

HEARTLAND AREA EDUCATION AGENCY 11

Independent Auditor's Report
Basic Financial Statements & Supplemental Information
Schedule of Findings and Questioned Costs
June 30, 2004

HEARTLAND AREA EDUCATION AGENCY 11

TABLE OF CONTENTS

	<u>Page</u>
Officials	1-2
Independent Auditor's Report	3-4
Management's Discussion and Analysis (MD&A)	5-10
Basic Financial Statements:	
	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 11
Statement of Activities	B 12
Government Fund Financial Statements	
Balance Sheet	C 13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D 14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	E 15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F 16
Notes to Financial Statements	17-22
Required Supplementary Information:	
Statement of Revenues, Expenditures/Expenses, and Changes in Balances – Budget and Actual – All governmental Funds	24
Note to Required Supplementary Information – Budgetary Reporting	25
	<u>Schedule</u>
Other Supplementary Information	
Schedule of Revenues by Source and Expenditures by Function – All Governmental Fund Types	1 27
Schedule of Expenditures of Federal Awards	2 28-29
Independent Auditor's Combined Report on Compliance and on Internal Control over Financial Reporting	30
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance	31-32
Schedule of Findings and Questioned Cost	33-34

HEARTLAND AREA EDUCATION AGENCY 11

<u>Name</u>	<u>Officials</u> <u>Title</u>	<u>Term</u> <u>Expires</u>
Board of Directors:		
Nels Turnquist	President	2005
Earl Bridgewater	Vice President	2006
Steve Rose	Member	2005
Jane Bell	Member	2005
Gloria Hoffmann	Member	2004
George Jackson	Member	2004
Ann Wilson	Member	2006
Kathy Lanz	Member	2006
Linda Kading	Member	2004
Agency:		
Dr. Wayne Rand	Administrator	
Dianna Baker	Board Secretary	
Terrill Wycoff	Treasurer	
David King	Director of Finance and Business	

AREA SERVED

Audubon County: Audubon School District Exira School District	Carroll County: Holy Spirit School Holy Trinity School Kuemper School Manning School District St. Angela Center St. Lawrence School
Boone County: Boone School District Grand School District Madrid School District Ogden School District Sacred Heart School Trinity Lutheran School United School District	Dallas County: Adel-DeSoto-Minburn School District Assumption School Dallas Center-Grimes School District West Central Valley School District Perry School District St. Patricks School Van Meter School District Waukee School District Woodward-Granger School District
Carroll County: Carroll School District Christ the King School Coon Rapids Bayard School District Glidden-Ralston School District	

HEARTLAND AREA EDUCATION AGENCY 11

Officials

Area Served. (Continued)

Guthrie County:

Adair-Casey School District
Guthrie Center School District
Panorama School District
West Central Valley School District

Jasper County:

Baxter School District
Colfax-Mingo School District
Lynnville-Sully School District
Newton School District
Newton Christian Day School
PCM School District
Sully Christian School

Madison County:

Earlham School District
Interstate 35 School District
Winterset School District

Marion County:

Knoxville School District
Melcher-Dallas School District
Pella School District
Pella Christian Grade School
Pella Christian High School
Peoria Christian School
Pleasantville School District
Twin Cedars School District

Polk County:

Ankeny School District
Bondurant-Farrar School District
Christ the King School
Des Moines School District
Des Moines Christian School
Des Moines Jewish Academy
Dowling High School
Early Education Center

Polk County:

Holy Family Schools
Holy Trinity School
Iowa Christian Academy
Johnston School District
Mt. Olive Lutheran School
New Life Christian School
North Polk School District
Sacred Heart School
St. Anthony School
St. Augustin School
St. Francis of Assisi School
St. Joseph Elementary School
St. Pius X School
St. Theresa School
Saydel School District
Southeast Polk School District
Urbandale School District
West Des Moines School District

Story County:

Ames School District
Ballard School District
Collins-Maxwell School District
Colo-Nesco School District
Gilbert School District
Nevada School District
Roland-Story School District
St. Cecilia School

Warren County:

Carlisle School District
Indianola School District
Martensdale-St. Marys School District
Norwalk School District
Southeast Warren School District



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Heartland Area Education Agency 11:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heartland Area Education Agency 11 as of and for the year ended June 30, 2004, which collectively comprise the Area Education Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the Single Audit Act Amendment of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Heartland Area Education Agency 11, at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 10 and pages 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our reports dated November 15, 2004 on our consideration of Heartland Area Education Agency 11's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information listed included in Schedules 1 and 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Dittman & Company, LLP

