

**NORTH IOWA AREA COMMUNITY COLLEGE
MASON CITY, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005**

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Officials

Name	Title	Term Expires
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**Board of Directors
(Before October, 2004 Election)**

Kevin Kolbert	President	2004
Colin Robinson	Vice President	2006
Karen Knudtson	Member	2005
Terry Cobb	Member	2006
Jean Torgeson	Member	2004
David Steffens, Jr.	Member	2006
Dean Cataldo	Member	2006
John Heilskov	Member	2005
James Niemants	Member	2004

**Board of Directors
(After October, 2004 Election)**

Colin Robinson	President	2006
David Steffens, Jr.	Vice President	2006
Karen Knudtson	Member	2005
Terry Cobb	Member	2006
Jean Torgeson	Member	2007
Dean Cataldo	Member	2006
John Heilskov	Member	2005
Doug Morse	Member	2007
Gordon Anderson	Member	2007

Officials

Dr. Michael C. Morrison	President
Sandra L. Gobeli	Vice President, Administration and Board Secretary/ Treasurer

Independent Auditor's Report

Board of Directors
North Iowa Area Community College
Mason City, Iowa

We have audited the accompanying financial statements of North Iowa Area Community College, Mason City, Iowa, and its aggregate discretely presented component units at and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of North Iowa Area Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the component units of the North Iowa Area Community College as discussed in Note 1, which represent 100% of the assets and revenue of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to those units is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Iowa Area Community College and its aggregate discretely presented component units at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 11, 2005 on our consideration of North Iowa Area Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 12 and Page 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise North Iowa Area Community College's basic financial statements. The financial statements and supplemental data for the three years ended June 30, 2004 (none of which are presented herein) were audited by another auditor in accordance with the standards referred to in the second paragraph of this report who expressed unqualified opinions on those financial statements and supplemental data. The supplementary information on Pages 29 through 40, including the Schedule of Expenditures of Federal Awards required by the 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 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 11, 2005

**North Iowa Area Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2005**

Management of North Iowa Area Community College has prepared a discussion and analysis of the College's financial statements that provides an overview of financial activities for the year beginning July 1, 2004 and ending June 30, 2005. We encourage readers to consider this information in conjunction with the College's financial statements, which follow.

North Iowa Area Community College is in the third year of implementing new reporting standards with significant changes in content and structure. The report makes comparisons between FY05 and FY04. In future years, the report will be able to make longitudinal comparisons that will be more meaningful and will go further in explaining the College's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- College operating revenue increased 10% in FY05. Some of the increase was due to tuition revenue. Tuition and fees rates were increased by 6.4% for FY05. This increase was necessary due to the lack of any substantial increase in state general aid. Auxiliary revenue was the major factor in the increase in operating revenue. In FY05, the College began to self operate food service at the college and dormitory. In the past, the College had contracted the food service operation. Revenue associated with the Iowa Industrial New Jobs Training Program also increased by 34% in FY05. This program involves the diversion of state withholding to repay bonds that are issued for workforce training. Revenue for this program can vary from year to year depending on the revenue needed for annual bond payments and the types of training programs initiated.
- College operating expenses in FY05 increased 8.6% over FY04. Much of this increase is due to expenses related to the operation of food service. Salary costs increased by 3.3%. Expenses also increased due to costs associated with the expansion of the nursing program and the addition of a hospitality/food service management program.
- The College assumed ownership of the NIACC Dorms in June, 2005. Total assets contributed to the College were \$2,187,507 of which \$2,014,002 were capital assets.
- Two construction projects began in FY05 that are being funded by outside gifts and grants.

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 College's financial activities.

The College's basic financial statements consist of a Statement of Net Assets, a Statement of Revenue, Expenses and Changes in Net Assets and a Statement of Cash Flows. These statements provide information about the activities of the College as a whole and present an overall view of the College's finances.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Supplementary information further explains and supports the financial statements with a comparison of the College's budget for the year, and provides detailed information about the individual funds.

This discussion and analysis focuses on the College's primary institution operations. The College's discretely presented component units issue separately audited financial statements which can be obtained from the dormitory and foundation's administrative offices.

REPORTING THE COLLEGE AS A WHOLE

The Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the College as a whole, as of the end of the fiscal year. The Statement of Net Assets is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of the College to the readers of the financial statements. The Statement of Net Assets includes year-end information concerning current and noncurrent assets, current and noncurrent liabilities and net assets (assets less liabilities). Over time, readers of the financial statements are able to determine the College's financial position by analyzing the increases and decreases in net assets. This statement is also a good source for readers to determine how much the College owes to outside vendors and creditors. The statement presents the available assets that can be used to satisfy those liabilities.

Statement of Net Assets

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 22,665,239	\$ 19,220,442
Noncurrent assets	2,008,111	2,005,779
Capital assets, net of accumulated depreciation	<u>16,591,148</u>	<u>13,905,805</u>
Total Assets	<u>41,264,498</u>	<u>35,132,026</u>
Current liabilities	7,617,361	6,019,021
Noncurrent liabilities	<u>7,862,722</u>	<u>7,322,258</u>
Total Liabilities	<u>15,480,083</u>	<u>13,341,279</u>
Net Assets		
Invested in capital assets, net of related debt	16,588,749	13,900,177
Restricted, expendable	1,223,937	711,729
Unrestricted	<u>7,971,729</u>	<u>7,178,841</u>
Total Net Assets	<u>\$ 25,784,415</u>	<u>\$ 21,790,747</u>

The largest portion of the College's net assets (64.3%) is in Invested in Capital Assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to Invested in Capital Assets is liquidated with sources other than capital assets. North Iowa Area Community College's only debt related to Capital Assets is an equipment lease in the amount of \$2,399. Much of the increase in Capital Assets related to the acquisition of the NIACC Dormitories, Inc. buildings. The restricted portion of net assets (4.8%) includes resources that are subject to external restrictions. Unrestricted net assets represent the remaining net assets (30.9%). These can be used to meet the College's obligations as they come due.

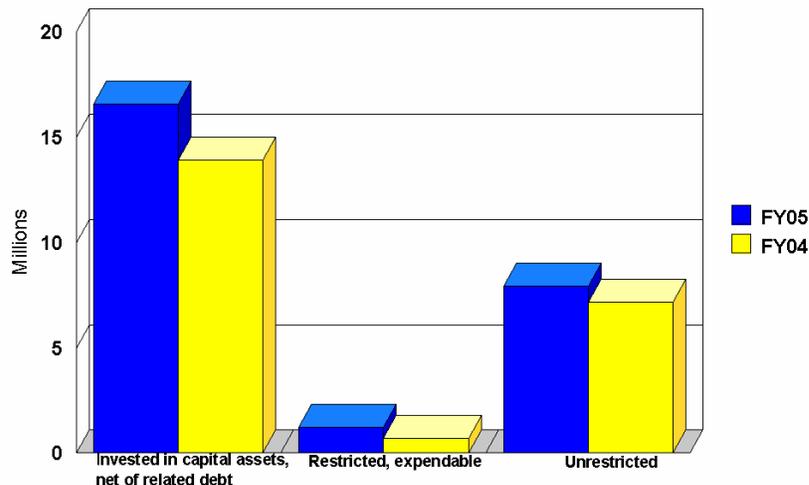
Restricted, expendable net assets in FY05 increased \$512,208 from FY04 or 72%. This was largely due to only one early retirement that allowed most of the early retirement property tax collections to be applied to the early retirement fund balance. Several other restricted funds also increased in FY05, including the equipment replacement fund.

Unrestricted net assets increased \$792,888 or 11%. Much of this increase is the result of less spending in the Plant Fund. The paving of a parking lot was completed in FY05. During the spring of 2005, the College began two construction projects that were not completed until after July 1, 2005. An expanded kitchen area and a dining room were added to the Activity Center and the auditorium roof was raised to allow more fly space. Most of the construction costs for these two projects will be paid for from outside sources. Annual building and repair costs were paid from the General Fund in FY05.

Statement of Revenue, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenue, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenue received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, and any other revenue, expenses, gains and losses received or spent by the College.

Comparison of Net Assets



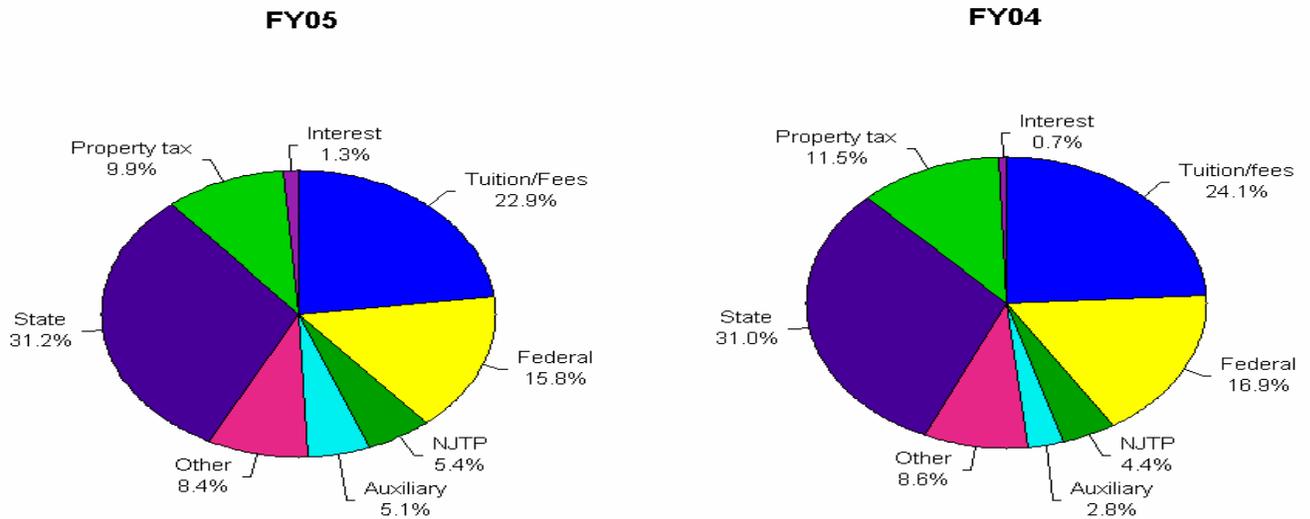
In general, a public college such as North Iowa Area Community College, will report an operating loss, as the financial reporting model classifies state appropriations and property taxes as nonoperating revenue. Operating revenue is received for providing goods and services to students, customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenue, and to carry out the mission of the College. Nonoperating revenue is revenue received for which goods and services are not provided. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life.

