

Southeastern Community College

Financial and Compliance Report

06.30.2005

McGladrey & Pullen

Certified Public Accountants

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Southeastern Community College

Officials

| Name | Title | Term Expires |
|--|---------------------------------|--------------|
| Board of Trustees (After September 2004 Election): | | |
| Jeff Heland | Chairperson/President | 2006 |
| Moudy Nabulsi | Vice Chairperson/Vice President | 2005 |
| Landen Hillyard | Member | 2007 |
| Janet Fife-LaFrenz | Member | 2007 |
| Brian Roth | Member | 2005 |
| Area school: | | |
| Jim Richardson | President | |
| Dick Springsteen | Board Treasurer | |
| Sherry Zeller | Secretary | |

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Southeastern Community College
West Burlington, Iowa

We have audited the accompanying financial statements of the Southeastern Community College, as of 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 the Southeastern 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 discretely presented component unit which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The discretely presented component unit was not audited in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southeastern Community College and its discretely presented component unit, as of June 30, 2005, and the respective changes in financial position and the cash flows where applicable thereof 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 report dated September 23, 2005 on our consideration of the Southeastern Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Budgetary Comparison Schedule of Expenditures are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southeastern Community College basic financial statements. The statements and schedules listed on the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

McGladrey & Pullen, LLP

Davenport, Iowa
September 23, 2005

Southeastern Community College

Management's Discussion and Analysis

Management of Southeastern Community College provides this Management's Discussion and Analysis of the College's annual financial statements. This narrative overview and analysis of the financial activities of Southeastern Community College is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the College's financial statements, which follow.

Financial Highlights

- College operating revenues increased 7.4% or approximately \$1,350,578. Largest areas of increase were for Workforce Investment Act and Department of Labor initiatives (\$1,180,834).
- College net nonoperating revenues decreased 2.0% as a result of a decrease in property tax collections (\$275,251) and interest earnings (\$421,269). Interest earnings were affected by an adjusting entry made for prior year earnings recorded that are no longer anticipated to be needed to satisfy projected INJT obligations.
- College operating expenses decreased 5.2% or approximately \$1,502,801. Largest decreases were in Plant Fund capital project expenditures (\$712,526) and Iowa Industrial New Jobs Training Program expenditures (\$395,538).
- The College's net assets increased 18% or approximately \$1,914,275. This is the result of the College's continued investment in capital assets (\$853,328) and annual revenues exceeding expenditures.

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 basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows. These provide information about the activities of the College as a whole and present an overall view of the College's finances.

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

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

Southeastern Community College

Management's Discussion and Analysis

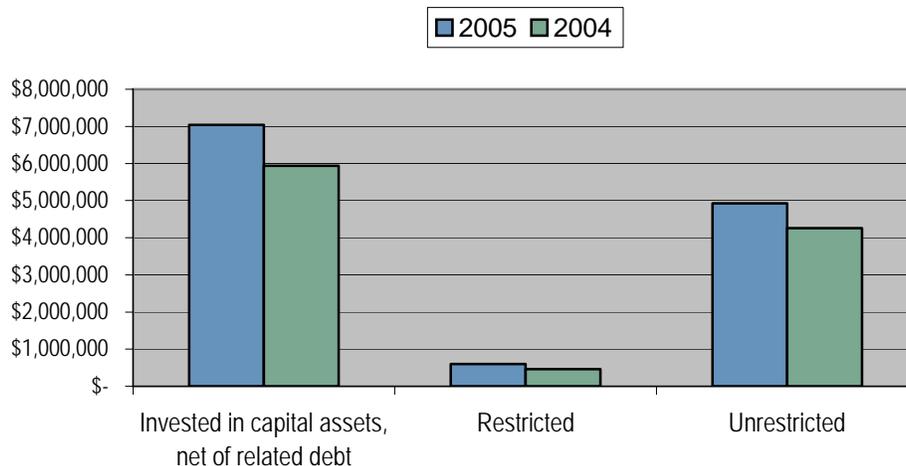
Reporting the College's Financial Activities

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 years June 30, 2005 and 2004. 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 will be 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 also presents the available assets that can be used to satisfy those liabilities.

Net Assets

| | June 30, | |
|---|----------------------|----------------------|
| | 2005 | 2004 |
| Current and other assets | \$ 16,464,589 | \$ 16,704,885 |
| Capital assets, net of accumulated depreciation | 16,963,989 | 16,623,547 |
| Total assets | 33,428,578 | 33,328,432 |
| Current liabilities | 9,323,967 | 9,678,708 |
| Noncurrent liabilities | 11,537,072 | 12,996,460 |
| Total liabilities | 20,861,039 | 22,675,168 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 7,039,950 | 5,939,022 |
| Restricted | 601,795 | 459,679 |
| Unrestricted | 4,925,794 | 4,254,563 |
| Total net assets | \$ 12,567,539 | \$ 10,653,264 |

Comparison of Net Assets



Southeastern Community College

Management's Discussion and Analysis

The largest portion of the College's net assets (56%) is the invested in capital assets (e.g., land, buildings, and equipment), less the related debt. The debt related to the invested in capital assets is liquidated with resources other than capital assets. The restricted portion of the net assets (4.8%) includes resources that are subject to external restrictions. The remaining net assets (39.2%) are the unrestricted net assets that can be used to meet the College's obligations as they come due.

Statement of Revenues, 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 Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the College.

In general, a public college, such as Southeastern Community College, will report an operating loss since financial reporting model classifies state appropriations and property taxes as nonoperating revenues. Operating revenues are received for providing goods and services to the various 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 revenues, and to carry out the mission of the College. Nonoperating revenues are revenues 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.

Southeastern Community College

Management's Discussion and Analysis

Change in Net Assets

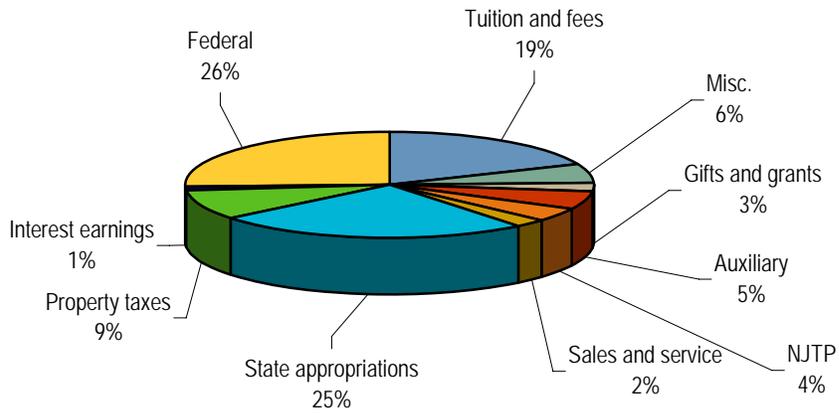
| | Year Ended June 30, | |
|--|----------------------|----------------------|
| | 2005 | 2004 |
| Operating revenues: | | |
| Tuition and fees | \$ 5,664,419 | \$ 5,682,783 |
| Federal appropriations | 7,752,529 | 6,982,845 |
| Iowa Industrial New Jobs Training Program | 1,335,325 | 1,124,406 |
| Auxiliary | 1,642,246 | 1,607,475 |
| Gifts and grants | 799,895 | 963,021 |
| Sales and services | 694,472 | 795,538 |
| Miscellaneous | 1,735,467 | 1,117,707 |
| Total operating revenues | 19,624,353 | 18,273,775 |
| Total operating expenses | 27,130,447 | 28,633,248 |
| Operating loss | (7,506,094) | (10,359,473) |
| Nonoperating revenues (expenses): | | |
| State appropriations | 7,576,384 | 7,085,031 |
| Property taxes | 2,793,589 | 3,068,840 |
| Interest earnings | (374,784) | 46,485 |
| Interest on indebtedness | (555,906) | (583,840) |
| Transfer to agency fund | (18,914) | - |
| Net nonoperating revenues | 9,420,369 | 9,616,516 |
| Change in net assets | 1,914,275 | (742,957) |
| Net assets: | | |
| Beginning | 10,653,264 | 11,396,221 |
| Ending | \$ 12,567,539 | \$ 10,653,264 |
| Total revenues, operating and nonoperating | \$ 29,994,326 | \$ 28,474,131 |
| Total expenses, operating and nonoperating | \$ 28,080,051 | \$ 29,217,088 |