November 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Area Education Agency 11 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- State Aid for fiscal year 2004 (FY04) was affected by three funding cuts. House file 755 was made permanent which reduces AEA 11 State Aid \$1,699,030 annually. Senate file 453 reduced AEA 11 State Aid by \$2,322,799. A governor's 2.5% across-the-board cut reduced AEA 11 State Aid by \$434,175. In late June 2004 10% of the across-the-board was restored. This restoration amounted to \$43,415 which resulted in the net cut being \$390,760 for AEA 11. In total, AEA 11 received \$4,412,580 less in State Aid than allowed under the funding formula. All cuts were known to AEA 11 Board of Directors and management either prior to, or early in, the fiscal year.
- General Fund Revenues were \$58,025,159 in fiscal year 2004 (FY04). General Fund Expenditures were \$57,727,469 in FY04. General Fund Other Financing Sources and Uses for FY04 were a net usage of \$790,401. Revenues less Expenditures and Other Uses resulted in a net operating loss of \$492,711. This net operating loss caused a decrease in the Agency's General Fund fund balance from \$6,215,932 in FY03 to \$5,723,221 in FY04.
- The agency retired long-term debt of \$787,500 during FY04. At the end of FY04 the agency had no long-term debt.
- The agency completed several large acquisitions in FY04, including new financial accounting and administrative software, a multi-year lease for the Carroll branch located in a new facility built by Des Moines Area Community College, and the pay-off of a lease purchase agreement, completing the acquisition of a building at the Johnston campus. These expenditures were funded primarily from fund balance, which had been designated in prior years for those projects.

USING THIS ANNUAL REPORT

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Area Education Agency 11 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the Agency's operations in more detail than the Government-Wide Statements by providing information about the most significant funds.

- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year to actual expenditures, and Other Supplementary Information provides detailed information about expenditures by function and federal awards.

Reporting the Agency as a Whole

The Statement of Net Assets and the Statement of Activities

The Government-Wide Statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Government-Wide Statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.
- The Government-Wide Financial Statements include the Agency's basic services, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts fees, property taxes, state aid and federal grants finance most of these activities.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as Juvenile Home funding.

The Agency's Governmental Funds include 1) the General Fund, 2) the Special Revenue Funds, and 3) the Capital Projects Fund. Governmental Funds account for all of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the Governmental Fund Statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-Wide Statements, additional information following the Governmental Fund Statements explains the relationship or differences between the two statements.

The Governmental Funds required financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

A summary reconciliation between the Government-Wide Financial Statements and the Fund Financial Statements follows the Fund Financial Statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, Net Assets may serve over time as a useful indicator of financial position. Area Education Agency 11's Net Assets at the end of FY04 totaled approximately \$11.6 million. The analysis that follows provides a summary of the Agency's Net Assets at June 30, 2004 for the Governmental Activities as compared to Net Assets at June 30, 2003. The agency does not have Business-Type Activities, therefore the total is only composed of the governmental funds.

Condensed Statement of Net Assets

	<u>FY04</u>	<u>FY03</u>	<u>% Change</u>
Current and Other Assets	\$ 15,362,283	\$ 18,639,637	-18%
Capital Assets	5,885,709	5,683,443	4%
Total Assets	<u>21,247,992</u>	<u>24,323,080</u>	<u>-13%</u>
Long-Term Obligations	-0-	787,500	-100%
Other Liabilities	9,638,118	12,422,543	-22%
Total Liabilities	<u>9,638,118</u>	<u>13,210,043</u>	<u>-27%</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	5,885,709	4,895,943	20%
Restricted	1,713,246	1,350,681	27%
Unrestricted	4,010,919	4,866,413	-18%
Total Net Assets	<u>\$ 11,609,874</u>	<u>\$ 11,113,037</u>	<u>4%</u>

The Agency's combined Net Assets increased by approximately \$500,000 from FY03. The change occurred as a result of the change in Capital Assets, including the liquidation of a long-term lease purchase agreement. Current and Other Assets decreased because of an approximate \$3.6 million reversion to the State of Iowa due to Senate file 453. The reversion, which occurred during FY04 was recorded as a liability as of June 30, 2003. Therefore Other Liabilities also were greatly reduced as a result of the reversion.

The following analysis shows the changes in Net Assets for the year ended June 30, 2004 as compared to June 30, 2003. The agency does not have Business-Type Activities, therefore the total is composed of the Governmental Funds.