Changes in Net Assets

	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Operating Revenue		
Tuition and fees	\$ 6,349,105	\$ 6,093,648
Federal appropriations	4,377,657	4,277,760
State grants and contracts	102,478	89,311
Sales and services	248,521	388,615
Iowa Industrial New Jobs Training Program	1,512,085	1,125,205
Accounts receivable and student loan interest	8,744	—
Auxiliary	1,411,936	703,029
Miscellaneous	<u>1,570,600</u>	<u>1,483,773</u>
Total Operating Revenue	15,581,126	14,161,341
Total operating expenses	<u>26,163,899</u>	<u>24,099,578</u>
Operating Loss	<u>(10,582,773)</u>	<u>(9,938,237)</u>
Nonoperating Revenue (Expenses)		
State appropriations	8,572,046	7,773,527
Property tax	2,757,931	2,903,480
Gifts	515,106	304,657
Interest income from investments	356,877	192,216
Gain/loss on sale of capital assets	(12,962)	1,500
Interest on indebtedness	<u>(468,600)</u>	<u>(467,057)</u>
Net Nonoperating Revenue	<u>11,720,398</u>	<u>10,708,323</u>
Increase in Net Assets Before Other Revenue, Expenses, Gains or Losses and Transfers		
	1,137,625	770,086
Receipt of net assets from NIACC Dormitories, Inc.	2,187,507	—
Capital grants and gifts	<u>668,536</u>	<u>—</u>
Increase in Net Assets	3,993,668	770,086
Net assets - beginning of year	<u>21,790,747</u>	<u>21,020,661</u>
Net Assets - End of Year	<u>\$ 25,784,415</u>	<u>\$ 21,790,747</u>

The Statement of Revenue, Expenses and Changes in Net Assets reflects a positive year with an increase (\$3,993,668 or 18.3%) in the net assets at the end of the fiscal year and an increase (\$644,536 or 6.5%) in net operating loss.

Total Revenue by Source

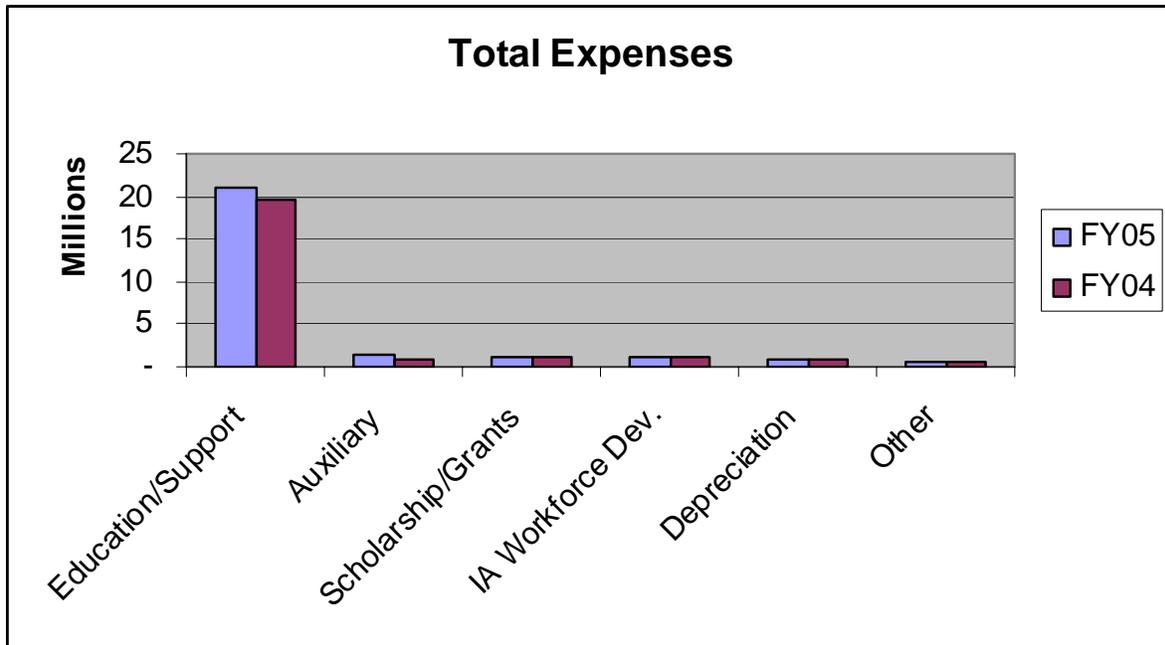


In FY05, operating revenue increased as a net result of the following changes:

- Tuition for credit classes increased due to an increase in the tuition rate from \$83 per credit hour in FY04 to \$88.50 per credit hour in FY05.
- Auxiliary revenue increased in FY05 because the College no longer uses contract services for food service at the College and dorms. The College's state general aid increased by \$143,230. Unrestricted state general aid dollars for FY05 are 1.86% higher than in FY04. In fact, the College received less state general aid in FY05 than it did in FY00. There was an increase in restricted state support associated with economic development projects and new programs.
- Revenue associated with the Iowa Industrial New Jobs Training Program increased 34.4% in FY05. This program issues bonds used for workforce training by new or expanding companies. The bonds are repaid from employee state withholding revenue that is diverted to this program. Revenue depends on what is needed to make the annual principal and interest payments.
- A capital project to raise the roof on the North Iowa Community Auditorium was supported through capital gifts from the NIACC Foundation, Inc.

Operating Expenses

	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Education and Support		
Liberal arts and sciences	\$ 5,613,513	\$ 5,329,321
Vocational technical	3,106,784	3,026,423
Adult education	3,022,549	3,245,813
Cooperative services	1,709,512	1,150,166
Administration	1,101,030	970,532
Student services	2,485,806	2,285,736
Learning resources	529,712	466,983
Physical plant	1,889,807	1,757,942
General institution	1,524,971	1,332,804
Auxiliary enterprises	1,474,241	852,606
Scholarship and grants	1,196,668	1,236,013
Iowa Workforce Development contract	1,064,643	1,007,146
Loan cancellations and bad debts	(1,225)	44,841
Administrative and collection costs	516,928	449,641
Depreciation	928,960	943,611
	<u>\$ 26,163,899</u>	<u>\$ 24,099,578</u>
Total	<u>\$ 26,163,899</u>	<u>\$ 24,099,578</u>



In FY05, operating expenses increased by 8.6% as a result of the following changes:

- Faculty and staff received a salary increase of 3.3% accompanied by an 8% increase in the cost of the College's health insurance program.
- A hospitality/food service management program was added in FY05 and the nursing program was expanded.
- During FY05 training costs increased due to the implementation of a new administrative software product (Datatel).
- There was a 72.9% increase in expenditures related to the Auxiliary Fund. This was due to costs associated with the College operating food service instead of using a contract service.

Statement of Cash Flows

The final statement included in North Iowa Area Community College's basic financial statements is the Statement of Cash Flows. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital financing and investing activities.

Cash Flows

	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Cash Provided by (Used in)		
Operating activities	\$ (9,210,695)	\$ (9,133,899)
Noncapital financing activities	11,464,566	10,921,979
Capital and related financing activities	(411,261)	(1,172,856)
Investing activities	<u>6,877</u>	<u>(2,762,347)</u>
Net Increase in Cash	1,849,487	(2,147,123)
Cash - beginning of year (as restated)	<u>11,307,640</u>	<u>13,454,763</u>
Cash - End of Year	<u>\$ 13,157,127</u>	<u>\$ 11,307,640</u>

Cash used for operating activities includes tuition and fees and grants and contracts along with payments to employees and to suppliers. Cash provided by noncapital financing activities includes state appropriations, local property taxes received by the College and the receipt and disbursement of federal direct loan program proceeds. Cash used for capital and related financing activities represents the proceeds from debt, the principal and interest payments of debt and the purchase of capital assets. NIACC issued \$1,790,000 in Iowa New Jobs Training bonds in FY05. This was \$825,000 more than in FY04 contributing to the change in "Capital and related financing activities".

CAPITAL ASSETS

At June 30, 2005 the College has \$31,751,070 invested in capital assets, less accumulated depreciation of \$15,159,922. Depreciation charges totaled \$928,960 for the 2005 fiscal year. Details for the capital assets are shown below.

Capital Assets, Net, at Year End

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Land	\$ 340,756	\$ 329,656
Buildings	12,663,389	11,205,438
Construction in progress	976,946	33,667
Other structures and improvement	791,465	664,787
Equipment and vehicles	<u>1,818,592</u>	<u>1,672,257</u>
Total	<u>\$ 16,591,148</u>	<u>\$ 13,905,805</u>

Capital assets of land and buildings increased in FY05 due to two on-going constructions projects and the College acquiring the assets of NIACC Dormitories, Inc. Planned capital expenditures for the fiscal year ending June 30, 2006 include the completion of an addition to the kitchen area to accommodate the hospitality/food service program and remodeling of the auditorium. The College is in the process of planning a physical plant building and student recreational center. More detailed information about the College's capital assets is presented in Note 4 to the financial statements.

DEBT

At June 30, 2005, the College had \$7,777,399 in debt outstanding, an increase of \$816,771 from FY04. The table below summarizes these amounts by type.

Outstanding Debt

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Capital leases payable	\$ 2,399	\$ 5,628
Certificates payable	<u>7,775,000</u>	<u>6,955,000</u>
Total	<u>\$ 7,777,399</u>	<u>\$ 6,960,628</u>

More detailed information about the College's outstanding debt is presented in Note 5 to the financial statements.

ECONOMIC FACTORS

North Iowa Area Community College continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for College officials. Some of the potential challenges for the College to meet are as follows:

- Although state general aid increased for FY06, the College will receive \$25,267 (0.3%) less than it did in FY01. With lagging state general aid, students are bearing a greater financial burden.
- Technology continues to expand and current technology rapidly becomes outdated presenting an on-going challenge to maintain up-to-date technology at a reasonable cost.
- Demographics of the area continue to be a source of concern. The number of high school graduates will decline over the next five years and the population continues to age. This could impact enrollment at the College.
- Expenses will continue to increase due to normal increases in salaries and benefits. Higher utility costs are also expected to contribute to increased costs of operation in FY06.

CONTACT THE COLLEGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, taxpayers in the community college district and our creditors with a general overview of the College's finances and to demonstrate the College's accountability for the resources it receives. If you have questions about the report or need additional financial information, contact North Iowa Area Community College, 500 College Drive, Mason City, IA 50401.

Basic Financial Statements

Statement of Net Assets

At June 30, 2005

	Primary Institution	Component Units	
		Dormitories	Foundation
Assets			
Current Assets			
Cash and certificates of deposit	\$ 16,457,127	\$ 177,506	\$ 8,272,600
Receivables			
Accounts (net of allowance for doubtful accounts College - \$156,678; Dormitories - \$41,500)	702,510	19,314	82,598
Property tax - succeeding year	2,807,924	—	—
Notes (net of allowance for doubtful accounts - College - \$16,211)	15,130	—	50,721
Iowa Industrial New Jobs Training Program Contributions	1,308,644	—	—
Due from component units	—	—	325,987
Due from College	390,514	—	—
Due from other governments	—	—	43,261
Other	967,233	—	—
Prepaid expenses	—	461	—
Inventories	12,082	—	—
	4,075	—	—
Total Current Assets	<u>22,665,239</u>	<u>197,281</u>	<u>8,775,167</u>
Noncurrent Assets			
Cash and investments	—	—	4,778,031
Receivables			
Notes	33,206	—	55,653
Iowa Industrial New Jobs Training Program Contributions receivable	1,974,905	—	—
Investments in real estate	—	—	236,653
Beneficial interest in assets held by others	—	—	543,656
Capital assets, net of accumulated depreciation	—	—	336,414
	16,591,148	—	—
Total Noncurrent Assets	<u>18,599,259</u>	<u>—</u>	<u>5,950,407</u>
Total Assets	<u>\$ 41,264,498</u>	<u>\$ 197,281</u>	<u>\$ 14,725,574</u>

See accompanying notes to the financial statements.