Southeastern Community College

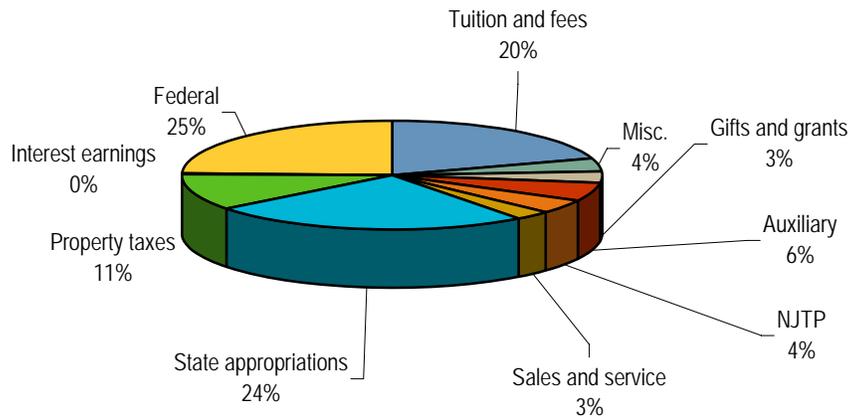
Management's Discussion and Analysis

Total Revenue by Source

2005



2004

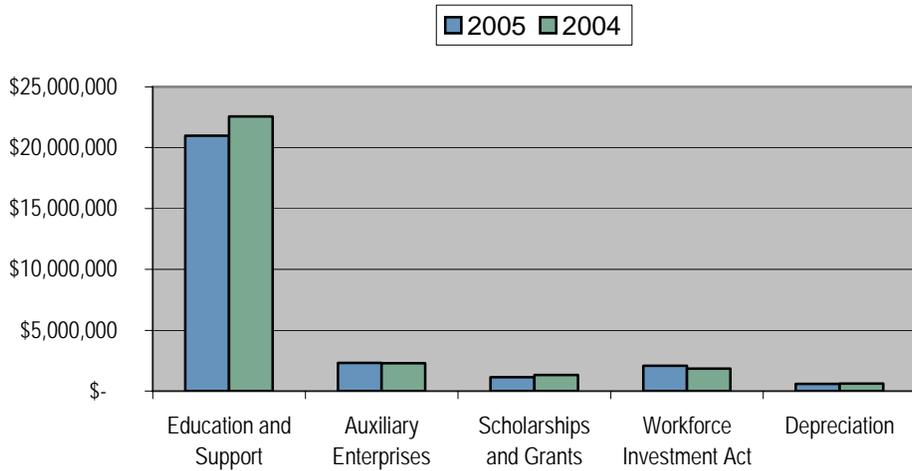


Southeastern Community College

Management's Discussion and Analysis

Operating Expenses

| | Year Ended June 30, | |
|---------------------------------|----------------------|----------------------|
| | 2005 | 2004 |
| Education and support: | | |
| Liberal arts and sciences | \$ 3,280,595 | \$ 3,340,280 |
| Vocational technical | 3,757,895 | 3,377,608 |
| Adult education | 2,028,383 | 1,889,794 |
| Cooperative services | 3,375,877 | 3,628,874 |
| Administration | 1,242,464 | 1,356,823 |
| Student services | 2,077,267 | 1,967,158 |
| Learning resources | 584,745 | 576,206 |
| Physical plant | 1,742,773 | 2,806,736 |
| General institution | 2,896,683 | 3,614,913 |
| Auxiliary enterprises | 2,314,780 | 2,288,397 |
| Scholarships and grants | 1,142,372 | 1,320,633 |
| Workforce Investment Act | 2,081,382 | 1,843,723 |
| Depreciation | 605,231 | 622,103 |
| Total operating expenses | \$ 27,130,447 | \$ 28,633,248 |



Southeastern Community College

Management's Discussion and Analysis

In fiscal year 2005 total revenues increased \$1,520,195, and total expenses decreased \$1,137,037. Major fluctuations in revenues and expenses were a result of the following:

- Decreased enrollment (2%) and increased tuition rate (9.4%).
- Property tax collections decreased \$275,251 (9%).
- Employee wages and benefits increased \$4,141 (.02%).
- Decrease of 51% in Physical Plant expenses as a result of \$1,363,476 prior year classroom addition and remodeling projects completed.
- Industrial New Jobs Training Program revenue increased \$210,918 (18.8%).
- Tuition revenue increased \$172,725 (2%).

Debt Service

A summary of the College's long-term debt is as follows:

| Outstanding Debt | June 30, | |
|--------------------------------------|----------------------|----------------------|
| | 2005 | 2004 |
| General obligation bonds (Principal) | \$ 9,966,460 | \$ 10,736,638 |
| Certificates payable (Principal) | 3,465,000 | 3,830,000 |
| Compensated absences | 348,720 | 324,407 |
| Early retirement payable | 961,417 | 1,448,735 |
| Total debt | \$ 14,741,597 | \$ 16,339,780 |

Long-term debt decreased by \$1,598,183 (9.8%) in 2005. New debt in the amount of \$625,000 was issued for certificates payable. On July 1, 2005 the Series 1990 General Obligation Bonds were called and paid by the proceeds from the School Refunding Bonds issued in 2003.

More detailed information about the College's outstanding debt is presented in Note 4 to the basic financial statements.

Southeastern Community College

Management's Discussion and Analysis

Statement of Cash Flows: The Statement of Cash Flows is an important tool in helping the users to assess the College's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. 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

| | Year Ended June 30, | |
|--|---------------------|---------------------|
| | 2005 | 2004 |
| Cash provided by (used in): | | |
| Operating activities | \$ (7,868,133) | \$ (9,959,153) |
| Noncapital financing activities | 9,946,784 | 10,027,759 |
| Capital and related financing activities | (2,297,591) | 1,136,792 |
| Investing activities | (1,746,877) | 986,638 |
| Net increase (decrease) in cash | (1,965,817) | 2,192,036 |
| Cash: | | |
| Beginning | 5,269,240 | 3,077,204 |
| Ending | <u>\$ 3,303,423</u> | <u>\$ 5,269,240</u> |

A major contributing factor to the 37% decrease in ending cash balance was the recording of proceeds on notes and bonds payable in the amount of \$3,185,000 in 2004 with related debt service obligations to be paid in succeeding fiscal year.