Changes in Net Assets			
	FY04	FY03	% Change
Revenues:			
Program Revenues:			
Charges for Services	\$ 3,010,743	\$ 2,837,591	6%
Operating Grants and Contributions	24,592,864	20,053,118	23%
General Revenues			
Property Tax	14,729,576	14,329,094	3%
State Aid	17,208,189	19,311,437	-11%
Non-Categorical Federal Grants	204,936	151,836	35%
Unrestricted Investment Earnings	99,212	162,015	-39%
Total Revenues	\$ 59,845,520	\$ 56,845,091	5%
Program Expenses:			
Instruction	\$ 4,097,227	\$ 4,213,323	-3%
Student Support Services	22,230,424	21,703,744	2%
Instructional Staff Support Services	13,714,842	14,184,667	-3%
General Administration	3,694,398	3,395,826	9%
Business Administration	582,951	590,629	-1%
Printing, Delivery, and Coop Purchasing	1,480,273	1,758,458	-16%
Coop Purchasing Cost of Goods Sold	1,068,535	1,011,800	6%
Plant Operations and Maintenance	1,065,445	897,402	19%
Student Transportation	4,434	4,006	11%
Central and Other Support Services	6,755,767	5,330,334	27%
LEA Part B Flow-Through	4,489,151	2,894,398	55%
Depreciation-Unallocated	134,519	132,892	1%
Long-Term Debt Interest	30,717	34,986	-12%
Reversion of State Aid	-0-	3,620,018	-100%
Total Expenses	\$ 59,348,683	\$ 59,772,383	-1%
Increase (Decrease) in Net assets	496,837	(2,927,292)	117%
Net Assets-Beginning	11,113,037	14,040,329	-21%
Net Assets-Ending	\$ 11,609,874	\$ 11,113,037	4%

State formula funding, consisting of State Aid and Property taxes, accounts for 53% of the total revenue. Operating Grants and Contributions from local, state and federal sources account for 46% of the total revenue. The significant increase in Operating Grants and Contributions is due largely to increases in the Federal IDEA Part B funding for AEA's and Part B Flow-Through to LEA's. The Agency's expenses primarily relate to instructional support services provided to local school districts, which account for 90% of the operating expenses. Services provided to schools are reported above in the areas of Instruction, Student Support Services, Instructional Staff Support Services, Printing, Delivery and Coop Purchasing, LEA Part B Flow-Through and a large portion of the Central and Other Support Services. Amounts for FY03 have been reclassified to conform with FY04 reporting.

Governmental Activities

Revenues for Governmental Activities were \$59,845,520 and expenses were \$59,348,683.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As previously noted, Area Education Agency 11 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's Governmental Funds reported combined fund balances of \$5,724,165 which is about \$500,00 less than last year's ending fund balances of \$6,217,094.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. 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. Over the course of the year, the Agency amended its annual operating budget one time to reflect adjustments to revenue and expenditures associated with the services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the Required Supplementary Information Section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the Agency had invested \$5.9 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, computers, equipment, software, and an extensive library/media collection. This is a net increase of approximately \$1,000,000 from last year. A large portion of this increase was caused by the retirement of a capital lease purchase agreement.

Area Education Agency 11 had depreciation expense of \$463,349 in FY04 and total accumulated depreciation of \$6,811,458 at June 30, 2004. This amount is less than FY03 because of a change in estimated useful life of the media collection. More detailed information about capital assets is available in Note 3 to the financial statements.

Debt Administration

At June 30, 2004 the agency had no long-term debt outstanding. The long-term debt, which had been in the form of a capital lease purchase agreement, was retired during FY04. More detailed information about the Agency's Long-Term Liabilities is available in Note 4 to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware that FY05 budget resources were reduced by legislative action. These reductions are similar to the reductions experienced in FY04. They are the permanent reduction of \$1,699,030 and continuation of the \$2,322,790 plus \$434,175. These continuing reductions in funding will not allow the Agency to provide an expansion of services needed by its local school clients. The State of Iowa is currently experiencing greater revenue growth than originally estimated for the 2005 fiscal year.

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 Director of Finance and Business of Area Education Agency 11, 6500 Corporate Drive, Johnston, Iowa 50131.

Heartland Area Education Agency 11
Statement of Net Assets
June 30, 2004

ASSETS

Cash and Cash Equivalents	\$ 11,913,420
Due from Other Governments	3,088,365
Other Receivables	54,989
Inventories	263,020
Prepaid Expenses	42,489
Capital Assets, Net of Depreciation	5,885,709
Total Assets	<u>\$ 21,247,992</u>

LIABILITIES

Accounts Payable and Other Current Liabilities	\$ 8,759,549
Deferred Revenues	
Federal	261,648
Miscellaneous	616,921
Total Liabilities	<u>\$ 9,638,118</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 5,885,709
Restricted	
Inventory	263,020
Prepaid Expenses	42,489
Encumbrances	117,813
Phase III	529
State Teacher Quality	944
Materials Resource	1,250,643
State Reading Recovery	37,808
Designated	
Unemployment	33,150
Branch Office Construction	217,281
Capital Needs and Repairs	250,000
Johnston Facility Acquisition	584,345
Unrestricted/Undesignated	2,926,143
Total Net Assets	<u>\$ 11,609,874</u>

See accompanying notes to financial statements.

