HEARTLAND AREA EDUCATION AGENCY 11

Independent Auditor's Report
Basic Financial Statements & Supplemental Information
Schedule of Findings and Questioned Costs
June 30, 2005

HEARTLAND AREA EDUCATION AGENCY 11

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HEARTLAND AREA EDUCATION AGENCY 11

Officials

Name	Title	Term Expires
Board of Directors:		
Earl Bridgewater	President	2006
Jane Bell	Vice President	2005
Steve Rose	Member	2005
Nels Turnquist	Member	2005
Ann Wilson	Member	2006
Kathy Lanz	Member	2006
Doug Getter	Member	2007
George Jackson	Member	2007
Ron Rice	Member	2007
Agency:		
Dr. Wayne Rand	Administrator	
Suzie Fagen	Board Secretary	
Terrill Wycoff	Treasurer	
David King	Director of Finance and Business	

AREA SERVED

Audubon County:
- Audubon School District
- Exira School District

Boone County:
- Boone School District
- Grand School District
- Madrid School District
- Ogden School District
- Sacred Heart School
- Trinity Lutheran School
- United School District

Carroll County:
- Carroll School District
- Christ the King School
- Coon Rapids Bayard School District
- Glidden-Ralston School District

Carroll County:
- Holy Spirit School
- Holy Trinity School
- Kuemper School
- Manning School District
- St. Angela Center
- St. Lawrence School

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

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

PITTMAN & COMPANY, LLP
Certified Public Accountants

James D. Pittman, CPA
John D. Pittman, CPA

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, 2005, 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 opinions 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 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 Heartland Area Education Agency 11, at June 30, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our reports dated October 14, 2005 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.

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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.

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, 2004 (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.

October 14, 2005

Pittman + Company, LLP

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, 2005. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- State Aid for fiscal year 2005 (FY05) continued to be affected by three funding cuts which were instigated in fiscal year 2003 and carried through fiscal years 2004 and 2005. House File 755 was made permanent in FY04 which reduces AEA 11 State Aid $1,699,030 annually. Senate File 453 reduced AEA 11 State Aid by $2,322,790. Legislative action continued a governor's 2.5% across-the-board cut which reduced AEA 11 State Aid by another $434,175. In total, AEA 11 received $4,455,995 less in State Aid than allowed under the funding formula.
- General Fund Revenues were $61,855,627 and General Fund Expenditures were $61,464,082 in FY05. General Fund Other Financing Sources and Uses for FY05 were a net source of $3,372. Revenues less Expenditures and Other Uses resulted in a net operating gain of $394,917. The Agency's General Fund fund balance Increased from $5,723,221 in FY04 to $6,118,138 in FY05.
- The agency's Board of Directors designated $250,000 of fund balance for future facility acquisition and/or remodeling.
- During FY05 the agency received $279,000 from the Carver Foundation as well as several generous contributions from area businesses to purchase and equip a science education mobile classroom (Project SEMI).
- The agency had no long-term debt in FY05.

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 indicators 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 at the bottom of 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 FY05 totaled approximately $12.1 million. The analysis that follows provides a summary of the Agency's Net Assets at June 30, 2005 for the Governmental Activities as compared to Net Assets at June 30, 2004. The agency does not have Business-Type Activities, therefore the total is only composed of the governmental funds.

Condensed Statement of Net Assets

	FY05	FY04	% Change
Current and Other Assets	$ 15,639,218	$ 15,362,283	2%
Capital Assets	6,031,194	5,885,709	2%
Total Assets	21,670,412	21,247,992	2%
Long-Term Obligations	-0-	-0-	N/A
Other Liabilities	9,521,080	9,638,118	-1%
Total Liabilities	9,521,080	9,638,118	-1%
Net Assets:			
Invested in Capital Assets, Net of Related Debt	6,031,194	5,885,709	2%
Restricted	1,692,810	1,713,246	1%
Unrestricted	4,425,328	4,010,919	10%
Total Net Assets	$ 12,149,332	$ 11,609,874	5%

The Agency's combined Net Assets increased by approximately $540,000 from FY04. The change occurred as a result of operational activity creating excess revenue over expenditures.

The following analysis shows the changes in Net Assets for the year ended June 30, 2005 as compared to June 30, 2004. The agency does not have Business-Type Activities, therefore the total is composed of the Governmental Funds.

