

NORTHWEST AREA EDUCATION AGENCY

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

June 30, 2015

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

AGENCY

Tim Grieves	Chief Administrator	2015
Wayne Hess	Chief Financial Officer	2015
Gloria Miller	Board Secretary	2015
Steve Schermann	Treasurer/Business Manager	2015



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, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

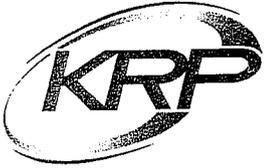
Management's Responsibility for the Financial Statements

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 that 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, 2015, 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.

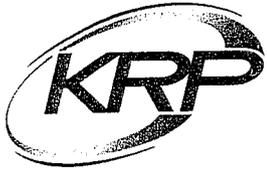
Emphasis of a Matter

As disclosed in Note 9 to the financial statements, Northwest Area Education Agency adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

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 36 through 37, Schedule of the Agency's Proportionate Share of the Net Pension Liability on page 38, Schedule of Agency Contributions on page 39, and Schedule of Funding Progress for the Retiree Health Plan on page 35 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 as required by Office of Management and Budget 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.

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 January 14, 2016, 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
January 14, 2016

King, Heinsch, 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, 2015. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2015 Financial Highlights

- General Fund revenues increased from approximately \$29.3 million in fiscal year 2014 to approximately \$29.5 million in fiscal year 2015. The increase in General Fund revenues was attributable to an increase in state and local revenue which was greater than the decrease in federal revenue.
- General Fund expenditures decreased from approximately \$27.7 million in fiscal year 2014 to approximately \$27.3 million in fiscal year 2015. The decrease in expenditures was due primarily to staff reduction through attrition of 9 FTE.
- The Agency's General Fund had an increase in fund balance from approximately \$3.9 million at the end of fiscal year 2014 to approximately \$4.0 million at the end of fiscal year 2015, a 3.2 percent increase. The primary reason the fund balance increased was the reduction in staff from the prior year.

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 and deferred outflows of resources and 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 are *governmental activities*.

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 it is properly using certain revenues, such as federal grants. The Agency only has governmental funds.

Governmental funds account for the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund 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 the General Fund and 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 2015 was a deficit of approximately \$6.2 million compared to \$5.9 million at the end of fiscal year 2014. 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>	
	2015	2014 (Not Restated)
Current and other assets	\$ 7,149,032	\$ 7,100,703
Capital assets	<u>2,583,749</u>	<u>2,573,362</u>
Total assets	<u>\$ 9,732,781</u>	<u>\$ 9,674,065</u>
Deferred outflows of resources	<u>\$ 2,040,001</u>	<u>\$ -</u>
Long-term liabilities	\$ 10,799,013	\$ 613,537
Other liabilities	<u>3,080,276</u>	<u>3,158,061</u>
Total liabilities	<u>\$ 13,879,289</u>	<u>\$ 3,771,598</u>
Deferred inflows of resources	<u>\$ 4,087,605</u>	<u>\$ -</u>
Net position:		
Net investment in capital assets	\$ 2,583,749	\$ 2,573,362
Restricted	842,124	819,924
Unrestricted	<u>(9,619,985)</u>	<u>2,509,181</u>
Total net position	<u>\$ (6,194,112)</u>	<u>\$ 5,902,467</u>

The Agency's total net position decreased 205 percent, or \$12,096,579 from fiscal year 2014. The decrease in unrestricted net position was primarily due to the implementation of GASB 68 and the restatement of the beginning balance for net pension liability of \$14,448,591.

The Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$14,448,591 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

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>	
		2014
	<u>2015</u>	<u>(Not Restated)</u>
Revenues:		
Program revenues:		
Charges for service	\$ 1,121,497	\$ 1,160,772
Operating grants and contributions	12,716,785	12,985,952
General revenues:		
Property taxes	7,756,159	7,484,175
State foundation aid	8,512,736	8,059,571
Interest	2,180	1,984
Miscellaneous	<u>190,587</u>	<u>364,433</u>
Total revenues	<u>\$ 30,299,944</u>	<u>\$ 30,056,887</u>
Expenses:		
Instruction	\$ 1,032,675	\$ 1,023,572
Student support services	9,856,348	9,971,413
Instructional staff support services	9,578,353	10,215,561
General administration	1,203,838	1,207,868
Business administration	1,825,879	1,841,381
Building administration	2,601,599	2,835,329
Printing, delivery services and co-op support services	530,315	654,957
Plant operations and maintenance	627,975	650,368
LEA flow-through	2,053,935	2,040,788
Depreciation (unallocated)	<u>129,797</u>	<u>123,249</u>
Total expenses	<u>\$ 29,440,714</u>	<u>\$ 30,564,486</u>
Change in net position	\$ 859,230	\$ (507,599)
Net position beginning of year, as restated	<u>(7,053,342)</u>	<u>6,410,066</u>
Net position end of year	<u>\$ (6,194,112)</u>	<u>\$ 5,902,467</u>

Property taxes and state foundation aid account for 54 percent of the total revenue while operating grants and contributions from local, state and federal sources account for 42 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 \$4,068,756, above last year's ending fund balances of \$3,942,642. The primary reason for the increase in fund balance in fiscal year 2015 was the decrease in expenditures due to the staff reductions, through attrition, of approximately 9 positions.

Budgetary Highlights

Over the course of the year, the Agency amended its budget once to reflect adjustments to revenue and expenditure amounts.

The Agency's total revenues were \$590,487 less than total budgeted revenues, a variance of less than 2 percent. Total expenditures were \$1,325,185 less than budgeted, a variance of 4.5 percent. The amount budgeted for some partial self-funding of health insurance is generally quite a bit higher than the amount expended, but necessary in case of a year with high claims.

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 Assets

At June 30, 2015, the Agency had invested \$2,583,749, 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 \$366,677.

Northwest Area Education Agency had depreciation expense of \$355,378 in fiscal year 2015 and total accumulated depreciation of \$8,115,674 at June 30, 2015. 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 2016, 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 \$15 million state-wide cut could very possibly carry into fiscal year 2017.
- The supplemental state aid growth factor has not been set for fiscal year 2017. Based on current communication coming from the Governor's office and from key legislators, any growth above 2.45 percent may be difficult to achieve.
- 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 2017.

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, 2015

	<u>Governmental Activities</u>
Assets:	
Cash and pooled investments	\$ 6,053,677
Accounts receivable	48,941
Due from other governments	893,084
Inventories	129,178
Prepaid expenses	24,152
Capital assets, net of accumulated depreciation	<u>2,583,749</u>
Total assets	<u>\$ 9,732,781</u>
Deferred outflows of resources:	
Pension related deferred outflows	<u>\$ 2,040,001</u>
Liabilities:	
Accounts payable	\$ 382,961
Salaries and benefits payable	2,312,018
Unearned revenue	385,297
Long-term liabilities:	
Portion due or payable after one year:	
Compensated absences	173,544
Net pension liability	10,131,469
Net OPEB obligation	<u>494,000</u>
Total liabilities	<u>\$ 13,879,289</u>
Deferred inflows of resources:	
Pension related deferred inflows	<u>\$ 4,087,605</u>
Net position:	
Net investment in capital assets	\$ 2,583,749
Restricted for:	
Categorical funding	168,339
Media materials	673,785
Unrestricted	<u>(9,619,985)</u>
Total net position	<u>\$ (6,194,112)</u>

NORTHWEST AREA EDUCATION AGENCY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
<u>Functions/Programs</u>		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction	\$ 1,032,675	\$ -	\$ -	\$ (1,032,675)
Student support services	9,856,348	552,734	10,613,588	1,309,974
Instructional staff support services	9,578,353	237,855	49,262	(9,291,236)
General administration	1,203,838	-	-	(1,203,838)
Business administration	1,825,879	-	-	(1,825,879)
Building administration	2,601,599	-	-	(2,601,599)
Printing, delivery services and co-op support services	530,315	330,908	-	(199,407)
Plant operations and maintenance	627,975	-	-	(627,975)
LEA flow-through	2,053,935	-	2,053,935	-
Depreciation (unallocated)*	<u>129,797</u>	<u>-</u>	<u>-</u>	<u>(129,797)</u>
Total governmental activities	<u>\$ 29,440,714</u>	<u>\$ 1,121,497</u>	<u>\$ 12,716,785</u>	<u>\$ (15,602,432)</u>
General revenues:				
Property taxes				\$ 7,756,159
State foundation aid				8,512,736
Interest				2,180
Miscellaneous				<u>190,587</u>
Total general revenues				<u>\$ 16,461,662</u>
Change in net position				\$ 859,230
Net position beginning of year, as restated				<u>(7,053,342)</u>
Net position end of year				<u>\$ (6,194,112)</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, 2015