Heartland Area Education Agency 11
Statement of Activities
For the Year Ended June 30, 2004

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 4,097,227	\$ 31,860	\$ 3,765,251	\$ (300,116)
Student Support Services	22,230,424	289,752	9,558,416	(12,382,256)
Instructional Staff Support Services	13,714,842	936,141	6,534,586	(6,244,115)
General Administration	3,694,398	37,867	154,282	(3,502,249)
Business Administration	582,951	26	25,496	(557,429)
Printing, Delivery & Coop Support Services	1,480,273	323,013	-	(1,157,260)
Coop Services Cost of Goods Sold	1,068,535	1,116,150	-	47,615
Plant Operations and Maintenance	1,065,445	-	18,950	(1,046,495)
Student Transportation	4,434	-	4,434	-
Central & Other Support Services	6,755,767	275,934	42,298	(6,437,535)
LEA Part B Flowthrough	4,489,151	-	4,489,151	-
Depreciation-Unallocated	134,519	-	-	(134,519)
Interest on Long-Term Debt	30,717	-	-	(30,717)
Total Primary Government	\$ 59,348,683	\$ 3,010,743	\$ 24,592,864	\$ (31,745,076)

General Revenues	
Property Taxes, Levied for General Purposes	\$ 14,729,576
State Aid-Formula Grants	17,208,189
Non-Categorical Federal Funding	204,936
Unrestricted Investment Earnings	99,212
Total General Revenues	\$ 32,241,913
Change in Net Assets	496,837
Net Assets-Beginning	11,113,037
Net Assets-Ending	\$ 11,609,874

See accompanying notes to the financial statements

Heartland Area Education Agency 11
Balance Sheet
Governmental Funds
June 30, 2004

	General	Non-Major Governmental Funds				Government-Wide Total
		Special Ed Instructional	Special Revenue Shelter Care	Capital Projects	Non-Major Funds Sub-Total	
ASSETS						
Cash and Cash Equivalents	\$ 11,688,363	\$ (10,521)	\$ 234,801	\$ 777	\$ 225,057	\$ 11,913,420
Due from Other Governments	3,088,365	-	-	-	-	3,088,365
Other Receivables	40,723	14,266	-	-	14,266	54,989
Inventories	263,020	-	-	-	-	263,020
Prepaid Expenses	40,876	-	1,613	-	1,613	42,489
Total Assets	\$ 15,121,347	\$ 3,745	\$ 236,414	\$ 777	\$ 240,936	\$ 15,362,283
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts Payable and Other Current Liabilities	\$ 8,577,690	\$ 3,745	\$ 177,337	\$ 777	\$ 181,859	\$ 8,759,549
Deferred Revenues						
Federal	261,648	-	-	-	-	261,648
Miscellaneous	558,788	-	58,133	-	58,133	616,921
Total Liabilities	\$ 9,398,126	\$ 3,745	\$ 235,470	\$ 777	\$ 239,992	\$ 9,638,118
Fund Balance						
Reserved						
Inventory	\$ 263,020	-	-	-	-	\$ 263,020
Prepaid Expenses	40,876	-	\$ 1,613	-	1,613	42,489
Encumbrances	117,813	-	-	-	-	117,813
Phase III	529	-	-	-	-	529
State Teacher Quality	-	-	944	-	\$ 944	944
Materials Resource	1,250,643	-	-	-	-	1,250,643
State Reading Recovery Designated	37,808	-	-	-	-	37,808
Unemployment	33,150	-	-	-	-	33,150
Branch Office Construction	217,281	-	-	-	-	217,281
Capital Needs and Repairs	250,000	-	-	-	-	250,000
Johnston Facility Acquisition	584,345	-	-	-	-	584,345
Unreserved/Undesignated	2,927,756	-	(1,613)	-	(1,613)	2,926,143
Total Fund balance	\$ 5,723,221	\$ -	\$ 944	\$ -	\$ 944	\$ 5,724,165
Total Liabilities and Fund Balances	\$ 15,121,347	\$ 3,745	\$ 236,414	\$ 777	\$ 240,936	\$ 15,362,283

See accompanying notes to the financial statements

**Heartland Area Education Agency 11
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets**

Total Fund Balances-Governmental Funds	\$ 5,724,165
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital Assets used in Governmental Activities are not financial resources and therefore are not reported as assets in Governmental Funds. The cost of the assets is \$12,297,167, less the accumulated depreciation of \$6,811,458.	5,885,709
Total Net Assets-Governmental Activities	<u>\$ 11,609,874</u>

See accompanying notes to financial statements.