Changes in Net Assets

	FY05	FY04	% Change
Revenues:			
Program Revenues:			
Charges for Services	$ 2,903,145	$ 3,084,718	-6%
Operating Grants and Contributions	27,512,694	24,518,889	12%
General Revenues			
Property Tax	15,072,447	14,729,576	2%
State Aid	17,831,392	17,208,189	4%
Non-Categorical Federal Grants	167,616	204,936	-18%
Unrestricted Investment Earnings	200,432	99,212	102%
Total Revenues	$63,687,726	$ 59,845,520	6%
Program Expenses:			
Instruction	$ 4,260,042	$ 4,097,227	4%
Student Support Services	22,925,365	22,230,424	3%
Instructional Staff Support Services	14,772,577	13,714,842	8%
General and Regional Administration	3,695,271	3,694,398	0
Business Administration	618,170	582,951	6%
Printing, Delivery, and Coop Services	1,668,024	1,480,273	13%
Coop Purchasing Cost of Goods Sold	1,465,421	1,068,535	37%
Plant Operations and Maintenance	1,005,177	1,065,445	-6%
Student Transportation	3,688	4,434	-2%
Central and Other Support Services	6,566,605	6,755,767	3%
LEA Part B Flow-Through	5,988,243	4,489,151	3%
Depreciation-Unallocated	150,262	134,519	12%
Long-Term Debt Interest	-0-	30,717	-100%
Facilities Acquisition	29,423	-0-	N/A
Total Expenses	$ 63,148,268	$ 59,348,683	6%
Increase (Decrease) in Net assets	539,458	496,837	9%
Net Assets-Beginning	11,609,874	11,113,037	4%
Net Assets-Ending	$ 12,149,332	$ 11,609,874	5%

State formula funding, consisting of State Aid and Property taxes, accounts for 52% of the total revenue. Operating Grants and Contributions from local, state and federal sources account for 43% of the total revenue. The significant increase in Unrestricted Investment Earnings is due largely to improving interest rates on investments. 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. The large increase in the Coop Purchasing Cost of Goods Sold is due

to an opportunity to purchase paper at a reduced price. A corresponding increase in Coop Purchasing Revenues will be realized when the paper is sold to clients.

Governmental Activities

Revenues for Governmental Activities were $63,687,726 and expenses were $63,148,268.

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 $6,118,138 which is about $400,000 more than last year's ending fund balances of $5,724,165.

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 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, 2005, the Agency had invested $6 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 $100,000 from last year.

Area Education Agency 11 had depreciation expense of $715,143 in FY05 and total accumulated depreciation of $6,559,544 at June 30, 2005. More detailed information about capital assets is available in Note 3 to the financial statements.

Debt Administration

At June 30, 2005 the agency had no long-term debt outstanding. 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 FY06 budget resources were reduced by legislative action. These reductions are similar to the reductions experienced in FY04 and FY05. They are the permanent reduction of $1,699,030 plus the continuation of the $2,322,790 and $434,175 reductions, for a total of $4,455,995. These continuing reductions have been successfully absorbed by operational adjustments.

The Board of Directors is currently evaluating improving utilization of all facilities, via remodeling, construction and/or relocation of offices or redistributing functions performed at each facility. Although the facilities plan has not been finalized or approved, it is possible that the Agency could have significant facility acquisition or remodeling costs and could incur facility-related long-term debt in FY06.

Dr. Wayne Rand, the Agency's Chief Administrator is retiring on June 30, 2006. A national search will be conducted in FY06 to hire his replacement.

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.

Exhibit A

Heartland Area Education Agency 11
Statement of Net Assets
June 30, 2005

ASSETS	
Cash and Cash Equivalents	$ 11,919,954
Due from Other Governments	3,326,711
Other Receivables	49,706
Inventories	294,783
Prepaid Expenses	48,064
Capital Assets, Net of Depreciation	6,031,194
Total Assets	$ 21,670,412
LIABILITIES	
Accounts Payable and Other Current Liabilities	$ 8,545,942
Deferred Revenues	
Federal	555,946
Miscellaneous	419,192
Total Liabilities	$ 9,521,080
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	$ 6,031,194
Restricted	
Media Materials Resource	1,325,603
Unrestricted	4,792,535
Total Net Assets	$ 12,149,332

See accompanying notes to financial statements.