	<u>General</u>	<u>Nonmajor Juvenile Home</u>	<u>Total</u>
Assets:			
Cash and pooled investments	\$ 5,962,410	\$ 91,267	\$ 6,053,677
Accounts receivable	48,374	567	48,941
Due from other governments	893,084	-	893,084
Inventories	129,178	-	129,178
Prepaid expenditures	24,152	-	24,152
Total assets	<u>\$ 7,057,198</u>	<u>\$ 91,834</u>	<u>\$ 7,149,032</u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 382,827	\$ 134	\$ 382,961
Salaries and benefits payable	2,258,480	53,538	2,312,018
Unearned revenue	347,135	38,162	385,297
Total liabilities	<u>\$ 2,988,442</u>	<u>\$ 91,834</u>	<u>\$ 3,080,276</u>
Fund balances:			
Nonspendable:			
Inventories	\$ 129,178	\$ -	\$ 129,178
Prepaid expenditures	24,152	-	24,152
Restricted for:			
Categorical funding	168,339	-	168,339
Media materials	673,785	-	673,785
Assigned to:			
Special education	23,604	-	23,604
Special purpose	350,668	-	350,668
Unassigned	2,699,030	-	2,699,030
Total fund balances	<u>\$ 4,068,756</u>	<u>\$ -</u>	<u>\$ 4,068,756</u>
Total liabilities and fund balances	<u>\$ 7,057,198</u>	<u>\$ 91,834</u>	<u>\$ 7,149,032</u>

NORTHWEST AREA EDUCATION AGENCY

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL

FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2015

Total governmental fund balances (page 13) \$ 4,068,756

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 \$10,699,423 and the accumulated depreciation is \$8,115,674.

2,583,749

Pension related deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, are not due and payable in the current year and, therefore, are not reported in the governmental funds.

Deferred outflows of resources

\$ 2,040,001

Deferred inflows of resources

(4,087,605) (2,047,604)

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

Compensated absences

\$ (173,544)

Net pension liability

(10,131,469)

Net OPEB obligation

(494,000) (10,799,013)

Net position of governmental activities (page 11)

\$ (6,194,112)

NORTHWEST AREA EDUCATION AGENCY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Nonmajor Juvenile Home</u>	<u>Total</u>
Revenues:			
Local sources	\$ 9,143,291	\$ -	\$ 9,143,291
State sources	9,521,948	811,529	10,333,477
Federal sources	<u>10,824,088</u>	-	<u>10,824,088</u>
Total revenues	<u>\$ 29,489,327</u>	<u>\$ 811,529</u>	<u>\$ 30,300,856</u>
Expenditures:			
Current:			
Instruction	\$ 296,724	\$ 749,049	\$ 1,045,773
Student support services	10,180,248	-	10,180,248
Instructional staff support services	9,794,285	-	9,794,285
General administration	1,243,072	-	1,243,072
Business administration	1,825,497	-	1,825,497
Building administration	2,610,426	62,480	2,672,906
Printing, delivery services and co-op support services	541,729	-	541,729
Plant operations and maintenance	<u>817,297</u>	-	<u>817,297</u>
Total expenditures	<u>\$ 27,309,278</u>	<u>\$ 811,529</u>	<u>\$ 28,120,807</u>
Excess of revenues over expenditures	<u>\$ 2,180,049</u>	<u>\$ -</u>	<u>\$ 2,180,049</u>
Other financing sources (uses):			
LEA flow-through	<u>\$ (2,053,935)</u>	<u>\$ -</u>	<u>\$ (2,053,935)</u>
Net change in fund balances	\$ 126,114	\$ -	\$ 126,114
Fund balances beginning of year	<u>3,942,642</u>	-	<u>3,942,642</u>
Fund balances end of year	<u>\$ 4,068,756</u>	<u>\$ -</u>	<u>\$ 4,068,756</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, 2015