	Primary Institution	Component Units	
		Dormitories	Foundation
Liabilities			
Current Liabilities			
Accounts payable	\$ 1,054,757	\$ 6,048	\$ —
Salaries and benefits payable	802,538	—	—
Annuity payable	—	—	27,196
Interest payable	35,695	—	—
Compensated absences	405,403	—	—
Insurance claims incurred but not reported	48,961	—	—
Deposits held in custody for others	289,711	17,728	—
Advance payable	62,000	—	—
Deferred Revenue			
Due to College	—	173,505	—
Succeeding year property tax	2,807,924	—	—
Tuition	108,209	—	—
Other	633,852	—	—
Early retirement payable	70,912	—	—
Capital lease payable	2,399	—	—
Certificates payable	1,295,000	—	—
Total Current Liabilities	<u>7,617,361</u>	<u>197,281</u>	<u>27,196</u>
Noncurrent Liabilities			
Early retirement payable	166,188	—	—
Deferred revenue, other	1,128,279	—	—
Salary and benefits payable	22,375	—	—
Annuity payable	—	—	119,053
Certificates payable	6,480,000	—	—
Refundable advances on student loans	65,880	—	—
Total Noncurrent Liabilities	<u>7,862,722</u>	<u>—</u>	<u>119,053</u>
Total Liabilities	<u>15,480,083</u>	<u>197,281</u>	<u>146,249</u>
Net Assets			
Invested in capital assets, net of related debt .	16,588,749	—	—
Restricted			
Nonexpendable	—	—	2,142,258
Expendable			
Loans	26,286	—	—
Cash reserve	285,793	—	—
Other	911,858	—	10,352,115
Unrestricted	7,971,729	—	2,084,952
Total Net Assets	<u>25,784,415</u>	<u>—</u>	<u>14,579,325</u>
Total Liabilities and Net Assets	<u>\$ 41,264,498</u>	<u>\$ 197,281</u>	<u>\$ 14,725,574</u>

Statement of Revenue, Expenses and Changes in Net Assets

Year Ended June 30, 2005

	Primary Institution	Component Units	
		Dormitories	Foundation
Operating Revenue			
Tuition and fees, net of scholarship allowances of \$1,454,152	\$ 6,349,105	\$ —	\$ —
Federal appropriations.....	4,377,657	—	—
State grants and contracts.....	102,478	—	—
Sales and service	248,521	—	—
Iowa Industrial New Jobs Training Program.....	1,512,085	—	—
Accounts receivable and student loan interest ...	8,744	—	—
Auxiliary enterprises	1,411,936	—	—
Room and board.....	—	1,023,102	—
Contributions	—	—	1,858,930
Miscellaneous.....	1,570,600	32,275	—
Total Operating Revenue.....	15,581,126	1,055,377	1,858,930
Operating Expenses			
Education and Support			
Liberal arts and sciences	5,613,513	—	—
Vocational technical	3,106,784	—	—
Adult education	3,022,549	—	—
Cooperative services	1,709,512	—	—
Administration	1,101,030	—	—
Student services	2,485,806	—	—
Learning resources	529,712	—	—
Physical plant.....	1,889,807	—	—
General institution	1,524,971	—	—
Auxiliary enterprises	1,474,241	—	—
Scholarship and grants.....	1,196,668	—	—
Iowa Workforce Development contract.....	1,064,643	—	—
Loan cancellations and bad debts	(1,225)	—	—
Administrative and collection costs.....	516,928	—	—
Facility operations.....	—	965,383	—
Program services.....	—	—	800,861
Fundraising expenses	—	—	91,799
Management and general expenses	—	—	25,951
Depreciation	928,960	92,826	—
Total Operating Expenses.....	26,163,899	1,058,209	918,611
Operating Income (Loss).....	(10,582,773)	(2,832)	940,319
Nonoperating Revenue (Expenses)			
State appropriations	8,572,046	—	—
Property tax	2,757,931	—	—
Gifts	515,106	—	—
Investment income, net of investment expense of \$34,720 for the Foundation	356,877	16,475	1,166,360
Loss on disposal of capital assets.....	(12,962)	—	—
Change in value of beneficial interests.....	—	—	2,426
Interest on indebtedness	(468,600)	(28,414)	—
Net Nonoperating Revenue (Expenses) ..	11,720,398	(11,939)	1,168,786
Increase (Decrease) in Net Assets Before Other Revenue, Gains or Losses and Transfers ..	1,137,625	(14,771)	2,109,105
Receipt of net assets from NIACC Dormitories, Inc.	2,187,507	—	—
Contribution of net assets to College.....	—	(2,187,507)	—
Capital grants and gifts.....	668,536	—	—
Increase (Decrease) in Net Assets.....	3,993,668	(2,202,278)	2,109,105
Net Assets - Beginning of Year	21,790,747	2,202,278	12,470,220
Net Assets - End of Year.....	\$ 25,784,415	\$ —	\$ 14,579,325

See accompanying notes to the financial statements.

Statement of Cash Flows

Year Ended June 30, 2005

Cash Flows From Operating Activities

Tuition and fees	\$ 6,154,235
Federal appropriations.....	4,373,707
State grants and contracts.....	102,478
Iowa Industrial New Jobs Training Program.....	1,806,169
Payments to employees for salaries and benefits	(15,389,240)
Payments to suppliers for goods and services	(7,723,271)
Payments to New Jobs Training Program recipients.....	(1,403,525)
Scholarships	(254,125)
Loans issued to students.....	(10,115)
Loan collections from students	18,258
Auxiliary enterprise receipts	1,490,448
Other receipts	<u>1,624,286</u>
Net Cash Used in Operating Activities	<u>(9,210,695)</u>

Cash Flows From Noncapital Financing Activities

State appropriations	8,191,176
Property tax	2,757,931
Gifts for other than capital purposes.....	515,106
Federal direct lending receipts	3,729,288
Federal direct lending disbursements.....	(3,767,997)
Miscellaneous agency fund receipts.....	692,788
Miscellaneous agency fund disbursements.....	<u>(653,726)</u>
Net Cash Provided by Noncapital Financing Activities	<u>11,464,566</u>

Cash Flows From Capital and Related Financing Activities

Proceeds from issuance of debt.....	1,790,000
Gifts for purchase of capital assets	374,527
Acquisition of capital assets	(1,137,881)
Principal paid on debt and leases.....	(973,229)
Interest paid on debt and leases	<u>(464,678)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(411,261)</u>

Cash Flows From Investing Activities

Proceeds from maturity of certificates of deposit.....	4,350,000
Purchase of certificates of deposit.....	(4,700,000)
Investment income	<u>356,877</u>
Net Cash Provided by Investing Activities	<u>6,877</u>

Net Increase in Cash **1,849,487**

Cash at Beginning of Year, as previously reported	\$ 14,257,640
Prior period adjustment (Note 13)	<u>(2,950,000)</u>
Cash at Beginning of Year, as restated.....	<u>11,307,640</u>

Cash at End of Year..... **\$ 13,157,127**

See accompanying notes to the financial statements.

Statement of Cash Flows

Year Ended June 30, 2005

Reconciliation of Loss From Operations to Net Cash Used in Operating Activities

Loss from operations	\$ (10,582,773)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Depreciation	928,960
Changes in Assets and Liabilities	
Increase in accounts receivable, net	(207,197)
Decrease in notes receivable, net	6,918
Increase in Iowa Industrial New Jobs Training Program receivable	(383,417)
Decrease in due from component units	441
Increase in due from governments	(3,950)
Decrease in prepaid expenses	179,753
Decrease in inventories	1,650
Increase in accounts payable	309,308
Increase in salaries and benefits payable.....	(1,544)
Decreased in deferred revenue	564,320
Increase in deferred compensation	10,000
Increase in compensated absences	42,295
Decrease in early retirement payable	(69,739)
Decrease in reserve for unsubmitted insurance claims	(8,654)
Increase in refundable advances on student loans	<u>2,934</u>
Net Cash Used in Operating Activities	<u>\$ (9,210,695)</u>

Supplemental Disclosures

Noncash, Capital Financing Activities

The College received donated equipment with a fair value of \$77,000.

The College received buildings and equipment with a net book value of \$2,014,002 from NIACC Dormitories, Inc. accounted for as a transfer.

At June 30, 2005

Cash.....	\$ 13,157,127
Certificates of deposit	<u>3,300,000</u>
Total Cash and Certificates of Deposit	<u>\$ 16,457,127</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

North Iowa Area Community College (College) is a publicly supported post secondary two-year institution established and operated by Merged Area II under the provisions of Chapter 260C of the Code of Iowa. The College offers programs of adult and continuing education, lifelong learning, community education and up to two years of liberal arts, pre-professional or occupational instruction partially fulfilling the requirements for a baccalaureate degree but confers no more than an associate degree. The College also offers up to two years of vocational or technical education, training or retraining to persons who are preparing to enter the labor market. The College maintains a campus and has its administrative offices in Mason City, Iowa. The College is governed by a Board of Directors whose members are elected from each director district within Merged Area II.

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

Reporting Entity

For financial reporting purposes, the College has included all funds, organizations, agencies, boards, commissions and authorities. The College 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 College are such that exclusion would cause the College'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 College 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 College.

These financial statements present North Iowa Area Community College (the primary government) and its component units. The component units discussed below are included in the College's reporting entity because of the significance of their operational or financial relationships with the College. Certain disclosures about the component units are not included because the component units have been audited separately and a report has been issued under separate cover. The audited financial statements are available at the College.

Discrete Component Units

NIACC Dormitories, Inc. (Dormitories) is a legally separate, tax-exempt organization. Dormitories was established to provide student housing for the College and is governed by a Board of Directors which are not appointed by the College. Although the College does not control the timing or amount of receipts from Dormitories, the majority of the economic resources that are held are used for the benefit of the College. Dormitories contributed all of its net assets to the College in June, 2005 and was dissolved.

North Iowa Area Community College Foundation (Foundation) is a legally separate not-for-profit foundation. The Foundation was established for the purpose of soliciting gifts and grants to support the activities and services of the College. The Foundation is governed by a Board of Directors who are not appointed by the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of the resources that are held are used for the benefit of the College.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

The Foundation is a nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

The Foundation has a year end of December 31. Accordingly, the Foundation's financial information included in the College's financial reporting entity is as of and for the year ended December 31, 2004. Foundation payables to the College were \$0 and \$217,009 at December 31, 2004 and June 30, 2005, respectively.