Southeastern Community College

Management's Discussion and Analysis

Capital Assets: As of June 30, 2005, the College has \$26,191,042 invested in capital assets. Accumulated depreciation of the assets is \$9,227,053. Depreciation charges totaled \$605,231 for fiscal year 2005. Details of the capital assets are shown below.

Capital Assets

| Capital Assets, at Year-End | June 30, | |
|-----------------------------------|----------------------|----------------------|
| | 2005 | 2004 |
| Land | \$ 851,980 | \$ 851,980 |
| Buildings | 21,228,344 | 20,349,794 |
| Other structures and improvements | 1,393,000 | 1,382,200 |
| Furniture and equipment | 2,717,718 | 2,753,740 |
| Totals | \$ 26,191,042 | \$ 25,337,714 |

Major capital expenditures during fiscal year 2005 were the purchase and remodeling of the River Park Place facility for the relocation of the College's Center for Industry and Business Services in Burlington (\$795,781). The College owns 406,791 square feet of building space and 193.7 acres of land.

More detailed information about the College's capital assets is presented in Note 3 to the basic financial statements.

Economic Factors

Southeastern Community College improved its overall financial position during the fiscal year. While the State economy is starting to show signs of recovery, it is still a concern for College officials. Economic factors and trends that continue to draw a great deal of scrutiny by the College are:

- ◆ State Appropriations were up \$491,353 for the fiscal year; however, unrestricted State aid was only up \$120,576. This is still \$361,762 below the 2001 funding level.
- ◆ Property Tax collections were down \$275,251 and total taxable property values decreased \$217,214,387 (7.17%). Property tax collections for the unrestricted general operating fund are now less than 4% of total revenues.
- ◆ Tuition Revenue collections in the unrestricted general operating fund were up and are now the largest source of revenue for the fund, representing 52.3% of the total revenues. While it is a significant amount of revenue, it is difficult to predict and budget, and continued tuition rate increases (4.3% for FY06) create hardships for individuals seeking a college education.
- ◆ Student Enrollment decreased by 2% in 2005. With student tuition representing 52.3% of unrestricted general operating fund revenue, the College must continue to be aggressive in recruiting and retaining students.

Southeastern Community College

Management's Discussion and Analysis

- ◆ Industrial New Jobs Training (260E) Projects have provided valuable resources for area businesses and industries for expansion and training of their labor forces. With the downturn of the economy in recent years it has become increasingly difficult for area businesses and industries to meet long-term debt obligations for their 260E projects. This is an area of concern that must be continually monitored by the College.
- ◆ Labor and Utility costs continue to increase and represent 78.4% of the unrestricted general operating fund budget. Labor costs will increase an average of 4.5% each year over the next three years, and utilities are scheduled to increase a minimum of 18% for fiscal year 2006.

The 2005 State legislature approved \$9,800,000 in additional funding for Iowa's 15 community colleges for the fiscal year beginning July 1, 2005. This is a welcome early sign of State economic recovery and is an indicator of the State legislature's confidence in and support of community colleges. Southeastern Community College will be pro active in monitoring the factors that affect its resources to insure that we will be in a position to be responsive to State and regional demands as well as meeting the needs of our students and other constituents.

Contacting the College's Financial Management

This financial report is designed to provide our customers, community taxpayers, 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 Southeastern Community College, 1500 West Agency Road, West Burlington, Iowa 52655.

Southeastern Community College

Statement of Net Assets

June 30, 2005

| Assets | Primary Institution | Component Unit - Foundation |
|---|------------------------|--------------------------------|
| Current Assets: | | |
| Cash | \$ 3,303,423 | \$ 222,642 |
| Investments | 5,414,579 | 3,300,733 |
| Receivables: | | |
| Accounts | 316,462 | - |
| Due from other governments | 1,953,114 | - |
| Property taxes, succeeding year | 2,816,924 | - |
| Other | 21,434 | 33,469 |
| Inventories | 364,963 | - |
| Total current assets | 14,190,899 | 3,556,844 |
| Noncurrent Assets: | | |
| Receivables, Iowa Industrial New Jobs Training Program | 2,231,268 | - |
| Bond discount and issuance costs | 42,422 | - |
| Capital assets: | | |
| Land | 851,980 | - |
| Buildings | 21,228,344 | - |
| Other structures and improvements | 1,393,000 | - |
| Furniture and equipment | 2,717,718 | - |
| Accumulated depreciation | (9,227,053) | - |
| Total noncurrent assets | 19,237,679 | - |
| Total assets | \$ 33,428,578 | \$ 3,556,844 |

See Notes to Basic Financial Statements.

| Liabilities and Net Assets | Primary Institution | Component Unit - Foundation |
|---|------------------------|--------------------------------|
| Current Liabilities: | | |
| Accounts payable | \$ 1,196,135 | \$ 5,480 |
| Salaries and benefits payable | 848,503 | - |
| Deferred revenue: | | |
| Succeeding year property tax | 2,816,924 | - |
| Other | 667,540 | - |
| Early retirement payable | 961,417 | - |
| Compensated absences | 348,716 | - |
| Deposits held in custody for others | 590,344 | - |
| Certificates payable | 680,000 | - |
| Bonds payable | 1,214,388 | - |
| Total current liabilities | 9,323,967 | 5,480 |
| Noncurrent Liabilities: | | |
| Certificates payable | 2,785,000 | - |
| Bonds payable | 8,752,072 | - |
| Total noncurrent liabilities | 11,537,072 | - |
| Total liabilities | 20,861,039 | 5,480 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 7,039,950 | - |
| Restricted for: | | |
| Scholarships and fellowships | 13,213 | 3,557,392 |
| Loans | 5,973 | - |
| Cash reserve | 231,408 | - |
| Other restricted purposes | 351,201 | - |
| Unrestricted | 4,925,794 | (6,028) |
| Total net assets | 12,567,539 | 3,551,364 |
| Total liabilities and net assets | \$ 33,428,578 | \$ 3,556,844 |