Net change in fund balances - total governmental funds (page 15) \$ 126,114

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

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

Expenditures for capital assets	\$ 366,677	
Depreciation	<u>(355,378)</u>	11,299

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:

Loss on disposal of capital assets	(912)
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The current year Agency employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as deferred outflows of resources in the Statement of Net Position.

1,482,767

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	\$ 3,993	
Pension expense	(706,031)	
Increase in other postemployment benefits	<u>(58,000)</u>	<u>(760,038)</u>

Change in net position of governmental activities (page 12)	<u>\$ 859,230</u>
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NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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. The 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, 2015

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

The Statement of Net Position presents the Agency's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, 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, 2015

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, 2015

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

Cash and Pooled Investments - Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value.

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, 2015

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

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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, 2015. 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.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

Deferred Inflows of Resources - Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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, 2015

NOTE 2 - CASH AND POOLED INVESTMENTS:

The Agency's deposits in banks at June 30, 2015 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, 2015 consisted of the following:

<u>Type</u>	<u>Fair Value</u>
Repurchase Agreement	<u>\$ 6,189,775</u>

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, 2015

NOTE 3 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2015 is as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 182,535	\$ -	\$ -	\$ 182,535
Capital assets being depreciated:				
Land improvements	\$ 273,120	\$ 6,350	\$ -	\$ 279,470
Buildings and improvements	4,531,197	162,301	-	4,693,498
Furniture and equipment	1,819,048	110,435	(152,937)	1,776,546
Media materials	<u>3,719,416</u>	<u>87,591</u>	<u>(39,633)</u>	<u>3,767,374</u>
Total capital assets being depreciated	<u>\$ 10,342,781</u>	<u>\$ 366,677</u>	<u>\$ (192,570)</u>	<u>\$ 10,516,888</u>
Less accumulated depreciation:				
Land improvements	\$ 28,546	\$ 13,656	\$ -	\$ 42,202
Buildings and improvements	2,946,796	116,140	-	3,062,936
Furniture and equipment	1,495,575	126,511	(152,025)	1,470,061
Media materials	<u>3,481,037</u>	<u>99,071</u>	<u>(39,633)</u>	<u>3,540,475</u>
Total accumulated depreciation	<u>\$ 7,951,954</u>	<u>\$ 355,378</u>	<u>\$ (191,658)</u>	<u>\$ 8,115,674</u>
Total capital assets being depreciated, net	<u>\$ 2,390,827</u>	<u>\$ 11,299</u>	<u>\$ (912)</u>	<u>\$ 2,401,214</u>
Governmental activities capital assets, net	<u>\$ 2,573,362</u>	<u>\$ 11,299</u>	<u>\$ (912)</u>	<u>\$ 2,583,749</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Student support services	\$ 13,776
Instructional staff support services	131,791
Business administration	45,867
Printing, delivery services and co-op support services	897
Plant operations and maintenance	33,250
Unallocated depreciation	<u>129,797</u>
Total depreciation expense - governmental activities	<u>\$ 355,378</u>

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 4 - LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Compensated absences	\$ 177,537	\$ -	\$ (3,993)	\$ 173,544	\$ -

NOTE 5 - 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, 2015.

<u>Year Ending June 30,</u>	<u>Noncancellable Payments</u>
2016	\$ 162,931
2017	150,908
2018	146,692
2019	97,857
2020	30,097
	<u>\$ 588,485</u>

Total rental expenditures for the year ended June 30, 2015, for all operating leases was \$207,499.

NOTE 6 - PENSION PLAN:

Plan Description - IPERS membership is mandatory for employees of the Agency, except for those covered by another retirement system. Employees of the Agency are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 6 - PENSION PLAN (CONTINUED):

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits). Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary).