Basis of Presentation

GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires resources to be classified for accounting and reporting purposes into the following four net asset categories:

Invested in Capital Assets, Net of Related Debt

Capital assets, net of accumulated depreciation and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets

Nonexpendable - Net assets subject to externally imposed stipulations that they be maintained permanently by the College.

Expendable - Net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College, pursuant to those stipulations or that expire by the passage of time.

Unrestricted Net Assets

Net assets that are not subject to externally imposed stipulations. Resources may be designated for specific purposes by action of management or by the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and general programs of the College.

Under the College's centralized management structure, it is the responsibility of the business office to determine whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

GASB Statement No. 35 also requires the statements of net assets, revenue, expenses and changes in net assets and cash flows be reported on a consolidated basis. These basic financial statements report information on all of the activities of the College. For the most part, the effect of interfund activity has been removed from these statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Measurement Focus and Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities as defined in GASB Statement No. 34. Accordingly, the basic financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB statements issued after the applicable date.

Assets, Liabilities and Net Assets

Cash and Certificates of Deposit

For purposes of the statement of cash flows, 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 a maturity date no longer than three months.

Certificates of deposit are stated at cost.

Due from Other Governments

This represents state aid, grants and reimbursements due from the State of Iowa and grants and reimbursements due from the federal government.

Inventories

Inventories are valued at lower of cost (first-in, first-out method) or market. The cost is recorded as an expense at the time individual inventory items (livestock) are sold or die.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the Board of Directors to the appropriate County Auditors. Delinquent property tax receivable represents unpaid taxes from the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Directors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Directors is required to certify its budget to the County Auditor by June 1 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Receivable for Iowa Industrial New Jobs Training Program (NJTP)

This represents the amount to be remitted to the College for training projects entered into between the College and employers under the provisions of Chapter 260E of the Code of Iowa. The receivable amount is based on expenditures incurred through June 30, 2005 on NJTP projects, including interest incurred on NJTP certificates, less revenue received to date.

Capital Assets

Capital assets, which include land, buildings and other structures and improvements, furniture and equipment are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repair that do not add to the value of the assets or materially extend asset lives are not capitalized. No interest costs were capitalized since there were no qualifying assets.

Capital assets are defined by the College as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years:

Land, buildings and improvements	\$ 5,000
Furniture, vehicles and equipment	5,000

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings.....	40 Years
Other structures	20 Years
Furniture, vehicles and equipment	4 - 7 Years

The College does not capitalize or depreciate library books. The value of each book falls below the capital asset threshold and the balance was deemed immaterial to the financial statements.

Salaries and Benefits Payable

Payroll and related expenses for teachers 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 for the succeeding year property tax represents amounts certified by the Board of Directors to be collected in the next fiscal year. Although the property tax receivable has been recorded, the related revenue is deferred and will be recognized as revenue in the year for which it is levied.

Deferred tuition includes summer session activity which will be recognized as revenue in the following fiscal year.

Other deferred revenue includes administrative fees received by the College for the administration of new jobs training projects. The administrative fees are recognized as revenue over a nine-year period for projects administered in accordance with Chapter 260E of the Code of Iowa and over a two-year period for projects administered in accordance with Chapter 260F.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Compensated Absences

College employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Amounts representing the cost of compensated absences are recorded as liabilities. These liabilities have been computed based on rates of pay in effect at June 30, 2005.

Advance Payable

The College entered into a five-year cost-sharing arrangement on December 30, 1998 related to health care education programs, services to health care providers and community health-related courses provided by the College. The arrangement automatically renewed on December 30, 2003 for an additional five-year period. Pursuant to the arrangement, the College was advanced \$62,000 (to be returned upon termination of the arrangement) and receives a subsidy equal to 76% of the operating and capital costs not covered by tuition and fees. The arrangement can be terminated by either party upon 90 days written notice. The subsidy for the year ended June 30, 2005 totaled \$62,000.

Refundable Advances on Student Loans

The Nursing Student Loan Program requires a return of federal capital contributions if the United States Government terminates the program.

Auxiliary Enterprise Revenue

Auxiliary enterprise revenue primarily represents revenue generated by the bookstore, food service, word processing, central stores and athletics.

Summer Session

The College operates summer sessions during May, June, and July. Revenue and expenses for the summer sessions are recorded in the appropriate fiscal year. Tuition and fees are allocated based on the load study distributions supplied by the College Registrar.

Tuition and Fees

Tuition and fees revenue is reported net of scholarship allowances, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

Operating and Nonoperating Activities

Operating activities, as reported in the statement of revenue, expenses and changes in net assets, are transactions that result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nonoperating activities include state appropriations, property tax and interest income.

Scholarship Allowances and Student Aid

Student aid represents payments made directly to students in the form of scholarships and grants. The College distributes funds to students on behalf of the federal government under the federal Pell Grant Program and federal Supplemental Educational Opportunity Grant Program. The activity of these programs is reflected in the accompanying financial statements as operating revenue. Any aid applied directly to the student's account in payment of tuition and fees is recorded as a scholarship allowance and is deducted from the College's revenue.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

The College distributes loans to students under the federal Direct Loan Program. Under this program, the U.S. Department of Education makes subsidized and unsubsidized loans to students. During the year ended June 30, 2005, the College disbursed \$3,767,997 under the federal Direct Loan Program. Direct student loans are not included in the College's statement of net assets since they are repayable directly to the U.S. Department of Education. Payments made by Federal Direct Lending are accounted for as third-party payments and are credited to the student's account as if the student made the payment.

Income Taxes

The College is exempt from federal income taxes under the provisions of Internal Revenue Code Section 115 as a political subdivision of the State of Iowa. As such, the College is subject to federal income taxes only on unrelated business taxable income under the provisions of Internal Revenue Code Section 511.

Estimates and Assumptions

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

(2) Cash and Certificates of Deposit

The College's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

The College 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.

Foundation

The Foundation is authorized by the Board of Directors to invest funds in deposits at FDIC-insured institutions, bonds, equity securities and real estate.

The Foundation's marketable securities are reported in accordance with SFAS No. 124 "Accounting for Certain Investments Held by Not-For-Profit Organizations". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of net assets. Unrealized gains and losses are included in the change in net assets.

Notes to the Financial Statements

(2) Cash and Certificates of Deposit

Marketable securities and other investments are stated at fair value. Fair values and unrealized appreciation at December 31, 2004 are summarized as follows:

	Cost or Donated Value	Fair Value	Unrealized Appreciation
Mutual Funds (Common Fund)			
Multi-Strategy Equity Fund.....	\$ 5,366,171	\$ 8,130,458	\$ 2,764,287
Multi-Strategy Bond Fund	2,192,775	2,684,935	492,160
Intermediate Term Fund.....	<u>4,765</u>	<u>4,738</u>	<u>(27)</u>
	7,563,711	10,820,131	3,256,420
Corporate stocks	<u>112,440</u>	<u>131,586</u>	<u>19,146</u>
	<u>\$ 7,676,151</u>	<u>\$ 10,951,717</u>	<u>\$ 3,275,566</u>

(3) Inventories

The College's inventories at June 30, 2005 were as follows:

Livestock	<u>\$ 4,075</u>
------------------------	------------------------

(4) Capital Assets

Capital assets activity for the College for the year ended June 30, 2005 was as follows:

	Balance - Beginning of Year	Contribu- tion from Dormitories	<u>Other</u>		Balance - End of Year
			Increases	Decreases	
Capital Assets Not Being Depreciated					
Land	\$ 329,656	\$ 11,100	\$ —	\$ —	\$ 340,756
Construction in progress	<u>33,667</u>	<u>—</u>	<u>961,945</u>	<u>18,666</u>	<u>976,946</u>
Total Capital Assets Not Being Depreciated.....	<u>363,323</u>	<u>11,100</u>	<u>961,945</u>	<u>18,666</u>	<u>1,317,702</u>
Capital Assets Being Depreciated					
Buildings.....	19,364,266	3,651,316	—	—	23,015,582
Other structures and improvements.....	2,037,708	—	283,527	—	2,321,235
Furniture, vehicles and equipment	<u>4,674,624</u>	<u>135,788</u>	<u>386,458</u>	<u>100,319</u>	<u>5,096,551</u>
Total Capital Assets Being Depreciated.....	<u>26,076,598</u>	<u>3,787,104</u>	<u>669,985</u>	<u>100,319</u>	<u>30,433,368</u>
Less Accumulated Depreciation For					
Buildings.....	8,158,828	1,707,651	485,714	—	10,352,193
Other structures and improvements.....	1,372,921	76,551	80,298	—	1,529,770
Furniture, vehicles and equipment	<u>3,002,368</u>	<u>—</u>	<u>362,948</u>	<u>87,357</u>	<u>3,277,959</u>
Total Accumulated Depreciation	<u>12,534,117</u>	<u>1,784,202</u>	<u>928,960</u>	<u>87,357</u>	<u>15,159,922</u>
Net Total Capital Assets Being Depreciated.....	<u>13,542,481</u>	<u>2,002,902</u>	<u>(258,975)</u>	<u>12,962</u>	<u>15,273,446</u>
Capital Assets, Net	<u>\$ 13,905,804</u>	<u>\$ 2,014,002</u>	<u>\$ 702,970</u>	<u>\$ 31,628</u>	<u>\$ 16,591,148</u>

Notes to the Financial Statements

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Current Portion
Capital leases	\$ 5,628	\$ —	\$ 3,229	\$ 2,399	\$ 2,399
Certificates payable	6,955,000	1,790,000	970,000	7,775,000	1,295,000
Early retirement benefits.....	306,839	26,130	95,869	237,100	70,912
Deferred revenue, other	1,179,616	808,006	225,491	1,762,131	633,852
Deferred compensation	12,375	10,000	—	22,375	—
Advance payable	62,000	—	—	62,000	62,000
Refundable advances on student loans	62,946	2,934	—	65,880	—
	<u>\$ 8,584,404</u>	<u>\$ 2,637,070</u>	<u>\$ 1,294,589</u>	<u>\$ 9,926,885</u>	<u>\$ 2,064,163</u>

Certificates Payable

In accordance with agreements dated between December 1, 1995 and December 1, 2004, the College issued certificates totaling \$11,810,000 with interest rates ranging from 2.65% to 8.25%. The debt was incurred to fund the development and training costs incurred relative to implementing Chapter 260E of the Code of Iowa, Iowa Industrial New Jobs Training Program (NJTP). NJTP's purpose is to provide tax-aided training for employees of industries which are new to or are expanding their operations within the State of Iowa. Interest is payable semiannually, while principal payments are due annually. The certificates are to be retired by proceeds from anticipated job credits from withholding taxes, incremental property tax, budgeted reserves and, in the case of default, from standby property tax.