Southeastern Community College

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2005

| | Primary Institution | Component Unit - Foundation |
|---|------------------------|--------------------------------|
| Revenues: | | |
| Operating revenues: | | |
| Tuition and fees, net of scholarship allowances of \$3,027,646 | \$ 5,664,419 | \$ - |
| Federal appropriations | 7,752,529 | - |
| Iowa Industrial New Jobs Training Program | 1,335,325 | - |
| Gifts, grants, and special events | 799,895 | 2,567 |
| Contributions | - | 350,586 |
| Sales and services | 694,472 | - |
| Auxiliary enterprises revenue, net of scholarship allowances of \$956,055 | 1,642,246 | - |
| Miscellaneous | 1,735,467 | 52,000 |
| Total operating revenues | 19,624,353 | 405,153 |
| Expenses: | | |
| Operating expenses: | | |
| Education and support: | | |
| Liberal arts and sciences | 3,280,595 | - |
| Vocational technical | 3,757,895 | - |
| Adult education | 2,028,383 | - |
| Cooperative services | 3,375,877 | - |
| Administration | 1,242,464 | - |
| Student services | 2,077,267 | - |
| Learning resources | 584,745 | - |
| Physical plant | 1,742,773 | - |
| General institution | 2,896,683 | - |
| Auxiliary enterprises | 2,314,780 | - |
| Scholarships and grants | 1,142,372 | 211,136 |
| Workforce Investment Act | 2,081,382 | - |
| Depreciation expense | 605,231 | - |
| Other | - | 64,619 |
| Total operating expenses | 27,130,447 | 275,755 |
| Operating income (loss) | (7,506,094) | 129,398 |
| Nonoperating revenues (expenses): | | |
| State appropriations | 7,576,384 | - |
| Property taxes | 2,793,589 | - |
| Interest earnings | (374,784) | 254,384 |
| Interest on indebtedness | (555,906) | - |
| Net nonoperating revenues | 9,439,283 | 254,384 |
| Transfers to agency fund | (18,914) | - |
| Change in net assets | 1,914,275 | 383,782 |
| Net assets: | | |
| Beginning | 10,653,264 | 3,167,582 |
| Ending | \$ 12,567,539 | \$ 3,551,364 |

See Notes to Basic Financial Statements.

Southeastern Community College

Statement of Cash Flows
Year Ended June 30, 2005

| | Primary Institution | Component Unit - Foundation |
|--|------------------------|--------------------------------|
| Cash Flows from Operating Activities: | | |
| Tuition and fees | \$ 5,990,614 | \$ - |
| Federal appropriations | 7,058,694 | - |
| Iowa Industrial New Jobs Training Program | 1,084,782 | - |
| Payments to employees for salaries and benefits | (15,459,170) | - |
| Payments to suppliers for goods and services | (9,705,451) | (63,724) |
| Cash received as contributions | - | 351,425 |
| Cash paid for scholarships | (2,287,815) | (211,136) |
| Auxiliary enterprise | 1,642,246 | - |
| Other receipts | 3,807,967 | 54,567 |
| Net cash provided by (used in) operating activities | (7,868,133) | 131,132 |
| Cash Flows from Noncapital Financing Activities: | | |
| State appropriations | 7,576,384 | - |
| Property taxes | 2,793,589 | - |
| Principal paid on certificates payable | (990,000) | - |
| Proceeds from certificates payable | 625,000 | - |
| Transfers to agency funds | (18,914) | - |
| Miscellaneous Agency Fund receipts | 423,895 | - |
| Miscellaneous Agency Fund disbursements | (463,170) | - |
| Net cash provided by noncapital financing activities | 9,946,784 | - |
| Cash Flows from Capital and Related Financing Activities: | | |
| Acquisition of capital assets | (945,673) | - |
| Principal paid on notes and bonds payable | (770,178) | - |
| Interest paid on long-term debt | (581,740) | - |
| Net cash (used in) capital and related financing activities | (2,297,591) | - |
| Cash Flows from Investing Activities: | | |
| Interest on investments | (374,784) | 134,969 |
| Purchase of investments | (1,372,093) | (385,336) |
| Proceeds from the sale of investments | - | 120,379 |
| Net cash (used in) investing activities | (1,746,877) | (129,988) |
| Net increase (decrease) in cash | (1,965,817) | 1,144 |
| Cash: | | |
| Beginning | 5,269,240 | 221,498 |
| Ending | \$ 3,303,423 | \$ 222,642 |

(Continued)

Southeastern Community College

Statement of Cash Flows (Continued)
Year Ended June 30, 2005

| | Primary Institution | Component Unit - Foundation |
|---|------------------------|--------------------------------|
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | |
| Operating income (loss) | \$ (7,506,094) | \$ 129,398 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 605,231 | - |
| Amortization | 9,691 | - |
| Changes in assets and liabilities: | | |
| (Increase) in due from other governments | (693,835) | - |
| Decrease in other receivables | 578,133 | 839 |
| Decrease in inventories | 11,273 | - |
| (Increase) in due from Iowa New Jobs Training Program | (250,543) | - |
| Increase (decrease) in accounts payable | (805,270) | 895 |
| Increase in salaries and benefits payable | 24,226 | - |
| Increase in other deferred revenue | 326,195 | - |
| Increase in deposits | 295,869 | - |
| Increase in compensated absences | 24,309 | - |
| (Decrease) in early retirement payable | (487,318) | - |
| Total adjustments | (362,039) | 1,734 |
| Net cash provided by (used in) operating activities | \$ (7,868,133) | \$ 131,132 |

See Notes to Basic Financial Statements.

Southeastern Community College

Notes to Basic Financial Statements

Note 1. Financial Reporting Entity and Significant Accounting Policies

Financial reporting entity:

Southeastern Community College (College) is a publicly supported post-secondary two-year institution established under the provisions of Chapter 260C of the Code of Iowa.

In fulfilling the responsibilities assigned to it by law, Southeastern Community College offers a comprehensive educational program and support services to serve local and state needs. The College offers career education, adult education, and college parallel courses as its curriculum. In addition, the College acts as an agency for the State of Iowa in connection with the Workforce Investment Act. Southeastern Community College maintains campuses in West Burlington, Mt. Pleasant, Fort Madison, and Keokuk and has its administrative offices in West Burlington.

Southeastern Community College is a municipal corporation governed by a Board of Trustees, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. The College has the statutory authority to adopt its own budget, to levy taxes, and to issue bonded debt without the approval of another government. It has the right to sue and be sued, and has the right to buy, sell, lease, or mortgage property in its own name.

Accounting principles generally accepted in the United States of America require that the financial reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In addition, the GASB issued Statement No. 39, in May 2002, which sets forth additional criteria to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship with the College. These criteria include 1) the economic resources being received or held by the separate organization being entirely or almost entirely for the direct benefit of the College, its component units, or its constituents; 2) the College being entitled to, or having the ability to otherwise access, a majority of the economic resources received or held by the College; and 3) the economic resources received or held by an individual organization that the College is entitled to, or has the ability to otherwise access, are significant to the College.

The College is considered to be a primary government and has included Southeastern Community College Foundation as a component unit in their basic financial statements due to the nature of their relationship with the College.

The Southeastern Community College Foundation is a non-profit corporation which is governed by a Board of Directors, the majority of which are appointed by the Board of Trustees of the College. The Foundation's purpose is to support the College through donations to provide scholarships to students, and for the enhancement and extension of facilities, equipment, and services. The Foundation operates on a June 30 fiscal year-end.

Significant accounting policies:

Financial statement presentation: The basic financial statements (i.e., the statements of net assets, revenues, expenses, and changes in net assets, and cash flows) 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.

Southeastern Community College

Notes to Basic Financial Statements

Note 1. Financial Reporting Entity and Significant Accounting Policies (Continued)

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. Revenues are 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.