Heartland Area Education Agency 11
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contribution	Program Revenues: Capital Grants and Contribution	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities
Governmental Activities:					
Instruction	$ 4,260,042	$ 43,799	$ 3,850,299	-	$ (365,944)
Student Support Services	22,925,365	37,068	9,971,737	-	(12,916,560)
Instructional Staff Support Services	14,772,577	880,140	7,034,510	-	(6,857,927)
General Administration	2,919,938	3,338	176,796	-	(2,739,804)
Regional Administration	775,333	6			(775,327)
Business Administration	618,170	178	275,223	-	(342,769)
Printing, Delivery & Coop Services	1,668,024	286,334	-	-	(1,381,690)
Coop Purchasing Cost of Goods Sold	1,465,421	1,520,534	-	-	55,113
Plant Operations and Maintenance	1,005,177	4	19,596	-	(985,577)
Student Transportation	3,688	-	3,688	-	-
Central & Other Support Services	6,566,605	131,744	192,602	-	(6,242,259)
Facility Acquisition	29,423	-	-	-	(29,423)
LEA Part B Flowthrough	5,988,243		5,988,243		-
Depreciation-Unallocated	150,262	-	-	-	(150,262)
Interest on Long-Term Debt	-	-	-	-	-
Total Primary Government	$63,148,268	$2,903,145	$27,512,694	$ -	$ (32,732,429)

General Revenues	
Property Taxes, Levied for General Purposes	$ 15,072,447
State Aid-Formula Grants	17,831,392
Non-Categorical Federal Funding	167,616
Unrestricted Investment Earnings	200,432
Total General Revenues	$ 33,271,887
Change in Net Assets	539,458
Net Assets-Beginning	11,609,874
Net Assets-Ending	$ 12,149,332

See accompanying notes to the financial statements

Heartland Area Education Agency 11
Balance Sheet
Governmental Funds
June 30, 2005

		Non-Major Governmental Funds			
		Special Revenue		Non-Major	Government-
	General	Spec Ed Instructional	Shelter Care	Funds Sub-Total	Wide Total
ASSETS					
Cash and Cash Equivalents	$ 11,733,246	$ (25,126)	$ 211,834	$ 186,708	$ 11,919,954
Due from Other Governments	3,326,711	-	-	-	3,326,711
Other Receivables	18,357	28,626	2,723	31,349	49,706
Inventories	294,783	-	-	-	294,783
Prepaid Expenses	46,361	-	1,703	1,703	48,064
Total Assets	$ 15,419,458	$ 3,500	$ 216,260	$ 219,760	$ 15,639,218
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts Payable and Other Current Liabilities	$ 8,395,098	$ 3,500	$ 147,344	$ 150,844	$ 8,545,942
Deferred Revenues				-	-
Federal	555,946	-	-	-	555,946
Miscellaneous	350,276	-	68,916	68,916	419,192
Total Liabilities	$ 9,301,320	$ 3,500	$ 216,260	$ 219,760	$ 9,521,080
Fund Balance					
Reserved					
Inventory	$ 294,783	-	-	-	$ 294,783
Prepaid Expenses	46,361	-	-	-	46,361
Encumbrances	26,063	-	-	-	26,063
Materials Resource	1,325,603	-	-	-	1,325,603
Designated					
Unemployment	33,150	-	-	-	33,150
Branch Office Construction	217,281	-	-	-	217,281
Capital Needs and Repairs	250,000	-	-	-	250,000
Johnston Facility Acquisition	834,345	-	-	-	834,345
Unreserved/Undesignated	3,090,552	-	-	-	3,090,552
Total Fund balance	$ 6,118,138	-	-	-	$ 6,118,138
Total Liabilities and Fund Balances	$ 15,419,458	$ 3,500	$ 216,260	$ 219,760	$ 15,639,218

See accompanying notes to the financial statements

Exhibit D

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

Total Fund Balances-Governmental Funds	$ 6,118,138
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 $12,590,738, less the accumulated depreciation of $6,559,544.	6,031,194
Total Net Assets-Governmental Activities	$12,149,332

See accompanying notes to financial statements.