The certificates mature as follows:

Year Ending June 30,	Principal	Interest	Total
2006.....	\$ 1,295,000	\$ 451,735	\$ 1,746,735
2007.....	1,145,000	385,234	1,530,234
2008.....	1,170,000	320,509	1,490,509
2009.....	1,080,000	251,034	1,331,034
2010.....	1,020,000	185,805	1,205,805
2011 to 2014.....	2,065,000	234,980	2,299,980
Total	<u>\$ 7,775,000</u>	<u>\$ 1,829,297</u>	<u>\$ 9,604,297</u>

Capital Lease

The College has entered into an agreement to lease a skid loader under a capital lease. This agreement is for a period of five years ending in June, 2006 at an interest rate of 9.04%.

The following is an analysis of the leased property under capital leases by major class:

Class of Property	Asset Balance
Furniture, vehicles and equipment	\$ 17,500
Less accumulated amortization	(7,500)
	<u>\$ 10,000</u>

Notes to the Financial Statements

(5) Long-Term Liabilities

The following is a schedule by years of the future minimum payments required:

Year Ending June 30,	Principal	Interest	Total
2006.....	<u>\$ 2,399</u>	<u>\$ 226</u>	<u>\$ 2,625</u>

Total interest expenditures were \$468,600 for the certificates payable and capital lease for the year ended June 30, 2005.

Early Retirement Benefits Payable

Full-time certified staff who are between the ages of 55 and 62 and who have at least ten years of continuous service with the College are eligible for early retirement remuneration. All other full-time staff who are between 55 and 62 years of age and who have at least 15 years of service with the College are eligible for early retirement remuneration. Early retirement begins at the end of the employee's contract. A staff member who accepts early retirement will receive cash benefits at their option but no later than the January after the calendar year of retirement. An employee in the range of ages between 59 and 62 may select from the following options (1) one-time cash payment, (2) partially paid family health insurance coverage, (3) partially paid individual health insurance coverage and partial cash payment or (4) mid-year early retirement.

The liability at June 30, 2005 for those employees who have elected early retirement was \$237,100. Included in the early retirement liability is a provision for future health insurance benefits elected by 16 retirees. Early retirement is funded on a pay-as-you-go basis through property tax levies. During the year ended June 30, 2005, 21 retirees received early retirement benefits. The College's early retirement expense for the year ended June 30, 2005 was \$95,869.

(6) Operating Leases

The College has leased various facilities within the area to house different divisions of the College. These leases have been classified as operating leases and, accordingly, all rents are expensed as incurred. The leases expire between 2006 and 2007 and require various minimum annual rentals. Certain leases are renewable for additional periods. The College also leases several copiers, with terms ranging from three to five years, under operating leases. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by years of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005.

Year Ending June 30,	
2006.....	\$ 43,981
2007.....	30,910
2008.....	<u>28,334</u>
Total	<u>\$ 103,225</u>

Total rental expenditures for the year ended June 30, 2005 for all operating leases was \$53,868.

Notes to the Financial Statements

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the College is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The College's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 was \$306,396, \$291,796 and \$269,968, respectively, equal to the required contributions for the year.

(8) Teachers Insurance and Annuity Association - College Retirement Equities Fund

The College contributes to the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) retirement program which is a defined contribution plan. TIAA administers the retirement plan for the College. The defined contribution retirement plan provides individual annuities for each plan participant. As required by the Code of Iowa, all eligible College employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA-CREF, and in accordance with the Code of Iowa, each employee is required to contribute 3.7% and the College is required to contribute 5.75%. The College's and employees' required and actual contributions to TIAA-CREF for the year ended June 30, 2005 were \$311,525 and \$200,459, respectively.

(9) Risk Management

The College is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The College assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2005.

The College purchases commercial insurance for employee health, dental and vision insurance. Beginning January 1, 1996, the College began self-funding the plan for the difference in the \$500 deductible plan to the \$100 deductible amount. The activity in the reserve for unsubmitted insurance claims is as follows:

Beginning balance	\$ 57,615
Claims and changes in estimates	188,941
Claims and administrative fees paid	<u>(197,595)</u>
Ending Balance	<u>\$ 48,961</u>

Notes to the Financial Statements

(10) New Jobs Training Programs

The College administers the Iowa Industrial New Jobs Training Program (NJTP) in Area II in accordance with Chapter 260E of the Code of Iowa. NJTP's purpose is to provide tax-aided training or retraining for employees of industries which are new to or are expanding their operations within the State of Iowa. Certificates are sold by the College to fund approved projects and are to be retired by proceeds from anticipated jobs credits from withholding taxes, incremental property tax, budgeted reserves and in the case of default, from standby property tax. Since inception, the Community College has administered 95 projects with 22 currently receiving project funding. The remaining 73 projects have been completed, of which 29 are in repayment process and 44 have been fully repaid.

The College also administers the Iowa Small Business New Jobs Training Program (SBNJTP) in Area II in accordance with Chapter 260F of the Code of Iowa. SBNJTP's purpose is to provide tax-aided training or retraining for employees of small businesses which are new to or are expanding their operations within the State of Iowa. Approved small businesses receive loans from the Iowa Employment Training Fund, a State administered fund. Since inception, the College has administered 135 projects, with 17 currently receiving project funding and the remaining 118 have been completed.

(11) Commitments

As of June 30, 2005, the College had outstanding commitments for capital improvements to facilities of approximately \$900,000.

(12) Related Party Transactions

During June, 2005, NIACC Dormitories, Inc. contributed all of its net assets to the College. This contribution totaled \$2,187,507, representing the net book value of NIACC Dormitories, Inc.'s net assets. At June 30, 2005, NIACC Dormitories, Inc. owed the College \$173,505.

The North Iowa Area Community College Foundation provided funding for the remodeling of the College's auditorium. The Foundation had committed to provide \$668,536 of funds for the auditorium through June 30, 2005 and had paid \$451,527 to the College at that date, leaving a balance due to the College of \$217,009 at June 30, 2005.

(13) Prior Period Adjustment

As disclosed in Note 1 to the financial statements, for purposes of the statement of cash flows, the College considers only those cash investments with original maturities of three months or less to be cash equivalents. During 2005, the College found that its 2004 statement of cash flows had improperly included \$2,950,000 of certificates of deposit as cash equivalents. Accordingly, a prior period adjustment has been made to reduce the June 30, 2004 cash balance from \$14,257,640, as previously reported, to \$11,307,640. This adjustment had no effect on the increase in net assets of the College for either of the years ended June 30, 2005 or 2004 nor on its net assets at those dates.

Required Supplementary Information

Schedule of Budgetary Comparison of Expenditures - Budget and Actual —

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget
Unrestricted	\$ 19,093,746	\$ 19,093,746	\$ 18,739,322	\$ 354,424
Restricted	4,054,925	5,054,925	3,311,004	1,743,921
Unemployment	30,000	30,000	6,126	23,874
Insurance.....	247,500	247,500	253,047	(5,547)
Early retirement	120,000	120,000	74,809	45,191
Equipment replacement.....	753,216	753,216	290,250	462,966
Total Restricted.....	<u>5,205,641</u>	<u>6,205,641</u>	<u>3,935,236</u>	<u>2,270,405</u>
Plant	<u>1,850,000</u>	<u>2,500,000</u>	<u>1,739,880</u>	<u>760,120</u>
Total	<u>\$ 26,149,387</u>	<u>\$ 27,799,387</u>	<u>\$ 24,414,438</u>	<u>\$ 3,384,949</u>

The Board of Directors annually prepares a budget designating the proposed expenditures for operation of the College on a basis consistent with accounting principles generally accepted in the United States of America. Following required public notice and hearing, and in accordance with Chapter 260C of the Code of Iowa, the Board of Directors certifies the approved budget to the appropriate county auditors and then submits the budget to the State Board of Education for approval. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total operating expenditures.

Budgets are not required to be adopted for the Auxiliary Enterprises subgroup, Workforce Improvement Act, Scholarships and Grants Accounts, Loan Funds, Endowment Funds and Agency Funds.

The College overexpended its budget in the insurance function.

Note 1 - Reconciliation Between Budgetary Basis Statement and GAAP Expenses

The budget is prepared on the current financial resources measurement focus and does not include several groups of expenditures. The reconciliation between the expenditures on the budgetary basis and the GAAP basis statement of revenue, expenses and changes in net assets is as follows:

Total actual expenditures above, budgetary basis	\$ 24,414,438
Items Not Required to be Budgeted	
Auxiliary enterprises.....	1,508,483
Scholarships and grants	2,431,863
Iowa Workforce Development contract	1,126,671
Loan funds	6,387
Investment in plant.....	100,319
Accrual adjustments	<u>(2,942,700)</u>
Total Expenses	<u>\$ 26,645,461</u>

Expenses from the statement of revenue, expenses and changes in net assets are as follows:

Total operating expenses	\$ 26,163,899
Loss on disposal of capital assets	12,962
Interest on indebtedness	468,600
Total Expenses	<u>\$ 26,645,461</u>

Other Supplementary Information

Other Supplementary Information

Other supplementary information of the College is presented on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance, revenue and expenditures. The various fund groups and their designated purposes are as follows:

Current Funds - The Current Funds are utilized to account for those economic resources that are expendable for the purpose of performing the primary and supporting missions of the College and consist of the following:

Unrestricted Fund - The Educational and Support subgroup of the Unrestricted Fund accounts for the general operations of the College.

The Auxiliary Enterprises subgroup accounts for activities which are intended to provide noninstructional services for sales to students, staff and/or institutional departments, and which are supplemental to the educational and general objectives of the College.

Restricted Fund - The Restricted Fund is used to account for resources that are available for the operation and support of the educational program but which are restricted as to their use by donors or outside agencies.

Loan Funds - The Loan Funds are used to account for loans to students, and are financed primarily by the federal government.

Plant Funds - The Plant Funds are used to account for transactions relating to investment in the College properties, and consist of the following self-balancing subfunds:

Unexpended - This account is used to account for the unexpended resources derived from various sources for the acquisition or construction of plant assets.

Retirement of Indebtedness - This account is used to account for the accumulation of resources for principal and interest payments on plant indebtedness.

Investment in Plant - This account is used to account for the excess of the carrying value of plant assets over the related liabilities.

Agency Funds - The Agency Funds are used to account for assets held by the College in a custodial capacity or as an agent for others. Agency Funds' assets equal liabilities.

Statements presented in other supplementary information are reported using the current financial resources measurement focus and the accrual basis of accounting with modifications for depreciation and other items included in the adjustments column. The schedules of revenue, expenditures and changes in fund balances are statements of financial activities related to the current reporting period. They do not purport to present the results of operations or net income or loss for the period as would statements of income or statements of revenue and expenses.