Accounting standards: The College is applying all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as following all Financial Accounting Board Statements and Interpretations, Accounting Principles Board Opinion and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements.

Investments: Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost, which approximates fair value. The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Inventories: Inventories are stated at the lower of cost (first-in, first-out) or market, and consist primarily of bookstore inventories held for resale.

Iowa Industrial New Jobs Training Program (NJTP) receivable: This receivable represents the total amount to be remitted to the College for training projects entered into between the College and employers under provisions of Chapter 260E of the Code of Iowa. The receivable amount is based on NJTP project expenditures incurred through June 30, 2005, plus interest incurred on NJTP certificates, less reimbursements received to date.

Property taxes: Property tax receivable is recognized on the levy or lien date, which is the date that the tax request is certified by the Board of Trustees to the appropriate County Auditor. The receivable represents taxes certified by the Board of Trustees 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 Trustees is required to certify its budget to the County Auditor by March 15 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 receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it was levied.

Capital assets: Capital assets, which include land, buildings, other structures and improvements, and furniture and equipment, are reported. Capital assets 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 repairs 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 \$5,000 and estimated useful life in excess of one year.

Southeastern Community College

Notes to Basic Financial Statements

Note 1. Financial Reporting Entity and Significant Accounting Policies (Continued)

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

| | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings | 50 |
| Other structures and improvements | 25 |
| Furniture and equipment | 3 - 5 |

The College does not capitalize or depreciate their library book collection. This collection is unencumbered, held for public education, protected, cared for, and preserved and the proceeds from the sale of library books, if any, is not material to the College.

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.

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

Accrued interest payable: Interest on long-term bonded indebtedness is recorded as a liability when the interest is payable.

Deferred revenue: Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets have not been spent for their intended purpose restriction. Deferred revenue relates primarily to property taxes and to the Iowa NJTP program as the receipt of administrative fees amortized over the ten-year life of each project.

Net assets: Net assets are classified according to restrictions or availability of assets for satisfaction of College obligations. Invested in capital assets, net of related debt represents the net value of capital assets less the debt incurred to acquire or construct the assets. Unspent bond proceeds are not included in this category until used for capital asset purposes. Restricted net assets represent the amounts segregated for specific purposes as allowed by the Code of Iowa, bond covenants, donors, or outside agencies. All remaining net assets are unrestricted for legal purposes, but may be designated for specific purposes. The College first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Bond premiums, discounts, and issuance costs: Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using a method that approximates the effective interest method.

Auxiliary enterprises revenues and expenses: Auxiliary enterprises revenues and expenses primarily represent revenues generated and expenses associated with bookstore, cafeteria, printing, and dormitories.

Summer session: The College operates summer sessions. Revenues and expenses for the summer sessions are recorded in the appropriate fiscal year.

Southeastern Community College

Notes to Basic Financial Statements

Note 1. Financial Reporting Entity and Significant Accounting Policies (Continued)

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

Operating and nonoperating activities: Operating activities, as reported in the statement of revenues, 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 taxes, and interest earnings.

Use of estimates: 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Scholarship allowances and student aid: Financial aid to students is reported in the financial statements, as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (loans, funds provided to students as awarded by third parties, and Federal Direct Lending) is accounted for as third-party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances which reduce revenue. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition.

Note 2. Deposits and Investments

Interest rate risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the College's investment policy limits operating funds portfolio to maturities of less than 397 days.

| Investment Type | Fair Value | Maturity Dates (Months) | | | |
|-------------------------------------|--------------|-------------------------|--------------|---------|----------|
| | | Less than 1 | 1 to 5 | 6 to 10 | 10 to 13 |
| U.S. Treasuries | \$ 1,895,012 | \$ - | \$ 1,895,012 | \$ - | \$ - |
| Iowa Schools Joint Investment Trust | 1,569,318 | 1,569,318 | - | - | - |

Credit risk: The College is authorized by statute to invest public funds in obligations of the U.S. government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts. However, the College's investment policy additionally limits investments in commercial paper to obligations that mature within 270 days and that is rated within the two highest classifications, as established by at least one of the standard rating services, with no more than 5% at the time of purchase placed in the second highest classification. At the time of purchase not more than 10% of the investment portfolio can be in these investments and no more than 5% of the investment portfolio can be invested in the securities of a single issuer.

Southeastern Community College

Notes to Basic Financial Statements

Note 2. Deposits and Investments (Continued)

As of June 30, 2005, the College's investments were rated as follows:

| Investment Type | Moody Investor Services |
|-------------------------------------|-------------------------------|
| U.S. Treasuries | Not Applicable |
| Iowa Schools Joint Investment Trust | Aaa |

Concentration of credit risk: The College's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The College's investment policy seeks to provide safety of the principal, maintain the necessary liquidity to match expected liabilities, and obtain a reasonable rate of return. The policy allows for investments of up to 100% in interest bearing savings, money market and checking accounts, certificates of deposits, repurchase agreements, money market mutual funds, bonds, notes, certificates of indebtedness, treasury bills or other securities issued by the United States of America, its agencies and allowable instrumentalities; up to 10% in prime bankers' acceptances; and up to 10% in commercial paper. The policy does not allow the College to invest in futures or options.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. It is the College's policy to require that time deposits in excess of FDIC insurable limits be secured by collateral or private insurance to protect public deposits in a single financial institution if it were to default.

As of June 30, 2005, the carrying amount of the College's deposits excluding \$4,704 of petty cash totaled \$5,248,968, with a bank balance of \$5,633,706. The College's cash and money market funds as of 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 ensure there will be no loss of public funds.

The College invests in the Iowa Schools Joint Investment Trust, which is not subject to risk categorization. The balance as of June 30, 2005 was \$1,569,318.

The College also invests in U.S. Treasuries which were Category I investments and not exposed to custodial credit risk.

As of June 30, 2005, the College's Foundation cash balance and investments by category of risk were as follows:

| | |
|---|---------------------|
| Cash, insured by FDIC | \$ 100,000 |
| Cash, collateralized by state sinking fund | 122,331 |
| Investments, debt securities, Category 3 | 1,511,343 |
| Investment, not categorized, beneficial interest in perpetual trusts and investment in land | 1,639,390 |
| | <u>\$ 3,373,064</u> |

Southeastern Community College

Notes to Basic Financial Statements

Note 3. Capital Assets

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

| | Balance June 30, 2004 | Additions | Deletions | Balance June 30, 2005 |
|---|-----------------------------|-------------------|---------------|-----------------------------|
| Capital assets not being depreciated, land | \$ 851,980 | \$ - | \$ - | \$ 851,980 |
| Capital assets being depreciated: | | | | |
| Buildings | 20,349,794 | 878,550 | - | 21,228,344 |
| Other structures and improvements | 1,382,200 | 10,800 | - | 1,393,000 |
| Furniture and equipment | 2,753,740 | 56,323 | 92,345 | 2,717,718 |
| Total capital assets being depreciated | 24,485,734 | 945,673 | 92,345 | 25,339,062 |
| Less accumulated depreciation for: | | | | |
| Buildings | 5,686,199 | 406,996 | - | 6,093,195 |
| Other structures and improvements | 647,668 | 46,716 | - | 694,384 |
| Furniture and equipment | 2,380,300 | 151,519 | 92,345 | 2,439,474 |
| Total accumulated depreciation | 8,714,167 | 605,231 | 92,345 | 9,227,053 |
| Total capital assets being depreciated, net | 15,771,567 | 340,442 | - | 16,112,009 |
| Total capital assets, net | \$ 16,623,547 | \$ 340,442 | \$ - | \$ 16,963,989 |