Exhibit E

Heartland Area Education Agency 11
Statement of Revenues, Expenditures and
Changes in Fund Balances-Governmental Funds
For the Year Ended June 30, 2005

		Non-Major Governmental Funds				
		Special Revenue			Non-Major	
	General	Spec Ed Instructional	Shelter Care	Capital Projects	Funds Sub-Total	Total
Revenues						
Local Sources	$ 18,743,323	$ 40,457	-	-	$ 40,457	$ 18,783,780
State Sources	18,378,308		$ 1,759,011	-	1,759,011	20,137,319
Federal Sources	24,733,996	-	-	-	-	24,733,996
Total Revenues	$ 61,855,627	$ 40,457	$ 1,759,011	-	$ 1,799,468	$ 63,655,095
Expenditures						
Instruction	$ 2,775,283	$ 40,298	$ 1,442,608	-	$ 1,482,906	$ 4,258,189
Student Support Services	22,909,329	-	-	-	-	22,909,329
Instructional Staff Support Services	14,938,304	-	106,708	-	106,708	15,045,012
General Administration	2,758,123	-	161,089	-	161,089	2,919,212
Regional Administration	775,333					775,333
Business Administration	618,170	-	-	-	-	618,170
Printing, Delivery & Coop Services	1,669,631	-	-	-	-	1,669,631
Coop Purchasing Cost of Goods Sold	1,465,421	-	-	-	-	1,465,421
Plant Operations and Maintenance	985,581	-	19,596	-	19,596	1,005,177
Student Transportation	-	-	3,688	-	3,688	3,688
Central & Other Support Services	6,580,664	-	180	-	180	6,580,844
LEA Part B Flowthrough	5,988,243	-	-	-	-	5,988,243
Facilities Acquisition	-	-	-	$ 29,423	29,423	29,423
Total Expenditures	$ 61,464,082	$ 40,298	$ 1,733,869	$ 29,423	$ 1,803,590	$ 63,267,672
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 391,545	$ 159	$ 25,142	$ (29,423)	$ (4,122)	$ 387,423
Other Financing Sources (uses)						
Sales of Equipment	$ 6,550	-	-	-	-	$ 6,550
Transfers In	26,245	-	-	$ 29,423	$ 29,423	55,668
Transfers Out	(29,423)	$ (159)	$ (26,086)	-	(26,245)	(55,668)
Total Financing Sources (Uses)	$ 3,372	$ (159)	$ (26,086)	$ 29,423	$ 3,178	$ 6,550
Net Change in Fund Balances	$ 394,917	-	$ (944)	-	$ (944)	$ 393,973
					-	
Fund Balances--Beginning	$ 5,723,221	-	$ 944	-	$ 944	$ 5,724,165
Fund Balances--Ending	$ 6,118,138	-	$ -	-	$ -	$ 6,118,138

See accompanying notes to the financial statements

Exhibit F

Heartland Area Education Agency 11
Reconcilliation 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	$	393,973
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 ($880,833) exceeds depreciation expense ($715,143)		165,690
The net effect of various miscellaneous transactions involving Capital Assets (i.e. donations and write-offs) is to increase Net Assets.		(20,205)
Change in Net Assets of Governmental Activities	$	539,458

See accompanying notes to financial statements.

(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 54 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.

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 recognizes 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:

Asset Class	Estimated Useful Lives (In Years)
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, 2005. 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, 2005 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, 2005 consisted of the following:

	Cost	Market Value
Iowa Schools Joint Investment Trust	$ 59,915.78	$ 59,915.78

(3) Capital Assets

A summary of changes in Capital Assets for the year ended June 30, 2005 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.

	Balance Beginning of Year	Additions	Deletions	Balance Ending of Year
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 1,086,985	-0-	-0-	$ 1,086,985
Capital Assets Being Depreciated:				
Buildings	$ 3,182,569	-0-	-0-	$ 3,182,569
Improvements Other than Buildings	1,463,706	$ 2,736	-0-	1,466,442
Furniture and Equipment	4,006,164	614,734	$859,431	3,761,467
Library/Media Collection	2,957,743	289,423	153,891	3,093,275
Total Capital Assets Being Depreciated	11,610,182	$ 906,893	$1,013,322	$11,503,753
Less Accumulated Depreciation for:				
Buildings	$ 823,746	$ 63,652	-0-	$ 887,398
Improvements Other than Buildings	1,224,522	87,066	-0-	1,311,588
Furniture and Equipment	3,170,427	255,097	813,166	2,612,358
Library/Media Collection	1,592,763	309,328	153,891	1,748,200
Total Accumulated Depreciation	$6,811,458	$715,143	967,057	$6,559,544
Total Capital Assets Being Depreciated, Net	$4,798,724	$191,750	$ 46,265	$4,944,209
Governmental Activities Capital Assets, Net	$5,885,709	$191,750	$ 46,265	$6,031,194

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

Governmental Activities:	
Instruction	$ 5,048
Student Support Services	23,470
Instructional Staff Support Services	354,620
General Administration	726
Business Administration	-
Printing, Delivery & Coop Services	70,238
Plant Operations and Maintenance	-
Central and Other Support Services	110,779
Unallocated	150,262
Total Governmental Activities Depreciation Expense	$ 715,143

(4) Long-Term Debt

The agency had no long-term debt during, or at the end of, the fiscal year ended June 30, 2005

(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, 2005, 2004, and 2003 was approximately $1,605,815, $1,551,626, and $1,522,000, 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 2005 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 is continued for fiscal year 2006.