**Heartland Area Education Agency 11
Statement of Revenues, Expenditures and
Changes in Fund Balances-Governmental Funds
For the Year Ended June 30, 2004**

	General	Non-Major Governmental Funds				Total
		Special Ed Instructional	Shelter Care	Capital Projects	Non-Major Funds Sub-Total	
Revenues						
Local Sources	\$ 17,812,922	\$ 31,860	-	-	\$ 31,860	\$ 17,844,782
State Sources	17,767,198	-	\$ 1,719,777	-	1,719,777	19,486,975
Federal Sources	22,445,039	-	-	-	-	22,445,039
Total Revenues	\$ 58,025,159	\$ 31,860	\$ 1,719,777	-	\$ 1,751,637	\$ 59,776,796
Expenditures						
Instruction	\$ 2,657,746	\$ 31,799	\$ 1,422,251	-	\$ 1,454,050	\$ 4,111,796
Student Support Services	22,221,893	-	-	-	-	22,221,893
Instructional Staff Support Services	13,831,456	-	91,624	-	91,624	13,923,080
General Administration	3,536,648	-	154,282	-	154,282	3,690,930
Business Administration	582,951	-	-	-	-	582,951
Printing, Delivery Services & Coop Services	1,404,880	-	-	-	-	1,404,880
Coop Services Cost of Goods Sold	1,068,535	-	-	-	-	1,068,535
Plant Operations and Maintenance	1,046,841	-	18,950	-	18,950	1,065,791
Student Transportation	-	-	4,434	-	4,434	4,434
Central & Other Support Services	6,887,368	-	2,959	-	2,959	6,890,327
LEA Part B Flowthrough	4,489,151	-	-	-	-	4,489,151
Facilities Acquisition	-	-	-	\$ 818,994	818,994	818,994
Total Expenditures	\$ 57,727,469	\$ 31,799	\$ 1,694,500	\$ 818,994	\$ 2,545,293	\$ 60,272,762
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 297,690	\$ 61	\$ 25,277	\$ (818,994)	\$ (793,656)	\$ (495,966)
Other Financing Sources (uses)						
Sales of Equipment	\$ 3,037	-	-	-	-	\$ 3,037
Transfers In	25,556	-	-	\$ 818,994	\$ 818,994	844,550
Transfers Out	(818,994)	(61)	(25,495)	-	(25,556)	(844,550)
Total Financing Sources (Uses)	\$ (790,401)	\$ (61)	\$ (25,495)	\$ 818,994	\$ 793,438	\$ 3,037
Net Change in Fund Balances	\$ (492,711)	-	\$ (218)	-	\$ (218)	\$ (492,929)
Fund Balances--Beginning	\$ 6,215,932	-	\$ 1,162	-	\$ 1,162	\$ 6,217,094
Fund Balances--Ending	\$ 5,723,221	-	\$ 944	-	\$ 944	\$ 5,724,165

See accompanying notes to the financial statements

**Heartland Area Education Agency 11
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures, and Changes in Fund Balances to the Statement of Activities**

Total Net Change in Fund Balances-Government Funds	\$ (492,929)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Capital outlays are reported in Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful life as depreciation expense. This is the amount by which capital outlay (\$603,610) exceeds depreciation expense (\$463,349)	140,261
The net effect of various miscellaneous transactions involving Capital Assets (i.e. donations and write-offs) is to increase Net Assets.	62,005
The repayment of a capital lease consumes current financial resources of Governmental Funds. However the transaction has no effect on Net Assets.	787,500
Change in Net Assets of Governmental Activities	<u><u>\$ 496,837</u></u>

See accompanying notes to financial statements.

HEARTLAND AREA EDUCATION AGENCY 11

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Heartland Area Education Agency 11 is an intermediate school corporation between the State Department of Education and the local school districts in its area as provided by Chapter 273 of the Code of Iowa. The agency provides programs and support services necessary to meet the identified educational needs in the local school districts to enable them to operate efficiently and effectively. The Agency serves 55 school districts and 33 non-public schools in an eleven-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Heartland Area Education Agency 11 has included all funds, organizations, agencies, boards, commissions, and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Agency has no component units that meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for the Governmental Funds. All of the Agency's individual Governmental Funds are reported as separate columns in the Fund Financial Statements. Only the General Fund is considered a major fund.

The Agency reports the following major Governmental Fund:

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

The Agency reports the following non-major Governmental Funds:

The Special Revenue, Special Education Instruction Fund is used to account for programs where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the pupils' resident school districts.

The Special Revenue, Shelter Care Fund is used to account for instructional programs where the Area Education Agency employs teachers to provide instruction to pupils in juvenile shelters and juvenile detention facilities. The actual costs of providing these instructional services are paid by the State of Iowa.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Measurement Focus

The Government-Wide Financial Statements are reported using the economic resources measurement focus. Also, they are reported using 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 met.

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 90 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 revenues 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 judgements 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 recorded as other financing sources.

F. Budgets and Budgetary Accounting

The Agency's Board of Directors annually prepares a budget on a basis consistent with generally accepted accounting principles. 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. Budgetary control is based on total expenditures.