Combining Balance Sheet Schedule

At June 30, 2005

	Current Funds		Loan Funds	Plant Funds			Agency Funds	Adjustments	Total
	Unrestricted	Restricted		Unexpended	Retirement of Indebtedness	Investment in Plant			
Assets									
Cash and certificates of deposit	\$ 4,392,386	\$ 7,508,497	\$ 25,995	\$ 4,299,141	\$ —	\$ —	\$ 231,108	\$ —	\$ 16,457,127
Receivables									
Accounts (net of allowance for doubtful accounts - \$156,678)	690,518	7,432	—	—	—	—	4,560	—	702,510
Property tax.....	912,249	983,426	—	912,249	—	—	—	—	2,807,924
Notes (net of allowance for doubtful accounts - \$16,211)	—	—	48,336	—	—	—	—	—	48,336
Iowa Industrial New Jobs Training Program	—	3,283,549	—	—	—	—	—	—	3,283,549
Due from component units	173,505	—	—	217,009	—	—	—	—	390,514
Due from other funds.....	—	50,850	17,855	—	—	—	—	(68,705)	—
Due from other governments.....	236,381	288,314	—	294,001	—	—	148,537	—	967,233
Prepaid expenses.....	7,775	2,413	—	—	—	—	1,894	—	12,082
Inventories.....	4,075	—	—	—	—	—	—	—	4,075
Plant Assets									
Land.....	—	—	—	—	—	340,756	—	—	340,756
Buildings	—	—	—	—	—	23,015,582	—	—	23,015,582
Construction in progress.....	—	—	—	—	—	976,946	—	—	976,946
Other structures and improvements.....	—	—	—	—	—	2,321,235	—	—	2,321,235
Furniture and equipment.....	—	—	—	—	—	5,096,551	—	—	5,096,551
Accumulated depreciation.....	—	—	—	—	—	—	—	(15,159,922)	(15,159,922)
Total Assets	\$ 6,416,889	\$ 12,124,481	\$ 92,186	\$ 5,722,400	\$ —	\$ 31,751,070	\$ 386,099	\$ (15,228,627)	\$ 41,264,498
Liabilities and Fund Equity									
Liabilities									
Accounts payable	\$ 489,640	\$ 120,101	\$ 20	\$ 413,382	\$ —	\$ —	\$ 31,614	\$ —	\$ 1,054,757
Salaries and benefits payable	836,854	47,381	—	—	—	—	—	(59,322)	824,913
Interest payable	—	35,695	—	—	—	—	—	—	35,695
Due to other funds.....	24,344	—	—	—	—	—	44,361	(68,705)	—
Compensated absences.....	331,084	74,319	—	—	—	—	—	—	405,403
Insurance claims incurred but not reported	48,961	—	—	—	—	—	—	—	48,961
Deposits held in custody for others	—	—	—	—	—	—	289,711	—	289,711
Advance payable	62,000	—	—	—	—	—	—	—	62,000
Deferred Revenue									
Succeeding year property tax	912,249	983,426	—	912,249	—	—	—	—	2,807,924
Tuition	8,245	—	—	—	—	—	—	99,964	108,209
Other	87,910	1,653,808	—	—	—	—	20,413	—	1,762,131
Early retirement payable.....	—	237,100	—	—	—	—	—	—	237,100
Capital lease payable	—	—	—	—	—	2,399	—	—	2,399
Certificates payable.....	—	7,775,000	—	—	—	—	—	—	7,775,000
Refundable advances on student loans	—	—	65,880	—	—	—	—	—	65,880
Total Liabilities	2,801,287	10,926,830	65,900	1,325,631	—	2,399	386,099	(28,063)	15,480,083
Fund Balance									
Invested in capital assets, net of related debt	—	—	—	—	—	31,748,671	—	(15,159,922)	16,588,749
Fund Balances									
Restricted, Expendable									
Loans	—	—	26,286	—	—	—	—	—	26,286
Cash reserve.....	—	285,793	—	—	—	—	—	—	285,793
Other	—	911,858	—	—	—	—	—	—	911,858
Unrestricted.....	3,026,248	—	—	4,396,769	—	—	—	(40,642)	7,382,375
Auxiliary enterprises.....	589,354	—	—	—	—	—	—	—	589,354
Total Fund Balance	3,615,602	1,197,651	26,286	4,396,769	—	31,748,671	—	(15,200,564)	25,784,415
Total Liabilities and Fund Equity	\$ 6,416,889	\$ 12,124,481	\$ 92,186	\$ 5,722,400	\$ —	\$ 31,751,070	\$ 386,099	\$ (15,228,627)	\$ 41,264,498

Combining Schedule of Revenue, Expenditures and Changes in Fund Balance

Year Ended June 30, 2005

Revenue	Current Funds		Loan Funds	Plant Funds			Adjustments	Total
	Unrestricted	Restricted		Unexpended	Retirement of Indebtedness	Investment in Plant		
General								
State appropriations.....	\$ 7,797,701	\$ 480,344	\$ —	\$ 294,001	\$ —	\$ —	\$ —	\$ 8,572,046
State grants and contracts.....	102,478	—	—	—	—	—	—	102,478
Tuition and fees.....	7,999,703	—	—	—	—	—	(1,650,598)	6,349,105
Property tax.....	892,425	973,081	—	892,425	—	—	—	2,757,931
Federal appropriations.....	431,467	3,946,190	—	—	—	—	—	4,377,657
Sales and services.....	316,246	4,888	—	—	—	—	(72,613)	248,521
Interest on investments.....	91,125	172,052	720	80,433	—	—	—	344,330
Accounts receivable and student loan interest.....	7,151	—	1,593	—	—	—	—	8,744
Iowa Industrial New Jobs Training Program.....	—	1,833,748	—	—	—	—	(321,663)	1,512,085
Increase in plant investment due to donated assets.....	—	—	—	—	—	77,000	(77,000)	—
Increase in plant investment due to plant expenditures (including \$361,706 in current fund expenditures).....	—	—	—	—	—	1,536,263	(1,536,263)	—
Increase in plant due to residual equity transfer.....	—	—	—	—	—	3,798,204	(3,798,204)	—
Increase in plant investment due to retirement of debt.....	—	—	—	—	—	3,229	(3,229)	—
Gifts.....	210,631	162,920	—	668,536	—	—	—	1,042,087
Miscellaneous.....	1,250,497	413,980	4,540	—	—	—	(98,417)	1,570,600
Total General.....	<u>19,099,424</u>	<u>7,987,203</u>	<u>6,853</u>	<u>1,935,395</u>	<u>—</u>	<u>5,414,696</u>	<u>(7,557,987)</u>	<u>26,885,584</u>
Auxiliary Enterprises								
Sales and services.....	1,277,643	—	—	—	—	—	—	1,277,643
Interest on investments.....	12,547	—	—	—	—	—	—	12,547
Gifts.....	141,555	—	—	—	—	—	—	141,555
Miscellaneous.....	134,293	—	—	—	—	—	—	134,293
Total Auxiliary Enterprises.....	<u>1,566,038</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,566,038</u>
Total Revenue.....	<u>20,665,462</u>	<u>7,987,203</u>	<u>6,853</u>	<u>1,935,395</u>	<u>—</u>	<u>5,414,696</u>	<u>(7,557,987)</u>	<u>28,451,622</u>
Expenditures								
Education and Support								
Liberal arts and sciences.....	5,494,434	182,041	—	—	—	—	(62,962)	5,613,513
Vocational technical.....	2,863,829	402,720	—	—	—	—	(159,765)	3,106,784
Adult education.....	3,045,557	8,132	—	—	—	—	(31,140)	3,022,549
Cooperative services.....	39,438	2,114,177	—	—	—	—	(444,103)	1,709,512
Administration.....	1,184,315	5,282	—	—	—	—	(88,567)	1,101,030
Student services.....	2,318,096	397,281	—	—	—	—	(229,571)	2,485,806
Learning resources.....	508,283	74,006	—	—	—	—	(52,577)	529,712
Physical plant.....	1,817,807	189,175	—	—	—	—	(117,175)	1,889,807
General institution.....	1,467,563	94,352	—	—	—	—	(36,944)	1,524,971
Total Education and Support.....	<u>18,739,322</u>	<u>3,467,166</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,222,804)</u>	<u>20,983,684</u>
Auxiliary enterprises.....	1,508,483	—	—	—	—	—	(34,242)	1,474,241
Scholarships and grants.....	—	2,431,863	—	—	—	—	(1,235,195)	1,196,668
Iowa Workforce Development contract.....	—	1,126,671	—	—	—	—	(62,028)	1,064,643
Loan cancellations and bad debts.....	—	—	(1,225)	—	—	—	—	(1,225)
Administrative and collection costs.....	—	—	7,612	509,316	—	—	—	516,928
Plant asset acquisitions.....	—	—	—	1,226,805	—	—	(1,226,805)	—
Retirement of indebtedness.....	—	—	—	—	3,229	—	(3,229)	—
Loss on disposal of plant assets.....	—	—	—	—	—	100,319	(87,357)	12,962
Interest on indebtedness.....	—	468,070	—	—	530	—	—	468,600
Depreciation.....	—	—	—	—	—	—	928,960	928,960
Total Expenditures.....	<u>20,247,805</u>	<u>7,493,770</u>	<u>6,387</u>	<u>1,736,121</u>	<u>3,759</u>	<u>100,319</u>	<u>(2,942,700)</u>	<u>26,645,461</u>
Revenue Over (Under) Expenditures.....	<u>417,657</u>	<u>493,433</u>	<u>466</u>	<u>199,274</u>	<u>(3,759)</u>	<u>5,314,377</u>	<u>(4,615,287)</u>	<u>1,806,161</u>
Other Financing Sources (Uses)								
Receipt of net assets from NIACC Dormitories, Inc.	173,505	—	—	—	—	—	2,014,002	2,187,507
Transfers in.....	—	20,557	—	464,044	3,759	—	(488,360)	—
Transfers out.....	(482,353)	(2,248)	—	(3,759)	—	—	488,360	—
Total Other Financing Sources (Uses).....	<u>(308,848)</u>	<u>18,309</u>	<u>—</u>	<u>460,285</u>	<u>3,759</u>	<u>—</u>	<u>2,014,002</u>	<u>2,187,507</u>
Net.....	108,809	511,742	466	659,559	—	5,314,377	(2,601,285)	3,993,668
Fund Balances - Beginning of Year.....	3,506,793	685,909	25,820	3,737,210	—	26,434,294	(12,599,279)	21,790,747
Fund Balances- End of Year.....	\$ 3,615,602	\$ 1,197,651	\$ 26,286	\$ 4,396,769	\$ —	\$ 31,748,671	\$ (15,200,564)	\$ 25,784,415

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Unrestricted Fund - Education and Support