(8) Subsequent Event

As of July 1, 2005, the Agency went to a self-insured dental plan. Monthly an amount is set aside based on premiums as if fully insured. The premium amounts include an agency contribution per covered employee and in some cases employee's contributions to cover their dependents. These monthly amounts are used to pay dental claims as incurred. Delta Dental administers claim payments on behalf of the agency and is paid a fee for this service. Management believes that dental expense will remain consistent with past years and as indicated by the Agency insurance consultants the self-insured plan should reduce future dental premium increases.

Required Supplementary Information

Heartland Area Education Agency
Required Supplementary Information
Budgetary Comparison Schedule-All Governmental Funds
For the Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final budget-
	Original	Final	Actual	Positive (Negative)
REVENUES				
Local Sources	$ 17,464,554	$ 19,127,031	$ 18,783,780	$ (343,251)
State Sources	22,936,334	20,147,083	20,137,319	(9,764)
Federal Sources	25,005,055	26,356,610	24,733,996	(1,622,614)
Total Revenues	$ 65,405,943	$ 65,630,724	$ 63,655,095	$ (1,975,629)
EXPENDITURES				
Instruction	4,723,473	4,454,010	4,258,189	195,821
Student Support Services	25,509,256	23,218,785	22,909,329	309,456
Instructional Staff Support Services	15,581,146	16,622,099	15,045,012	1,577,087
General Administration	3,397,009	2,732,858	2,919,212	(186,354)
Regional Administration	-	820,655	775,333	45,322
Business Administration	623,016	622,623	618,170	4,453
Printing, Delivery and Coop Services	2,539,337	3,394,836	3,135,052	259,784
Plant Operations and Maintenance	1,008,709	1,158,091	1,005,177	152,914
Student Transportation	4,200	5,000	3,688	1,312
Central & Other Support Services	6,307,357	6,942,754	6,580,844	361,910
LEA Part B Flow-Through	5,912,440	5,988,243	5,988,243	-
Facility Acquisition	-	30,000	29,423	577
Total Expenditures	$ 65,605,943	$ 65,989,954	$ 63,267,672	$ 2,722,282
Excess (Deficiency) of Revenues Over Expenditures	(200,000)	(359,230)	387,423	746,653
OTHER FINANCING SOURCES (USES)				
Sales of Equipment	-	-	6,550	6,550
Excess (Deficiency) of Revenues Over Expenditures and Other Financing	$ (200,000)	$ (359,230)	$ 393,973	$ 753,203

See accompanying independent auditor's report

HEARTLAND AREA EDUCATION AGENCY 11

Note to Required Supplementary Information

Budgetary Reporting

June 30, 2005

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

	Modified Accrual Basis		
	Years ended June 30,		
	2005	2004	2003
Revenues:			
Local sources	$ 18,790,330	$ 17,844,782	$ 17,328,701
State	20,137,319	19,486,976	21,767,682
Federal	24,733,996	22,445,039	17,679,360
Total	$ 63,661,645	$ 59,776,797	$ 56,775,743
Expenditures:			
Instruction	$ 4,258,189	$ 4,111,796	$ 4,251,796
Student support services	22,909,329	22,221,893	21,833,663
Instructional staff support services	15,045,012	13,923,080	13,907,799
General administration	3,694,545	3,690,930	3,394,775
Business administration	3,753,222	3,056,366	2,964,922
Plant operations and maintenance	1,005,177	1,065,791	910,418
Student transportation	3,688	4,434	4,007
Central and other support services	6,580,844	6,890,327	5,699,256
LEA Part B flow through	5,988,243	4,489,151	2,894,398
Facilities acquisition and construction	29,423	818,994	122,486
Total	$ 63,267,672	$ 60,272,762	$ 55,983,520

See accompanying auditor's report

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Federal Awards
Year Ended June 30, 2005