G. Assets, Liabilities and Fund Equity

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

All short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have maturity date no longer than three months.

Inventories - Inventories are stated at lower of cost (first-in, first-out method) or market and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption. The coop purchasing inventory consists of items acquired by the Agency for resale to the local education agencies.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable Governmental or Business-Type Activities column in the Government-Wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market 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 \$3,000 and estimated useful lives in excess of two years.

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Improvements	20
Furniture and equipment	5
Film and book library	10

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

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

Compensated Absences - Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid by the General and Special Revenue Funds.

Long-term obligations – In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the Governmental Activities column in the Statement of Net Assets.

Encumbrances - Encumbrances outstanding at year-end represent the amount ultimately - estimated to result in expenditures if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

Fund Balances – In the Governmental Fund Financial Statements, Reserved Fund Balances are reported for amounts that are not available for appropriation or are legally reserved by outside parties for a specific purpose.

Designated Fund Balance - The portion of the fund balance shown as Designated represents the amount Heartland Area Education Agency 11 has designated for facility and equipment needs and other special purposes.

Restricted Net Assets – In the Government-Wide Statement of Net Asset, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

(2) Cash and Cash Equivalents

The Agency's cash and cash equivalents at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letter of credit held by the Agency or the Agency's agent in the Agency's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure 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 cash and cash equivalents are categorized to give an indication of the level of risk assumed by the Agency at year end. Except for the Agency's investment in the Iowa School Joint Investment Trust, the Agency's investment are all Category 1, which means that the investments are insured or registered or the securities are held by the Agency or its agent in the Agency's name.

Investments in the Iowa Schools Joint Investment Trust are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

The Agency's investments at June 30, 2004 consisted of the following:

	<u>Cost</u>	<u>Market Value</u>
Iowa Schools Joint Investment Trust	\$ <u>2,553,508</u>	\$ <u>2,553,508</u>

(3) Capital Assets

A summary of changes in Capital Assets for the year ended June 30, 2004 is shown below. The useful life of the Library/Media Collection was adjusted from five years to ten years. The change was made to better reflect the replacement trend of the inventory. This prior year depreciation adjustment and the current year depreciation expense for the Library/Media Collection are combined in the table below under Additions in the row labeled Accumulated Depreciation for: Library/Media Collection.

	<u>Balance Beginning of Year</u>	<u>Reclas- sification</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Ending of Year</u>
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 1,086,985	-0-	-0-	-0-	\$ 1,086,985
Capital Assets Being Depreciated:					
Buildings	\$ 3,182,569	-0-	-0-	-0-	\$ 3,182,569
Improvements Other than Buildings	1,406,878	\$ 33,928	\$ 22,900	-0-	1,463,706
Furniture and Equipment	3,759,722	(33,928)	354,317	\$ 73,947	4,006,164
Library/Media Collection	<u>2,969,561</u>	<u>-0-</u>	<u>292,079</u>	<u>303,897</u>	<u>2,957,743</u>
Total Capital Assets Being Depreciated	<u>\$ 11,318,730</u>	<u>-0-</u>	<u>\$ 669,296</u>	<u>\$377,844</u>	<u>\$11,610,182</u>
Less Accumulated Depreciation for:					
Buildings	\$ 751,781	-0-	\$ 71,965	-0-	\$ 823,746
Improvements Other than Buildings	1,128,040	\$ 32,831	63,651	-0-	1,224,522
Furniture and Equipment	2,945,045	(32,831)	328,914	70,701	3,170,427
Library/Media Collection	<u>1,897,406</u>	<u>-0-</u>	<u>(1,182)</u>	<u>303,461</u>	<u>1,592,763</u>
Total Accumulated Depreciation	<u>\$ 6,722,272</u>	<u>-0-</u>	<u>\$463,348</u>	<u>374,162</u>	<u>\$6,811,458</u>
Total Capital Assets Being Depreciated, Net	<u>\$4,596,458</u>	<u>-0-</u>	<u>\$205,948</u>	<u>\$ 3,682</u>	<u>\$4,798,724</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,683,443</u>	<u>-0-</u>	<u>\$205,948</u>	<u>\$ 3,682</u>	<u>\$5,885,709</u>

Depreciation expense was charged to functions of the Agency as follows:

Governmental Activities:

Instruction	\$ 10,406
Student Support Services	33,700
Instructional Staff Support Services	38,275
General Administration	5,890
Business Administration	-
Printing, Delivery Services & Coop Support	81,333
Plant Operations and Maintenance	-
Central and Other Support Services	158,128
Unallocated	<u>135,616</u>

Total Governmental Activities Depreciation Expense \$ 463,348

(4) Long-Term Debt

The agency retired long-term debt of \$787,500 during FY04. At the end of FY04 the agency had no long-term debt. A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	Capitalized Lease <u>Payable</u>
Balance Beginning of Year	\$ 787,500
Net Additions	-
Reductions	<u>787,500</u>
Balance End of Year	\$ <u>-0-</u>

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 was approximately \$1,551,626, \$1,522,000, and \$1,446,000, respectively, equal to the required contributions for each year.