Year Ended June 30, 2005

	Education				Support					Total
	Liberal Arts and Sciences	Vocational Technical	Adult Education	Cooperative Services	General Administration	Student Services	Learning Resources	Physical Plant	General Institution	
Revenue										
State appropriations, grants and contracts.....	\$ 4,244,355	\$ 1,431,530	\$ 2,219,067	\$ —	\$ 5,227	\$ —	\$ —	\$ —	\$ —	\$ 7,900,179
Tuition and fees.....	4,917,347	1,535,441	1,546,465	—	—	450	—	—	—	7,999,703
Property tax.....	—	—	—	—	892,425	—	—	—	—	892,425
Federal appropriations.....	—	165,791	259,251	—	5,185	1,240	—	—	—	431,467
Sales and services.....	6,427	42,726	176,056	14,702	—	1,357	1,619	72,099	1,260	316,246
Interest on investments.....	—	—	3,134	—	87,991	—	—	—	7,151	98,276
Gifts.....	47,185	88,665	2,120	—	—	—	—	472	72,189	210,631
Miscellaneous.....	330,092	282,156	460,847	—	75,687	40,458	1,050	34,446	25,761	1,250,497
	9,545,406	3,546,309	4,666,940	14,702	1,066,515	43,505	2,669	107,017	106,361	19,099,424
Allocation of support services.....	644,640	227,107	454,320	—	(1,066,515)	(43,505)	(2,669)	(107,017)	(106,361)	—
Total Revenue.....	10,190,046	3,773,416	5,121,260	14,702	—	—	—	—	—	19,099,424
Expenditures										
Salaries and benefits.....	5,008,525	2,230,842	1,284,744	4,667	858,356	1,771,841	312,837	985,604	706,934	13,164,350
Services.....	142,631	195,019	1,508,328	33,620	167,420	184,917	21,836	413,219	672,186	3,339,176
Materials and supplies.....	261,020	260,004	208,390	897	59,136	98,262	163,264	302,022	50,027	1,403,022
Travel.....	53,850	31,810	43,042	254	35,830	27,762	1,631	314	15,460	209,953
Plant asset acquisitions.....	28,408	146,154	1,053	—	7,022	14,539	8,715	116,648	22,956	345,495
Miscellaneous.....	—	—	—	—	56,551	220,775	—	—	—	277,326
	5,494,434	2,863,829	3,045,557	39,438	1,184,315	2,318,096	508,283	1,817,807	1,467,563	18,739,322
Allocation of support services.....	3,546,830	1,249,548	2,499,686	—	(1,184,315)	(2,318,096)	(508,283)	(1,817,807)	(1,467,563)	—
Total Expenditures.....	9,041,264	4,113,377	5,545,243	39,438	—	—	—	—	—	18,739,322
Revenue Over (Under) Expenditures.....	1,148,782	(339,961)	(423,983)	(24,736)	—	—	—	—	—	360,102
Other Financing Sources (Uses)										
Transfers out.....	(243,894)	(79,474)	(158,985)	—	—	—	—	—	—	(482,353)
Net.....	\$ 904,888	\$ (419,435)	\$ (582,968)	\$ (24,736)	\$ —	\$ —	\$ —	\$ —	\$ —	(122,251)
Fund Balances - Beginning of Year.....										3,148,499
Fund Balances- End of Year.....										\$ 3,026,248

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Unrestricted Fund - Auxiliary Enterprises

Year Ended June 30, 2005

	Trade and Industry	Farm	Food Services	Auditorium	Athletics	Dormitories	Tech-Prep	Miscellaneous	Total
Revenue									
Sales and services	\$ 40,789	\$ 157,652	\$ 630,197	\$ 300,680	\$ 147,367	\$ —	\$ —	\$ 958	\$ 1,277,643
Interest on investments	760	398	5,224	2,453	—	—	151	3,561	12,547
Gifts	—	20,408	—	36,854	84,293	—	—	—	141,555
Miscellaneous.....	6,874	240	417	4,529	122,233	—	—	—	134,293
Total Revenue	48,423	178,698	635,838	344,516	353,893	—	151	4,519	1,566,038
Expenditures									
Salaries and benefits.....	—	38,324	288,536	8,890	14,978	—	—	—	350,728
Service.....	—	67,787	8,531	302,498	60,992	—	—	—	439,808
Materials and supplies.....	55,835	81,688	294,209	6,457	66,904	—	—	—	505,093
Travel.....	—	—	—	2,071	89,383	—	—	—	91,454
Miscellaneous.....	—	—	22	—	121,378	—	—	—	121,400
Total Expenditures.....	55,835	187,799	591,298	319,916	353,635	—	—	—	1,508,483
Revenue Over (Under) Expenditures.....	(7,412)	(9,101)	44,540	24,600	258	—	151	4,519	57,555
Other Financing Sources									
Receipt of net assets from NIACC Dormitories, Inc.	—	—	—	—	—	173,505	—	—	173,505
Net.....	(7,412)	(9,101)	44,540	24,600	258	173,505	151	4,519	231,060
Fund Balances - Beginning of Year.....	48,178	(4,152)	234,878	41,115	(81,996)	—	8,125	112,146	358,294
Fund Balances - End of Year.....	\$ 40,766	\$ (13,253)	\$ 279,418	\$ 65,715	\$ (81,738)	\$ 173,505	\$ 8,276	\$ 116,665	\$ 589,354

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Restricted Fund

Year Ended June 30, 2005

	Scholarships and Grants	Equipment Replace- ment	Insurance	Unemploy- ment Early Retire- ment	Compensa- tion	Cash Reserve	Iowa Workforce Development Contract Workforce Invest- ment Act	Temporary Assist- ance for Needy Families	Other	Iowa Industrial New Jobs Training Program Adminis- tration	Iowa Industrial New Jobs Training Program	Miscel- laneous	Total
Revenue													
State appropriations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 102,478	\$ 75,618	\$ —	\$ 302,248	\$ 480,344
Property tax	—	396,633	247,131	299,386	29,931	—	—	—	—	—	—	—	973,081
Federal appropriations.....	2,431,863	—	—	—	—	—	408,217	347,158	271,195	—	—	487,757	3,946,190
Sales and services	—	—	—	—	—	—	—	—	—	—	—	4,888	4,888
Interest on investments	28	14,194	—	—	718	—	—	—	—	43,629	109,699	3,784	172,052
Iowa Industrial New Jobs Training Program	—	—	—	—	—	—	—	—	—	—	1,833,748	—	1,833,748
Gifts	—	—	—	—	—	—	—	—	—	—	—	162,920	162,920
Miscellaneous.....	—	—	1,978	—	—	—	—	—	—	258,642	—	153,360	413,980
Total Revenue.....	2,431,891	410,827	249,109	299,386	30,649	—	408,217	347,158	373,673	377,889	1,943,447	1,114,957	7,987,203
Expenditures													
Salaries and benefits	—	—	—	74,809	6,126	—	229,831	282,307	236,535	275,547	—	746,217	1,851,372
Services.....	—	—	253,047	—	—	—	167,930	58,414	72,129	29,063	1,473,129	141,075	2,194,787
Materials and supplies.....	—	—	—	—	—	—	4,150	4,961	52,653	3,092	—	101,268	166,124
Travel.....	—	—	—	—	—	—	6,306	1,476	9,979	4,598	—	35,598	57,957
Plant asset acquisitions.....	—	290,250	—	—	—	—	—	—	—	—	—	—	290,250
Interest on indebtedness	—	—	—	—	—	—	—	—	—	—	468,070	—	468,070
Federal Pell Grant Program.....	2,374,639	—	—	—	—	—	—	—	—	—	—	—	2,374,639
Federal Supplemental Education Opportunity Grants.....	57,224	—	—	—	—	—	—	—	—	—	—	—	57,224
Miscellaneous.....	—	—	—	—	—	—	—	—	—	—	—	33,347	33,347
Total Expenditures.....	2,431,863	290,250	253,047	74,809	6,126	—	408,217	347,158	371,296	312,300	1,941,199	1,057,505	7,493,770
Revenue Over (Under) Expenditures.....	28	120,577	(3,938)	224,577	24,523	—	—	—	2,377	65,589	2,248	57,452	493,433
Other Financing Sources (Uses)													
Transfers in.....	—	—	—	—	—	—	—	—	—	2,248	—	18,309	20,557
Transfers out	—	—	—	—	—	—	—	—	—	—	(2,248)	—	(2,248)
Total Other Financing Sources (Uses).....	—	—	—	—	—	—	—	—	—	2,248	(2,248)	18,309	18,309
Net.....	28	120,577	(3,938)	224,577	24,523	—	—	—	2,377	67,837	—	75,761	511,742
Fund Balances - Beginning of Year.....	1,720	716,865	32,055	(702,425)	26,729	285,793	—	—	—	192,404	—	132,768	685,909
Fund Balances - End of Year.....	\$ 1,748	\$ 837,442	\$ 28,117	\$ (477,848)	\$ 51,252	\$ 285,793	\$ —	\$ —	\$ 2,377	\$ 260,241	\$ —	\$ 208,529	\$ 1,197,651

Combining Schedule of Changes in Deposits Held in Custody for Others - Agency Fund

Year Ended June 30, 2005

	Fine Arts	Student Organi- zations	Iowa Small Business New Jobs Training Program	Federal Direct Student Loan Program	Miscel- laneous	Total
Balances - Beginning of Year.....	<u>\$ 58,589</u>	<u>\$ 68,595</u>	<u>\$ 94,358</u>	<u>\$ —</u>	<u>\$ 62,350</u>	<u>\$ 283,892</u>
Additions						
State appropriations ..	—	—	227,773	—	—	227,773
Federal appropriations	—	—	—	3,767,997	—	3,767,997
Tuition and fees	3,922	66,478	—	—	11,023	81,423
Sales and services	46,950	22,501	—	—	10,283	79,734
Interest on investments	898	1,366	1,220	—	4,117	7,601
Miscellaneous.....	17,000	5,196	—	—	243,389	265,585
Total Additions	<u>68,770</u>	<u>95,541</u>	<u>228,993</u>	<u>3,767,997</u>	<u>268,812</u>	<u>4,430,113</u>
Deductions						
Salaries and benefits	1,536	—	—	—	204,044	205,580
Services.....	8,612	51,091	176,628	3,767,997	100,407	4,104,735
Materials and supplies	12,053	23,510	—	—	4,061	39,624
Travel.....	41,034	24,488	—	—	32	65,554
Miscellaneous.....	651	8,150	—	—	—	8,801
Total Deductions .	<u>63,886</u>	<u>107,239</u>	<u>176,628</u>	<u>3,767,997</u>	<u>308,544</u>	<u>4,424,294</u>
Balances - End of Year	<u>\$ 63,473</u>	<u>\$ 56,897</u>	<u>\$ 146,723</u>	<u>\$ —</u>	<u>\$ 22,618</u>	<u>\$ 289,711</u>