Project Title	CFDA Number	Pass-Through Grantor's Number	Project Expenditures
US Department of Education			
Passed-through State Dept. of Education			
Special Education--Part B			
Early Childhood Education for the Handicapped	84.027	040511	$22,021,754
Learning Supports	84.027	04K75-11	$19,012
DE Consultant Agreement 2004-2005	84.027	18505	$79,095
Diagnostic Evaluation Program 2004-2005	84.027	4K72	$3,629
Parent Educator Model 2004-2005	84.027	47411	$155,365
Employment Prep Survey	84.027	51405	$2,687
Parent-Ed State Conference	84.027	25103	$2,048
Para-Educator Inservice 2004-2005	84.027	4K76-11	$27,092
Part B Medicaid	84.027		$328,775
Supplemental Support Services 2004-2005	84.027	3K42	$167,616
Iowa Alternative Assessment	84.027	36405	$3,046
SLP Communication Profile	84.027	17704	$5,000
OT/PT Staff Development Conference	84.027		$1,172
Conflict Resolution	84.027	4K07-11MED	$2,000
		*	$22,818,291
Special Education--Basic 619			
Preschool 3 thru 5 P.L. 99-457	84.173	04619-11	$676,382
Special Ed--Part C			
Education of Handicapped Act Part C	84.181	C04-11	$496,488
Part C Medicaid	84.181		$11,284
			$507,772
Title I			
DDL Taglet Agreement	84.348		$58,108
Title II			
E2T2, Part D	84.318		$38,964
E2T2, Part D	84.318		$86,955
E2T2, State-wide	84.318		$76,973
E2T2, State-wide	84.318		$94,368
ESETP CFDA	84.318		$40,400
LSTA Grant 2004	84.318		$6,666
			$344,326
Title III			
ESL/FIE	84.365		$34,822
ELL-LEP	84.365		$19,661

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Federal Awards
Year Ended June 30, 2005

Project Title	CFDA Number	Pass-Through Grantor's Number	Project Expenditures
ELL/LEP	84.365		$86,045
ELL/LEP	84.365		$76,060
DE Reading Consultant	84.365		$4,570
Reading First	84.365		$11,857
Reading First	84.365		$11,264
			$244,279
State Program Improvement Grants			
Iowa Quality Preschool Prog Standards	84.323	G-5PI3-11	$15,220
Our Kids Grant	84.215	53204	$1,928
Our Kids Technical	84.215	55504	$23,396
Federal Teacher Quality	84.215		$16,672
Title II, Part A	84.215		$18,081
Title II, Part A	84.215		$6,391
IA Demo Construction Agreement	84.215	52604	$2,414
IA Demo Construction Agreement	84.215		$6,976
			$75,858
Safe & Drug Free Data Pilot	84.186	40005	$8,929
Special Ed Tech Assistance	84.326		$8,500
Total passed-through Iowa Department of Education			$24,757,665
Passed-through Iowa Public Television			
PBS Teacherline	84.286		$4,000
Iowa Learning Online	84.215		$87,926
Passed-Through the University of Iowa			
IPAT Grant/University of IA	84.027	P4000511985	$1,472
IPAT Grant/University of IA	84.027	P4000519259	$1,437
Autism Resource	84.027		$500
			$3,409
Passed through Ames Community Schools			
Chapter 1 2004-2005	84.010		$17,713
Passed through Des Moines Independent Schools			
Chapter 1 2004-2005	84.010		$89,104
Passed through Indianola Community Schools			
Chapter 1 2004-2005	84.010		$4,453
Passed through Manning Community Schools			

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Federal Awards
Year Ended June 30, 2005

Project Title	CFDA Number	Pass-Through Grantor's Number	Project Expenditures
Chapter 1 2004-2005	84.010		$6,529
Passed through Newton Community Schools			
Chapter 1 2004-2005	84.010		$11,207
			$129,006
Total			$24,982,006

*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 11 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

PITTMAN & COMPANY, LLP
Certified Public Accountants

James D. Pittman, CPA
John D. Pittman, CPA

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, 2005, and have issued our report thereon dated October 14, 2005. 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, 2005 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 opinions 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.

October 14, 2005 Pittman + Company, LLP

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PITTMAN & COMPANY, LLP
Certified Public Accountants

James D. Pittman, CPA
John D. Pittman, CPA

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, 2005. 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, 2005.

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.

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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.

Fitterman + Company, LLP

October 14, 2005

HEARTLAND AREA EDUCATION AGENCY 11
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

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 $749,460.

(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

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, 2005.

03-IV-B Budget - Expenditures during the year ended June 30, 2005 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.