(6) Risk Management

Heartland Area Education Agency 11 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Legislative Action effecting AEA finances

The Iowa legislature has reduced State Aid to AEA's several times in the last few years. In fiscal year 2004 AEA 11 received approximately \$4.4 million less than provided for under the State Aid Funding Formula. This reduction of approximately \$4.4 million in State Aid was continued for fiscal year 2005. The State of Iowa is currently experiencing greater revenue growth than originally estimated for the 2005 fiscal year.

Required Supplementary Information

Required Supplementary Information
Heartland Area Education Agency
Budgetary Comparison Schedule-All Governmental Funds
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final budget- Positive (Negative)
	Original	Final		
REVENUES				
Local Sources	\$ 17,175,439	\$ 17,839,805	\$ 17,844,782	\$ 4,977
State Sources	22,760,009	19,595,094	19,486,975	(108,119)
Federal Sources	19,771,288	23,213,734	22,445,039	(768,695)
Total Revenues	\$ 59,706,736	\$ 60,648,633	\$ 59,776,796	\$ (871,837)
EXPENDITURES				
Instruction	4,547,354	4,119,049	4,111,796	7,253
Student Support Services	22,652,357	22,979,429	22,221,893	757,536
Instructional Staff Support Services	15,149,205	14,675,413	13,923,080	752,333
General Administration	3,447,241	3,295,494	3,690,930	(395,436)
Business Administration	598,561	582,517	582,951	(434)
Printing, Van Delivery and Coop Services	3,131,310	2,673,685	2,473,415	200,270
Plant Operations and Maintenance	1,015,962	1,107,295	1,065,791	41,504
Student Transportation	3,000	5,000	4,434	566
Central & Other Support Services	6,102,216	7,496,420	6,890,327	606,093
LEA Part B Flow-Through	3,559,452	4,489,151	4,489,151	-
Facility Acquisition	119,000	819,000	818,994	6
Total Expenditures	\$ 60,325,658	\$ 62,242,453	\$ 60,272,762	\$ 1,969,691
Excess (Deficiency) of Revenues Over Expenditures	(618,922)	(1,593,820)	(495,967)	1,097,853
OTHER FINANCING SOURCES (USES)				
Sales of Equipment	-	3,500	3,037	(463)
Excess (Deficiency) of Revenues Over Expenditures and Other Financing (Uses)	\$ (618,922)	\$ (1,590,320)	\$ (492,930)	\$ 1,097,390

See accompanying independent auditor's report

HEARTLAND AREA EDUCATION AGENCY 11

Note to Required Supplementary Information

Budgetary Reporting

June 30, 2004

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 functional disbursements by fund, the legal level of control is at the total expenditure / expense level, not at the fund or fund type level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

Other Supplementary Information

HEARTLAND AREA EDUCATION AGENCY 11

Schedule 1

Schedule of Revenues by Source and Expenditures by Function -
All Governmental Fund Types
For the Last Three Years

	<u>Modified Accrual Basis</u>		
	<u>Years ended June 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues:			
Local sources	\$ 17,844,782	\$ 17,328,701	\$ 18,459,061
State	19,486,976	21,767,682	20,639,602
Federal	<u>22,445,039</u>	<u>17,679,360</u>	<u>15,644,775</u>
 Total	 <u>\$ 59,776,797</u>	 <u>\$ 56,775,743</u>	 <u>54,743,438</u>
Expenditures:			
Instruction	4,111,796	4,251,796	3,972,131
Student support services	22,221,893	21,833,663	21,267,911
Instructional staff support services	13,923,080	13,907,799	13,631,561
General administration	3,690,930	3,394,775	3,340,438
Business administration	3,056,366	2,964,922	3,506,818
Plant operations and maintenance	1,065,791	910,418	791,746
Student transportation	4,434	4,007	2,519
Central and other support services	6,890,327	5,699,256	5,737,289
LEA Part B flow through	4,489,151	2,894,398	1,461,947
Facilities acquisition and construction	<u>818,994</u>	<u>122,486</u>	<u>912,940</u>
 Total	 <u>60,272,762</u>	 <u>55,983,520</u>	 <u>54,625,300</u>

