$ 9,439,134	\$ 9,298,335	\$ 8,952,788	\$ 8,917,168	\$ 10,753,136	\$ 10,900,784	\$ 10,526,104
State	9,722,927	9,061,936	8,956,011	10,439,721	9,189,985	10,107,699	9,270,631	7,895,226
Federal	11,226,387	9,669,902	9,965,484	12,823,619	17,686,121	11,245,821	9,927,147	10,168,522
<b>Total revenues</b>	<b>\$ 30,054,826</b>	<b>\$ 28,170,972</b>	<b>\$ 28,219,830</b>	<b>\$ 32,216,128</b>	<b>\$ 35,793,274</b>	<b>\$ 32,106,656</b>	<b>\$ 30,098,562</b>	<b>\$ 28,589,852</b>
Expenditures:								
Current:								
Instruction	\$ 1,023,841	\$ 1,172,714	\$ 1,119,426	\$ 1,112,817	\$ 1,234,035	\$ 2,573,106	\$ 2,955,177	\$ 2,942,763
Student support services	9,980,223	9,743,203	9,530,973	10,430,234	11,211,317	11,708,001	11,055,486	10,676,882
Instructional staff support services	10,162,242	10,266,943	9,499,711	8,564,954	8,063,786	6,427,533	5,948,068	5,875,372
General administration	1,206,218	1,110,135	1,129,228	1,150,442	1,274,859	1,334,480	1,344,009	1,415,216
Business administration	1,861,431	2,136,992	1,880,337	1,777,607	1,941,305	1,822,169	1,621,451	1,376,280
Building administration	2,836,106	2,745,778	2,600,537	2,593,047	2,572,831	2,670,620	2,718,459	2,743,088
Printing, delivery services and co-op support services	652,189	661,850	642,748	645,504	659,902	662,540	614,313	611,100
Plant operations and maintenance	777,790	799,291	782,805	601,806	728,706	737,193	669,080	719,005
Student transportation	-	-	-	-	326	225,891	234,654	257,832
Debt service	-	-	73,010	100,677	110,413	112,393	125,854	148,823
<b>Total expenditures</b>	<b>\$ 28,500,040</b>	<b>\$ 28,636,906</b>	<b>\$ 27,258,775</b>	<b>\$ 26,977,088</b>	<b>\$ 27,797,480</b>	<b>\$ 28,273,926</b>	<b>\$ 27,286,551</b>	<b>\$ 26,766,361</b>

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

<u>Project Title</u>	<u>CFDA</u>	<u>Pass-Through</u>	<u>Expenditures</u>
Indirect:	<u>Number</u>	<u>Grantor's</u>	
		<u>Number</u>	
U.S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education Cluster (IDEA):			
Special Education - Grants to States:	84.027		
IDEA - Part B		131412	\$ 7,834,369
IDEA - Part B LEA Flow-Through		2013-14 4KB2	2,040,788
Parent-Educator		3K74-12	<u>117,509</u>
			\$ 9,992,666
Special Education - Preschool Grants:	84.173		
Section 619		13619-12	<u>227,372</u>
Total Special Education Cluster (IDEA)			\$ 10,220,038
Early Intervention Services (IDEA) Cluster:			
Special Education - Grants for Infants and Families:	84.181		
IDEA - Part C		C13-14	262,345
English Language Acquisition Grants	84.365	14ELA-07	606,276
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048		<u>137,728</u>
			<u>\$ 11,226,387</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Northwest Area Education Agency and is presented on the modified accrual basis. The information 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 AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Northwest Area Education Agency

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Area Education Agency, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Northwest Area Education Agency's basic financial statements, and have issued our report thereon dated February 4, 2015.

**Internal Control Over Financial Reporting**

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

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

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



### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Sioux City, Iowa  
February 4, 2015

King, Reinsch, Prosser + Co., L.L.P.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of  
Northwest Area Education Agency

**Report on Compliance for Each Major Federal Program**

We have audited Northwest Area Education Agency's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Northwest Area Education Agency's major federal programs for the year ended June 30, 2014. Northwest Area Education Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Northwest Area Education Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northwest Area Education Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



### ***Opinion on Each Major Federal Program***

In our opinion, Northwest Area Education Agency, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of Northwest Area Education Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northwest Area Education Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northwest Area Education Agency's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sioux City, Iowa  
February 4, 2015

*King, Heinsch, Prosser & Co., L.L.P.*

NORTHWEST AREA EDUCATION AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

Part I: Summary of the Independent Auditors' Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Special Education Cluster (IDEA):
    - CFDA #84.027 - Special Education - Grants to States
    - CFDA #84.173 - Special Education - Preschool Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$336,792.
- (i) Northwest Area Education Agency qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

No matters were reported.

Instances of Non-compliance:

No matters were reported.

NORTHWEST AREA EDUCATION AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Non-compliance:

No matters were reported.

Internal Control Deficiencies:

No matters were reported.

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-14      Certified Budget - Expenditures during the year ended June 30, 2014 did not exceed the amount budgeted.
- IV-B-14      Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- IV-C-14      Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-14      Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-14      Bond Coverage - Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- IV-F-14      Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-14      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency's investment policy were noted.
- IV-H-14      Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-I-14      Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.