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 6 - PENSION PLAN (CONTINUED):

Contributions - Effective July 1, 2012, as a result of the 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Agency contributed 8.93 percent for a total rate of 14.88 percent.

The Agency's contribution to IPERS for the year ended June 30, 2015 were \$1,482,767.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Agency reported a liability of \$10,131,469 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Agency's collective proportion was 0.255464 percent, which was an increase of 0.003820 percent from its proportion measured as of June 30, 2013.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 6 - PENSION PLAN (CONTINUED):

For the year ended June 30, 2015, the Agency recognized pension expense of \$706,031. At June 30, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 110,109	\$ -
Changes of assumptions	447,125	-
Net difference between projected and actual earnings on pension plan investments	-	3,863,851
Changes in proportion and differences between Agency contributions and proportionate share of contributions	-	223,754
Agency contributions subsequent to the measurement date	<u>1,482,767</u>	-
Total	<u>\$ 2,040,001</u>	<u>\$ 4,087,605</u>

\$1,482,767 reported as deferred outflows of resources related to pensions resulting from the Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ (891,707)
2017	(891,706)
2018	(891,706)
2019	(891,706)
2020	<u>36,454</u>
Total	<u>\$ (3,530,371)</u>

There are no non-employer contributing entities at IPERS.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 6 - PENSION PLAN (CONTINUED):

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US equity	23%	6.31
Non US equity	15%	6.76
Private equity	13%	11.34
Real estate	8%	3.52
Core plus fixed income	28%	2.06
Credit opportunities	5%	3.67
TIPS	5%	1.92
Other real assets	2%	6.27
Cash	1%	(0.69)
Total	<u>100%</u>	

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 6 - PENSION PLAN (CONTINUED):

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate.

	<u>1 Percent Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1 Percent Increase (8.5%)</u>
Agency's proportionate share of the net pension liability	\$ 19,143,126	\$ 10,131,469	\$ 2,524,697

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the Agency reported payables to the defined benefit pension plan of \$82,098 for legally required employer contributions and \$54,701 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Plan Description - The Agency sponsors a single-employer health care plan which provides medical and prescription drug benefits for retirees and their families. There are 256 active and 13 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.

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

Annual OPEB Cost and Net OPEB Obligation - The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover 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, 2015, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 136,000
Interest on net OPEB obligation	17,000
Adjustment to annual required contribution	<u>(16,000)</u>
Annual OPEB cost	\$ 137,000
Contributions made	<u>(79,000)</u>
Increase in net OPEB obligation	\$ 58,000
Net OPEB obligation beginning of year	<u>436,000</u>
Net OPEB obligation end of year	<u>\$ 494,000</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, 2015.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

For the year ended June 30, 2015, the Agency contributed \$79,000 to the medical plan. Plan members eligible for benefits contributed \$185,461, or 70.1 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 2015 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>
2013	\$ 266,000	77.07%	\$ 453,727
2014	\$ 262,000	106.67%	\$ 436,000
2015	\$ 137,000	57.66%	\$ 494,000

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$1.4 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.4 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$16.9 million and the ratio of the UAAL to covered payroll was 8.41 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.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

As of the July 1, 2014 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent discount rate based on the Agency's funding policy. The projected annual medical trend rate is 8.0 percent. The ultimate medical trend rate is 4.5 percent. The medical trend rate is reduced 0.5 percent each year until reaching the 4.5 percent ultimate trend rate.

Mortality rates are from the RP-2014 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, 2014 and applying the termination factors used in the IPERS Actuarial Reports as of June 30, 2014.

Projected claim costs of the medical plan are \$875 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.

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.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 - ACCOUNTING CHANGE/RESTATEMENT:

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27 was implemented during fiscal year 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, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources that arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental activities was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date as follows:

	<u>Governmental Activities</u>
Net position June 30, 2014, as previously reported	\$ 5,902,467
Net position liability at June 30, 2014	(14,448,591)
Deferred outflows of resources related to prior contributions made after the June 30, 2013 measurement date	<u>1,492,782</u>
Net position July 1, 2014, as restated	<u>\$ (7,053,342)</u>

NOTE 10 - DEFICIT BALANCE:

The Agency had a governmental activities deficit net position balance of \$6,194,122 at June 30, 2015 primarily due to the net pension liability.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2015

<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>
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%
2015	July 1, 2014	\$ -	\$ 1,418,000	\$ 1,418,000	0%	\$ 16,863,087	8.41%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

IN BALANCES - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2015

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Revenues:				
Local sources	\$ 9,143,291	\$ 9,262,639	\$ 9,130,054	\$ 13,237
State sources	10,333,477	11,447,576	10,344,050	(10,573)
Federal sources	<u>10,824,088</u>	<u>10,125,505</u>	<u>11,417,239</u>	<u>(593,151)</u>
Total revenues	<u>\$ 30,300,856</u>	<u>\$ 30,835,720</u>	<u>\$ 30,891,343</u>	<u>\$ (590,487)</u>
Expenditures:				
Current:				
Instruction	\$ 1,045,773	\$ 1,087,805	\$ 1,083,339	\$ 37,566
Student support services	10,180,248	10,546,673	10,279,411	99,163
Instructional staff support services	9,794,285	10,358,743	10,316,444	522,159
General administration	1,243,072	1,258,754	1,285,613	42,541
Business administration	1,825,497	1,999,600	1,950,209	124,712
Building administration	2,672,906	3,005,397	2,866,156	193,250
Printing, delivery services and co-op support services	541,729	726,116	630,855	89,126
Plant operations and maintenance	<u>817,297</u>	<u>996,920</u>	<u>1,033,965</u>	<u>216,668</u>
Total expenditures	<u>\$ 28,120,807</u>	<u>\$ 29,980,008</u>	<u>\$ 29,445,992</u>	<u>\$ 1,325,185</u>
Excess of revenues over expenditures	\$ 2,180,049	\$ 855,712	\$ 1,445,351	\$ 734,698
Other financing sources (uses), net	<u>(2,053,935)</u>	<u>(2,040,788)</u>	<u>(2,053,935)</u>	<u>-</u>
Net change in fund balances	\$ 126,114	\$ (1,185,076)	\$ (608,584)	\$ 734,698
Balance beginning of year	<u>3,942,642</u>	<u>3,505,827</u>	<u>3,942,642</u>	<u>-</u>
Balance end of year	<u>\$ 4,068,756</u>	<u>\$ 2,320,751</u>	<u>\$ 3,334,058</u>	<u>\$ 734,698</u>

NORTHWEST AREA EDUCATION AGENCY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY REPORTING

JUNE 30, 2015

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, 2015, the Agency's expenditures did not exceed the approved budget.

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>
Agency's proportion of the net pension liability (asset)	0.255464%
Agency's proportionate share of the net pension liability (asset)	\$ 10,131,469
Agency's covered-employee payroll	\$ 16,119,429
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	62.85%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Agency will present information for those years for which information is available.

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF AGENCY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 1,482,767	\$ 1,492,782	\$ 1,441,807	\$ 1,291,291
Contributions in relation to the statutorily required contribution	<u>(1,482,767)</u>	<u>(1,492,782)</u>	<u>(1,441,807)</u>	<u>(1,291,291)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Agency's covered-employee payroll	\$ 16,119,429	\$ 16,138,595	\$ 15,958,955	\$ 15,360,592
Contributions as a percentage of covered-employee payroll	9.20%	9.25%	9.03%	8.41%

See accompanying independent auditors' report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,127,160	\$ 1,116,430	\$ 1,048,674	\$ 962,962	\$ 882,912	\$ 566,290
<u>(1,127,160)</u>	<u>(1,116,430)</u>	<u>(1,048,674)</u>	<u>(962,962)</u>	<u>(882,912)</u>	<u>(566,290)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 15,564,716	\$ 16,198,408	\$ 16,039,783	\$ 15,191,422	\$ 15,366,231	\$ 9,693,861
7.24%	6.89%	6.54%	6.34%	5.74%	

NORTHWEST AREA EDUCATION AGENCY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

PENSION LIABILITY

YEAR ENDED JUNE 30, 2015

CHANGES IN BENEFIT TERMS:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement deduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

CHANGES IN ASSUMPTIONS:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

NORTHWEST AREA EDUCATION AGENCY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