See accompanying auditor's report

HEARTLAND AREA EDUCATION AGENCY 11

Schedule 2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of education:			
Passed-through Iowa Department of Education			
Special education	84.027		
Early childhood		30411	\$ 19,655,259
LEA Success 4		03K75-11	154,304
LEA Success 4		02K75-11	195,952
DE Consultant		13204	48,446
Diagnostic evaluation		2K72	2,800
Parent Educator		37411	124,982
Employment Prep Survey			5,337
Parent-Ed State Conference		25103	2,047
Para-educator inservice		3K76-11	12,000
SLP-Service Delivery Options		17604	2,764
SLP-Communication Profile Agmt		17704	1,221
Transition improvement		2K79-11TR	2,188
Part B Medicaid			451,394
Part C Medicaid			14,940
IPAT Grant/University of IA		13601000	5,155
Supplemental support services 2001-2002		3K42	204,936
			* <u>20,883,725</u>
Special education			
Preschool 3 through 5	84.173	3619-11	<u>681,901</u>
Special education			
Education of handicapped act part C	84.181	C03-11	<u>392,809</u>
Title II			
EST2, Part-D	84.318		166,961
EST2, State-wide	84.318		94,648
ESETP-CFDA	84.318		8,440
LSTA Grant 2004	84.318		2,948
			<u>272,997</u>
Title III			
ESL-FIE	84.365		63,672
ELL-LEP	84.365		32,568
ELL/LEP	84.365		71,379
Reading First	84.365		7,330
			<u>174,949</u>
Eisenhower			
2003-2004	84.164	PL98-377	84,882
Homeless Resource Grant	84.164	34304	4,620
			<u>89,502</u>

U.S. Department of Education (continued):
 Passed-through Iowa Department of Education
 Special Education (continued)

State program improvement grants			
State improvement grant (SIG)	84.323	3IEP11	<u>38,816</u>
Our Kids Grant	84.215	53204	68,567
Our Kids Technical	84.215	55504	3,698
Federal Teacher Quality	84.215		18,215
Title II, Part A	84.215		6,992
SWRT	84.215		<u>2,945</u>
			<u>100,417</u>
Total passed-through Iowa Department of Education			<u>22,635,116</u>
Passed-through Iowa Public Television			
PBS Teacherline	84.286		14,622
Iowa Learning Online	84.215		<u>12,808</u>
			<u>27,430</u>
Passed-through Ames Community Schools			
Chapter 1 - 2003-2004	84.010		<u>11,624</u>
Passed-through Des Moines Independent Schools			
Chapter 1 - 2003-2004	84.010		<u>95,920</u>
Passed-through Indianola Community Schools			
Chapter 1 - 2003-2004	84.010		<u>3,677</u>
Passed-through Manning Community Schools			
Chapter 1 - 2003-2004	84.010		<u>5,051</u>
Passed-through Newton Community Schools			
Chapter 1 - 2003-2004	84.010		<u>11,384</u>
			<u>\$ 22,790,202</u>

*These programs are considered major programs under provisions of the Single Audit Act Amendment of 1996.

Best of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Heartland Area Education Agency II and is presented on the modified accrual basis. The information on 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 general purpose financial statements.

See accompanying independent auditor's report.



**Independent Auditor's Combined Report on Compliance
and on Internal Control over Financial Reporting**

To the Board of Directors of
Heartland Area Education Agency 11:

We have audited the financial statements of Heartland Area Education Agency 11 as of and for the year ended June 30, 2004, and have issued our report thereon dated November 15, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Heartland Area Education Agency 11's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under Governmental Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Heartland Area Education Agency 11's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Agency and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Pittman & Company, LLP

November 15, 2004



**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

To the Board of Directors of
Heartland Area Education Agency 11:

Compliance

We have audited the compliance of Heartland Area Education Agency 11, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Heartland Area Education Agency 11's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Heartland Area Education Agency 11's management. Our responsibility is to express an opinion on Heartland Area Education Agency 11's compliance, based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 Heartland Area Education Agency 11's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Heartland Area Education Agency 11's compliance with those requirements.

In our opinion, Heartland Area Education Agency 11 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control over Compliance

The management of Heartland Area Education Agency 11 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Heartland Area Education Agency 11's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Agency and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Bittman & Company, LLP

November 15, 2004

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.027 - Special Education - Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$683,706.
- (i) Heartland Area Education Agency 11 qualified as a low-risk auditee.

Part II: Findings Related to the General Purpose Financial Statements:

No Findings

Part III: Findings and Questioned Costs for Federal Awards:

No Findings

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2004

Part IV: Other Findings Related to the Required Statutory Reporting:

- 03-IV-A Official Depositories - A resolution naming official depositories has been adopted by the Agency. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- 03-IV-B Budget - Expenditures during the year ended June 30, 2004 did not exceed the amount budgeted.
- 03-IV-C Questionable Expense - We noted no exceptions that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 03-IV-D Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- 03-IV-E Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.
- 03-IV-F 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.
- 03-IV-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 03-IV-H Deposits and Investments - The Agency complied with provisions of Chapters 12B and 12C of the Code of Iowa.
- 03-IV-J Annual Financial Report - The Annual Financial Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.