Southeastern Community College

Notes to Basic Financial Statements

Note 4. Long-Term Debt

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

| | Balance June 30, 2004 | Additions | Payments | Balance June 30, 2005 | Amounts Due Within One Year |
|---|-----------------------------|---------------------|---------------------|-----------------------------|-----------------------------------|
| Certificates payable (A) | \$ 3,830,000 | \$ 625,000 | \$ 990,000 | \$ 3,465,000 | \$ 680,000 |
| General obligation school bonds, Series 1990 (B) | 2,190,000 | - | 305,000 | 1,885,000 | 330,000 |
| General obligation school bonds, Series 1995 (C) | 3,785,000 | - | 160,000 | 3,625,000 | 190,000 |
| Dormitory revenue bonds, Series 2000 (D) | 1,801,638 | - | 70,178 | 1,731,460 | 74,388 |
| General obligation capital loan notes, Series 2003 (E) | 975,000 | - | 235,000 | 740,000 | 240,000 |
| School refunding bonds, Series 2003 (F) | 1,985,000 | - | - | 1,985,000 | 380,000 |
| Compensated absences | 324,407 | 348,720 | 324,407 | 348,720 | 348,720 |
| Early retirement payable | 1,448,735 | 116,987 | 604,305 | 961,417 | 961,417 |
| Total long-term debt | \$ 16,339,780 | \$ 1,090,707 | \$ 2,688,890 | \$ 14,741,597 | \$ 3,204,525 |

Compensated absences and early retirement are generally liquidated with unrestricted and restricted funds.

- (A) The College has certificates payable with a June 30, 2005 outstanding balance of \$3,465,000, with interest rates ranging from 3.2% to 8.3% per annum. These certificates were issued to finance the development and training costs 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 on the certificates is due semiannually, while the principal matures annually. The certificates are to be retired from the proceeds of withholding taxes, incremental property taxes and in the case of default, from standby property taxes collected.

The annual debt service requirements on the certificates are as follows:

| Year ending June 30: | Principal | Interest | Total |
|----------------------|---------------------|-------------------|---------------------|
| 2006 | \$ 680,000 | \$ 183,953 | \$ 863,953 |
| 2007 | 645,000 | 150,723 | 795,723 |
| 2008 | 590,000 | 116,355 | 706,355 |
| 2009 | 345,000 | 83,863 | 428,863 |
| 2010 | 320,000 | 64,645 | 384,645 |
| 2011 | 300,000 | 47,213 | 347,213 |
| 2012 | 245,000 | 31,828 | 276,828 |
| 2013 | 265,000 | 18,878 | 283,878 |
| 2014 | 75,000 | 4,313 | 79,313 |
| | \$ 3,465,000 | \$ 701,771 | \$ 4,166,771 |

Southeastern Community College

Notes to Basic Financial Statements

Note 4. Long-Term Debt (Continued)

- (B) General obligation bonds, Series 1990, rates ranging from 6.5% to 8.5%. Interest is due semiannually and principal is due in varying amounts through 2011. The proceeds of the bond issue were used for various construction projects of the College.

During fiscal year 2004, the College issued \$1,985,000 of General Obligation Refunding Bonds in a crossover refunding to be used to refund in advance the 2006 through 2010 maturities of the College's Series 1990 General Obligation Bonds. Subsequent to year-end, on July 1, 2005, the Series 1990 General Obligation Bonds were called and paid by the proceeds from the Series 2003 School Refunding Bonds that were held in escrow.

- (C) General obligation bonds, Series 1995, rates ranging from 5.6% to 5.875%. Interest is due semiannually and principal is due in varying amounts through 2015. The bonds proceeds were used for the acquisition of equipment and various construction projects.
- (D) Dormitory revenue refunding bonds, Series 2000, at 6%. Interest is due semiannually and principal is due annually in varying amounts through 2020. The proceeds of the bonds were used for the construction of college apartments.
- (E) General obligation capital loan notes, Series 2003, rates ranging from 1.65% to 3.10%. Interest is due semiannually and principal is due in varying amounts through 2008. The proceeds of the bonds were used for the acquisition of buildings and equipment and various construction projects.
- (F) School refunding bonds, Series 2003, rates ranging from 2% to 3.15%. Interest is due semiannually and principal is due in varying amounts through 2010.

Collateral on the bonds payable is the underlining capital assets that the proceeds were used for.

The debt service requirements on the bonds are as follows:

| | Principal | Interest | Total |
|----------------------|--------------|--------------|---------------|
| Year ending June 30: | | | |
| 2006 | \$ 1,214,388 | \$ 516,447 | \$ 1,730,835 |
| 2007 | 1,248,852 | 464,717 | 1,713,569 |
| 2008 | 1,318,583 | 408,968 | 1,727,551 |
| 2009 | 1,113,598 | 347,610 | 1,461,208 |
| 2010 | 1,173,914 | 289,899 | 1,463,813 |
| 2011 - 2015 | 3,146,164 | 760,028 | 3,906,192 |
| 2016 - 2020 | 750,961 | 140,417 | 891,378 |
| | \$ 9,966,460 | \$ 2,928,086 | \$ 12,894,546 |

As of June 30, 2005, \$204,000 is on deposit in a debt service reserve account for the dormitory revenue bonds and reflected as a restricted net assets. This amount meets the requirements of the bond resolution, which specifies that the College maintain certain minimum amounts in this account until the bonds are retired.

Southeastern Community College

Notes to Basic Financial Statements

Note 5. 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 3.70% and the College is required to contribute 5.75%. The contribution paid by the College for the year ended June 30, 2005 totaled \$304,994 and the contribution paid by employees totaled \$196,285.

Note 6. Iowa Public Employees Retirement System

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 payroll. Contribution requirements are established by state statute. The College's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$331,196, \$323,679, and \$313,883, respectively, equal to the required contributions for each year.

Note 7. Risk Management Program

The College is a member in the Insurance Management Program for Area Community Colleges (IMPACC) as allowed by Chapter 504A of the Code of Iowa. IMPACC (Program) is a risk-sharing pool whose members include Iowa Community Colleges. IMPACC was incorporated in May 1988 for the purpose of managing and funding insurance for its members and to provide general liabilities, automobile liability, automobile physical damage, public official bonds, property and inland marine, errors and omissions and School Board legal liability, workers' compensation and employers liability, crime insurance, fiduciary bonds, and boiler and machinery insurance coverage for its member colleges. There have been no reductions in insurance coverage from prior years.

The members' annual contributions are to fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund IMPACC's general and administrative expenses, claims, claim expenses, and reinsurance expenses due and payable in the current year. The College's contributions to the risk-sharing pool are recognized as expenditures at the time of payment. The College's total contributions to IMPACC for the year ended June 30, 2005 were \$278,932.