Schedule of Credit and Contact Hours

Year Ended June 30, 2005

Category	Credit Hours			Contact Hours		
	Eligible for Aid	Not Eligible for Aid	Total	Eligible for Aid	Not Eligible for Aid	Total
Arts and sciences	53,740	14	53,754	—	—	—
Vocational education	13,725	32	13,757	—	—	—
Adult education/ continuing education	—	—	—	<u>530,845</u>	<u>88,376</u>	<u>619,221</u>
Total	<u>67,465</u>	<u>46</u>	<u>67,511</u>	<u>530,845</u>	<u>88,376</u>	<u>619,221</u>

Schedule of Tax and Intergovernmental Revenue

Years Ended June 30, 2005, 2004, 2003 and 2002

	2005	2004	2003	2002
Local (property tax).....	\$ 2,757,931	\$ 2,903,480	\$ 2,792,992	\$ 2,405,825
State	8,674,524	7,862,838	7,942,213	8,497,683
Federal	<u>4,377,657</u>	<u>4,277,760</u>	<u>3,920,410</u>	<u>3,774,320</u>
Total	<u>\$ 15,810,112</u>	<u>\$ 15,044,078</u>	<u>\$ 14,655,615</u>	<u>\$ 14,677,828</u>

Schedule of Current Funds Revenue By Source and Expenditures

By Function

Years Ended June 30, 2005, 2004, 2003 and 2002

	2005	2004	2003	2002
Revenue				
State appropriations, grants and contracts	\$ 8,380,523	\$ 7,862,838	\$ 7,942,213	\$ 8,144,350
Tuition and fees	7,999,703	7,542,650	6,991,633	6,750,829
Property tax	1,865,506	1,944,177	1,842,351	1,476,735
Federal appropriations.....	4,377,657	4,277,760	3,920,410	3,774,320
Sales and services	321,134	451,282	543,487	562,753
Interest on investments	263,177	143,427	195,887	308,741
Iowa Industrial New Jobs Training Program	1,833,748	1,293,308	1,810,724	1,126,408
Auxiliary enterprises	1,566,038	836,274	850,365	802,581
Miscellaneous.....	<u>2,045,179</u>	<u>1,638,369</u>	<u>1,731,013</u>	<u>2,332,450</u>
Total Revenue	<u>\$ 28,652,665</u>	<u>\$ 25,990,085</u>	<u>\$ 25,828,083</u>	<u>\$ 25,279,167</u>
Expenditures				
Liberal arts and sciences.....	\$ 5,676,475	\$ 5,368,917	\$ 5,791,601	\$ 5,496,919
Vocational technical.....	3,266,549	3,075,553	3,177,517	3,195,220
Adult education.....	3,053,689	3,267,796	3,461,202	3,334,166
Cooperative services	2,153,615	1,456,014	1,905,524	1,446,772
Administration.....	1,189,597	1,126,724	1,052,522	888,246
Student services	2,715,377	2,441,405	2,198,980	2,031,108
Learning resources.....	582,289	467,132	476,031	484,121
Physical plant	2,006,982	1,923,055	1,689,474	2,221,039
General institution.....	1,561,915	1,361,546	1,306,644	1,138,786
Auxiliary enterprises	1,508,483	870,523	795,084	823,391
Scholarships and grants.....	2,431,863	2,382,837	2,092,749	1,914,420
Iowa Workforce Development contract.....	1,126,671	1,049,312	1,013,050	1,105,290
Interest on indebtedness	<u>468,070</u>	<u>466,249</u>	<u>467,138</u>	<u>510,655</u>
Total Expenditures	<u>\$ 27,741,575</u>	<u>\$ 25,257,063</u>	<u>\$ 25,427,516</u>	<u>\$ 24,590,133</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Education - Direct			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 57,224
Federal Work-Study Program	84.033		82,272
Federal Pell Grant Program	84.063		2,381,601
Federal Direct Student Loans	84.268		<u>3,768,927</u>
Total Student Financial Aid Cluster			<u>6,290,024</u>
TRIO-Student Support Services	84.042		<u>266,550</u>
Total U.S. Department of Education - Direct			<u>6,556,574</u>
U.S. Department of Veterans Affairs - Direct			
Vocational Rehabilitation for Disabled Veterans	64.116		<u>575</u>
U.S. Department of Agriculture - Indirect			
Pass-Through Iowa Lakes Community College			
Secondary and Two-Year Postsecondary			
Agriculture Education Challenge Grants	10.226		<u>4,725</u>
U.S. Department of Labor - Indirect			
Pass-Through Iowa Workforce Development			
Employment Service Cluster			
Employment Service	17.207	1-W-02-FR-0	142,683
Work Incentives Grant	17.266	1-W-02-FR-0	125,944
Disabled Veterans' Outreach Program	17.801	1-W-02-FR-0	<u>545</u>
Total Employment Service Cluster			<u>269,172</u>
Unemployment Insurance	17.225	1-W-02-FR-0	<u>55,960</u>
Workforce Investment Act Cluster			
WIA Adult Program	17.258	1-W-02-FR-0	101,209
WIA Youth Activities	17.259	1-W-02-FR-0	75,275
WIA Dislocated Workers	17.260	1-W-02-FR-0	<u>152,630</u>
Total Workforce Investment Cluster			<u>329,114</u>
Pass-Through Iowa Department of Education			
Mine Health and Safety Grants	17.600		<u>1,080</u>
Total U.S. Department of Labor - Indirect			<u>655,326</u>
Federal Mediation and Conciliation Service - Indirect			
Pass-Through Iowa Workforce Development			
Labor Management Cooperation	34.002	1-W-02-FR-0	<u>2,200</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Small Business Administration - Indirect			
Pass-Through Iowa State University			
Small Business Development Center	59.037		<u>\$ 55,806</u>
U.S. Department of Education - Indirect			
Pass-Through Iowa Department of Education			
Adult Education - State Grant Program	84.002		252,088
Vocational Education, Basic Grants to States	84.048A		171,385
Tech-Prep Education	84.243K		79,222
Special Education - State Personnel Development	84.323		<u>665</u>
Total U.S. Department of Education - Indirect.....			<u>503,360</u>
U.S. Department of Health and Human Services - Indirect			
Pass-Through Iowa Department of Education			
Student Financial Aid Cluster			
Nursing Student Loans - Federal Capital			
Contributions.....	93.364		64,257
Pass-Through Iowa Workforce Development			
Temporary Assistance for Needy Families	93.558	1-W-02-FR-0	<u>347,158</u>
Total U.S. Department of Health and Human Services - Indirect.....			<u>411,415</u>
Social Security Administration - Indirect			
Pass-Through Iowa Workforce Development			
Social Security - Research and Demonstration	96.007	1-W-02-FR-0	<u>2,436</u>
Total Federal Financial Assistance.....			<u>\$ 8,192,417</u>

(1) Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of North Iowa Area Community College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Loans Outstanding

The Federal Direct Loan Program provides loans directly from the federal government to students and their parents. The amount presented represents the value of new loans awarded by the College during the year.

The amount presented for Nursing Student Loans represents the balance of loans outstanding as of June 30, 2005 of \$64,257. Loan balances at June 30, 2005 include new loans advanced during the year of \$3,500 and \$60,757 for the balance of loans from previous years for which the government imposes continuing compliance requirements.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Directors
North Iowa Area Community College
Mason City, Iowa

We have audited the financial statements of North Iowa Area Community College, Mason City, Iowa, and its aggregate discretely presented component units as of and for the year ended June 30, 2005, and have issued our report thereon dated October 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Iowa Area Community College'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 internal control that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected in 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.

Compliance

As part of obtaining reasonable assurance about whether North Iowa Area Community College's 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 *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Section IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about North Iowa Area Community College's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of North Iowa Area Community College. 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.

This report, a public record by law, is intended solely for the information and use of the management of North Iowa Area Community College and other parties to whom North Iowa Area Community College may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 11, 2005

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance

Board of Directors
North Iowa Area Community College
Mason City, Iowa

Compliance

We have audited the compliance of North Iowa Area Community College, Mason City, Iowa, 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. North Iowa Area Community College'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 North Iowa Area Community College's management. Our responsibility is to express an opinion on North Iowa Area Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and provisions 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 North Iowa Area Community College'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 North Iowa Area Community College's compliance with those requirements.

In our opinion, North Iowa Area Community College 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 North Iowa Area Community College 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 North Iowa Area Community College'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.

We noted one matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect North Iowa Area Community College's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a 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 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

This report, a public record by law, is intended solely for the information and use of the management of North Iowa Area Community College and other parties to whom North Iowa Area Community College may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 11, 2005

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Part I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? yes no

Reportable condition identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Reportable condition identified not considered to be material weaknesses? yes none reported

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

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

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

84.007

Student Financial Aid Cluster
Federal Supplemental Educational Opportunity Grants
Federal Work-Study Program
Federal Pell Grant Program
Federal Direct Student Loans
Nursing Student Loans - Federal Capital Contributions

84.033

84.063

84.268

93.364

Workforce Investment Act Cluster
WIA Adult Program
WIA Youth Activities
WIA Dislocated Workers

17.258

17.259

17.260

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no current year reported instances of noncompliance.

Reportable Conditions

There were no current year matters reported.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no current year reported instances of noncompliance.

Reportable Conditions

U.S. Department of Education - Federal Pell Grant Program - CFDA Number 84.063

05-III-A Timely Reporting

Finding - An institution must submit a disbursement record within 30 days of making a Pell disbursement or of becoming aware that a student is eligible for a Pell grant. The May 17 disbursements of \$20,288 were not submitted until June 18, which is 31 days.

Auditor's Recommendation - The College should train new staff on filing deadlines and have more experienced staff monitor when disbursement records are submitted.

College's Response - In the future, a more experienced staff member will monitor when disbursement records are submitted.

Auditor's Conclusion - Response accepted.

Part IV: Findings Related to Statutory Reporting

05-IV-A Official Depositories - Official depositories have been adopted by the Board. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-IV-B Certified Budget - Expenditures for the year ended June 30, 2005 did not exceed the amounts budgeted.

05-IV-C Questionable Disbursements - No expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

05-IV-D Travel Expense - No expenditures of College money for travel expenses of spouses of College officials or employees were noted. No travel advances to College officials or employees were noted.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2005

05-IV-E Business Transactions - No business transactions between the College and College officials or employees were noted.

05-IV-F Bond Coverage - Surety bond coverage of College officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

05-IV-G Board Minutes - For the first several months of the year, the list of claims approved by the Board was not a complete list of all expenditures.

Auditor's Recommendation - The list should be reviewed before it is sent to the Board to ensure that it is complete and that all expenditures are approved.

College's Response - This was an oversight due to a switch to a new accounting software which was corrected as soon as it was noticed, which was before year end.

Auditor's Conclusion - Response accepted.

05-IV-H Publication - The College published a statement showing the receipt and disbursement of all funds, including the names of all persons, firms or corporations to which disbursements were made, as required by Section 260C.14(12) of the Code of Iowa.

05-IV-I Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the College's investment policy were noted.

05-IV-J Credit and Contact Hours - Eligible credit and contact hours reported to the Iowa Department of Education by the College were supported by detailed records maintained by the College.