PENSION LIABILITY

YEAR ENDED JUNE 30, 2015

(CONTINUED)

CHANGES IN ASSUMPTIONS (CONTINUED):

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

SUPPLEMENTARY INFORMATION

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -

ALL GOVERNMENTAL FUNDS

FOR THE LAST NINE YEARS

		Modified Accrual Basis								
		Years Ended June 30,								
		<u>2015</u>	<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	\$	9,143,291	\$ 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		10,333,477	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		10,824,088	11,226,387	9,669,902	9,965,484	12,823,619	17,686,121	11,245,821	9,927,147	10,168,522
Total revenues	\$	30,300,856	\$ 30,054,826	\$ 28,170,972	\$ 28,219,830	\$ 32,216,128	\$ 35,793,274	\$ 32,106,656	\$ 30,098,562	\$ 28,589,852
Expenditures:										
Current:										
Instruction	\$	1,045,773	\$ 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		10,180,248	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		9,794,285	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		1,243,072	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		1,825,497	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		2,672,906	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		541,729	652,189	661,850	642,748	645,504	659,902	662,540	614,313	611,100
Plant operations and maintenance		817,297	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
Total expenditures	\$	28,120,807	\$ 28,500,040	\$ 28,636,906	\$ 27,258,775	\$ 26,977,088	\$ 27,797,480	\$ 28,273,926	\$ 27,286,551	\$ 26,766,361

See accompanying independent auditors' report.

NORTHWEST AREA EDUCATION AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

<u>Project Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education Cluster (IDEA):			
Special Education - Grants to States:	84.027		
IDEA - Part B		141512	\$ 7,540,554
IDEA - Part B LEA Flow-Through		2014-15 4KB2	2,053,935
Parent-Educator		4K74-12	<u>124,961</u>
			\$ 9,719,450
Special Education - Preschool Grants:	84.173		
Section 619		14619-12	<u>257,378</u>
Total Special Education Cluster (IDEA)			\$ 9,976,828
Special Education - Grants for Infants and Families:	84.181		
IDEA - Part C		C14-15	263,643
English Language Acquisition State Grants	84.365	15ELA-07	438,994
Career and Technical Education - Basic Grants to States	84.048		<u>144,623</u>
			<u>\$ 10,824,088</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

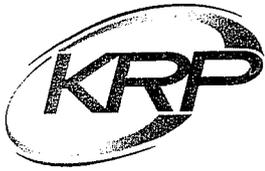
We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Area Education Agency, as of and for the year ended June 30, 2015, 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 January 14, 2016.

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*.

Comments involving statutory and other legal matters about Northwest Area Education Agency's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Northwest Area Education Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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
January 14, 2016

King, Keimich, 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 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, 2015. 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.

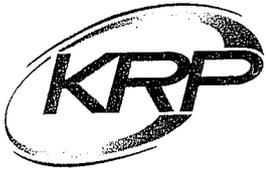
Management's Responsibility

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, 2015.

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.

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

Sioux City, Iowa
January 14, 2016

NORTHWEST AREA EDUCATION AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

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 \$324,723.
- (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 Noncompliance:

No matters were reported.

NORTHWEST AREA EDUCATION AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

(CONTINUED)

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance:

No matters were reported.

Internal Control Deficiencies:

No matters were reported.

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-15 Certified Budget - Expenditures during the year ended June 30, 2015 did not exceed the amount budgeted.
- IV-B-15 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-15 Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-15 Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-15 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-15 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-15 Deposits and Investments - No instances of noncompliance 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-15 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-I-15 Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.

NORTHWEST AREA EDUCATION AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

(CONTINUED)

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

IV-K-15 Financial Condition - The Agency's governmental activities has a deficit net position of \$6,194,112 at June 30, 2015.

Recommendation - The Agency should investigate alternatives to eliminate this deficit to return this fund to a sound financial position.

Response - The deficit was the result of recognizing the Agency's proportionate share of IPERS' net pension liability. The Agency realizes this liability is not due and payable immediately. Rather the pension liability will be paid down over a period of time with the Agency's future employer share of IPERS contributions.

Conclusion - Response accepted.