The Program uses reinsurance to reduce its exposure to large losses. The Program has a self-insured retention of \$200,000 per property/liability, \$100,000 for error/omissions, and \$200,000 for workers' compensation. The policy limit per occurrence is \$800,000 for property/liability, \$900,000 for errors/omissions, and \$150,000 for workers' compensation. Excess insurance for workers' compensation is for statutory limits. Excess for all other lines is \$10,000,000 per occurrence. Property is insured with excess coverage over the self-insured retention of up to \$50,000,000 for boiler and machinery and up to \$101,000,000 for other property. Stop gap loss protection is provided above the member's loss fund.

Southeastern Community College

Notes to Basic Financial Statements

Note 7. Risk Management Program (Continued)

In the event any claim or series of claims exceed the amount of aggregate excess insurance, then payment of such claims shall be the obligation of the respective individual member. The College does not report a liability for losses in excess of reinsurance unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, as of June 30, 2005, no liability has been recorded by the College. Settled claims have not exceeded the risk pool or reinsurance coverage in any of the past three fiscal years.

Members agree to continue membership for a period of not less than three full years. After such period, a member who has given sufficient notice, in compliance with the bylaws, may withdraw. Upon withdrawal, payments for all claims and claims expenses for the years of membership continue until all claims for those years are settled.

The College also carries commercial insurance purchased from other insurers for coverage associated with the Workforce Investment Act and for employee health claims. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

Note 8. New Jobs Training Program

The College administers the Iowa Industrial New Jobs Training Program (NJTP) in Area XVI 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 that 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 taxes, budgeted reserves and in the case of default, from standby property taxes. Since inception, the College has administered 65 projects with 15 currently receiving project funding. Of the remaining 50 projects, 5 have been completed with only the repayment of the certificates left and 45 have been completed and the certificates have been repaid (8 of the 45 certificates were repaid during the year).

Note 9. Contingent Liability, Early Retirement

Full-time and certain regular part-time staff, who are between the ages of 55 and 65 and who have at least 10 years of continuous service with the College, are eligible to receive early retirement remuneration. Retirement is to begin at the earlier of the end of the employee's contract or when a suitable replacement is found, if so requested. A staff member who accepts early retirement has three options to choose from as to when the cash benefits will be received. The plan is funded on a pay-as-you-go basis through property tax levies. The College's expenses for the years ended June 30, 2005, 2004, and 2003 were \$116,987, \$1,147,511, and \$122,721, respectively. As of June 30, 2005, the potential liability of the College, if all eligible employees accepted early retirement, is approximately \$1,004,000.

Southeastern Community College

Notes to Basic Financial Statements

Note 10. Related Organization and Related Party Transactions

The College, with the Des Moines County Fair Association and Des Moines County, has voluntarily created a Chapter 28E agreement whose purpose is to construct, maintain, and operate a facility on a 10-acre tract of land within the boundaries of the West Burlington campus. The College's contribution to the agreement represents \$1,506,000 of facilities which the College shares with the parties to the agreement. The College has full use of the facilities except during the county fair. The assets consist primarily of the constructed facilities. The joint venture provides its own current operating support.

The Southeastern Community College Foundation paid the College \$206,221 during the year ended June 30, 2005, for supplies, maintenance expense, support, and scholarship tuition reimbursements. The Foundation received \$18,975 in contributions from Southeastern Community College employee payroll withholdings.

Four of the Foundation's directors are officers with local banks. The Foundation has balances with the banks as follows:

| | | |
|--|----|-----------|
| Checking accounts | \$ | 222,331 |
| Trust agency accounts, fair market value | | 1,464,042 |

The Foundation paid \$4,816 in fees and expenses related to the trust agency accounts.

Note 11. Subsequent Events and Contingencies

The College entered into an agreement with a contractor on June 13, 2005 for remodeling construction. The contract had \$261,732 remaining at June 30, 2005.

On July 1, 2005, the College paid the remaining principal of \$1,885,000 of the General Obligation Bonds, Series 1990.

Note 12. New Pronouncements

For the year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement established and modified disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement required certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also established and modified disclosure requirements for deposit risks.

The Governmental Accounting Standards Board (GASB) has issued several Statements not yet implemented by the College. The Statements which might impact the College are as follows:

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003, will be effective for the College beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

Southeastern Community College

Notes to Basic Financial Statements

Note 12. New Pronouncements (Continued)

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, issued April 2004, will be effective for the College beginning with its year ending June 30, 2008. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supercedes existing guidance.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other than Pensions*, issued June 2004, will be effective for the College beginning with its year ending June 30, 2009. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and if applicable, required supplementary information in the financial reports.

Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB 35, issued December 2004, will be effective for the College beginning with its year ending June 30, 2006. This Statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation.

Statement No. 47, *Accounting for Termination Benefits*, issued June 2005, will be effective for the College with its year beginning June 30, 2006. This Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (early retirement incentives) when the offer is accepted and the amount can be estimated. A liability for involuntary termination benefits (severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

The College's management has not yet determined the effect these Statements will have on the College's financial statements.

Southeastern Community College

Required Supplementary Information
 Budgetary Comparison Schedule of Expenditures
 Year Ended June 30, 2005

| Funds/Levy | Original and Final Budget | Actual | Variance Between Actual and Amended Budget |
|--|------------------------------|----------------------|---|
| Total unrestricted current fund expenditures | | \$ 16,861,811 | |
| Total restricted current fund expenditures | | 13,488,839 | |
| Less: | | | |
| Auxiliary enterprise expenditures | | 2,314,780 | |
| Workforce Investment Act expenditures | | 2,081,382 | |
| Scholarships and grants | | <u>4,870,351</u> | |
| Current funds | \$ 23,065,544 | 21,084,137 | \$ 1,981,407 |
| Plant, bonds and interest | <u>2,627,160</u> | 2,430,024 | 197,136 |
| Total | <u>\$ 25,692,704</u> | <u>\$ 23,514,161</u> | <u>\$ 2,178,543</u> |

See Note to Required Supplementary Information.

Southeastern Community College

**Note to Required Supplementary Information
Budgetary Reporting
Year Ended June 30, 2005**

The Board of Trustees 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 Trustees 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 statutory prescribed procedures. There was no amendments to the original budget during the year ended June 30, 2005. Formal and legal budgetary control is based on total operating expenditures.

Budgets are not required to be adopted for the Auxiliary Enterprises subgroup, Workforce Investment Act accounts, scholarships and grants account, Loan Funds, and Agency Funds.

Southeastern Community College

Balance Sheet

June 30, 2005

| Assets | Current Funds | |
|---|---------------------|---------------------|
| | Unrestricted | Restricted |
| Cash | \$ (227,077) | \$ 1,431,488 |
| Investments | 5,044,329 | 370,250 |
| Receivables: | | |
| Accounts | 268,687 | 47,775 |
| Due from other governments | 1,913,114 | 40,000 |
| Property taxes, succeeding year | 572,528 | 838,493 |
| Other | - | - |
| Due from other funds | - | 1,591,188 |
| Inventories | 364,963 | - |
| Total current assets | 7,936,544 | 4,319,194 |
| Noncurrent Assets: | | |
| Receivables, Iowa Industrial New Jobs Training Program | - | 2,231,268 |
| Bond discount and issuance costs | - | - |
| Capital assets: | | |
| Land | - | - |
| Buildings | - | - |
| Other structures and improvements | - | - |
| Furniture and equipment | - | - |
| Accumulated depreciation | - | - |
| Total noncurrent assets | - | 2,231,268 |
| Total assets | \$ 7,936,544 | \$ 6,550,462 |

See Note to Supplementary Information.

| Loan Funds | Plant Funds | Agency Funds | Adjustments | Total |
|-----------------|----------------------|-------------------|------------------------|----------------------|
| \$ - | \$ 2,099,012 | \$ - | \$ - | \$ 3,303,423 |
| - | - | - | - | 5,414,579 |
| - | - | - | - | 316,462 |
| - | - | - | - | 1,953,114 |
| - | 1,405,903 | - | - | 2,816,924 |
| 5,609 | 15,825 | - | - | 21,434 |
| 364 | 1,245,783 | 301,643 | (3,138,978) | - |
| - | - | - | - | 364,963 |
| <u>5,973</u> | <u>4,766,523</u> | <u>301,643</u> | <u>(3,138,978)</u> | <u>14,190,899</u> |
| - | - | - | - | 2,231,268 |
| - | 42,422 | - | - | 42,422 |
| - | 851,980 | - | - | 851,980 |
| - | 21,228,344 | - | - | 21,228,344 |
| - | 1,393,000 | - | - | 1,393,000 |
| - | 2,717,718 | - | - | 2,717,718 |
| - | - | - | (9,227,053) | (9,227,053) |
| - | 26,233,464 | - | (9,227,053) | 19,237,679 |
| <u>\$ 5,973</u> | <u>\$ 30,999,987</u> | <u>\$ 301,643</u> | <u>\$ (12,366,031)</u> | <u>\$ 33,428,578</u> |

Southeastern Community College

Balance Sheet

June 30, 2005

| Liabilities and Net Assets | Current Funds | |
|---|---------------------|---------------------|
| | Unrestricted | Restricted |
| Current Liabilities: | | |
| Accounts payable | \$ 1,170,298 | \$ - |
| Salaries and benefits payable | 848,503 | - |
| Due to other funds | 3,138,978 | - |
| Deferred revenue: | | |
| Succeeding year property tax | 572,528 | 838,493 |
| Other | 113,059 | 554,481 |
| Early retirement payable | - | 961,417 |
| Compensated absences | 284,568 | 56,980 |
| Deposits held in custody for others | 13,600 | 282,269 |
| Certificates payable | - | 680,000 |
| Bonds payable | - | - |
| Total current liabilities | 6,141,534 | 3,373,640 |
| Noncurrent Liabilities: | | |
| Certificates payable | - | 2,785,000 |
| Bonds payable | - | - |
| Total noncurrent liabilities | - | 2,785,000 |
| Total liabilities | 6,141,534 | 6,158,640 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | - | - |
| Restricted for: | | |
| Scholarships and fellowships | - | 13,213 |
| Loans | - | - |
| Cash reserve | - | 231,408 |
| Other restricted purposes | - | 147,201 |
| Unrestricted | 1,795,010 | - |
| Total net assets | 1,795,010 | 391,822 |
| Total net assets and liabilities | \$ 7,936,544 | \$ 6,550,462 |

See Note to Supplementary Information.

| Loan Funds | Plant Funds | Agency Funds | Adjustments | Total |
|------------|---------------|--------------|-----------------|---------------|
| \$ - | \$ 25,837 | \$ - | \$ - | \$ 1,196,135 |
| - | - | - | - | 848,503 |
| - | - | - | (3,138,978) | - |
| - | 1,405,903 | - | - | 2,816,924 |
| - | - | - | - | 667,540 |
| - | - | - | - | 961,417 |
| - | - | 7,168 | - | 348,716 |
| - | - | 294,475 | - | 590,344 |
| - | - | - | - | 680,000 |
| - | 1,214,388 | - | - | 1,214,388 |
| - | 2,646,128 | 301,643 | (3,138,978) | 9,323,967 |
| - | - | - | - | 2,785,000 |
| - | 8,752,072 | - | - | 8,752,072 |
| - | 8,752,072 | - | - | 11,537,072 |
| - | 11,398,200 | 301,643 | (3,138,978) | 20,861,039 |
| - | 16,267,003 | - | (9,227,053) | 7,039,950 |
| - | - | - | - | 13,213 |
| 5,973 | - | - | - | 5,973 |
| - | - | - | - | 231,408 |
| - | 204,000 | - | - | 351,201 |
| - | 3,130,784 | - | - | 4,925,794 |
| 5,973 | 19,601,787 | - | (9,227,053) | 12,567,539 |
| \$ 5,973 | \$ 30,999,987 | \$ 301,643 | \$ (12,366,031) | \$ 33,428,578 |

Southeastern Community College

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2005

| | Current Funds | |
|---|---------------------|-------------------|
| | Unrestricted | Restricted |
| Revenues: | | |
| General: | | |
| Tuition and fees | \$ 8,131,978 | \$ 560,087 |
| Property taxes | 566,989 | 828,242 |
| State appropriations | 6,417,829 | 782,055 |
| Federal appropriations | - | 7,752,529 |
| Gifts and grants | - | 799,145 |
| Sales and services | 271,547 | 387,171 |
| Interest | 70,400 | (696,657) |
| Iowa Industrial New Jobs Training Program | 1,512 | 1,333,813 |
| Miscellaneous | 74,950 | 1,660,517 |
| Increase in plant investment due to retirement of debt | - | - |
| Increase in plant investment due to plant expenditures | - | - |
| | <u>15,535,205</u> | <u>13,406,902</u> |
| Auxiliary enterprises: | | |
| Sales and services | 2,423,433 | - |
| Federal appropriations | 10,693 | - |
| Miscellaneous | 164,175 | - |
| | <u>2,598,301</u> | <u>-</u> |
| Total revenues | <u>18,133,506</u> | <u>13,406,902</u> |
| Expenditures: | | |
| Education and support: | | |
| Liberal arts and sciences | 3,302,030 | 22,892 |
| Vocational technical | 3,128,834 | 677,194 |
| Adult education | 1,359,610 | 710,904 |
| Cooperative services | 674,419 | 2,709,909 |
| Administration | 1,162,731 | 87,694 |
| Student services | 1,312,818 | 807,075 |
| Learning resources | 586,739 | - |
| Physical plant | 1,354,600 | 205,564 |
| General institution | 1,665,250 | 1,315,874 |
| Total education and support | <u>14,547,031</u> | <u>6,537,106</u> |
| Auxiliary enterprises | 2,314,780 | - |
| Scholarships and grants | - | 4,870,351 |
| Workforce Investment Act and related | - | 2,081,382 |
| Plant asset acquisitions | - | - |
| Retirement of indebtedness | - | - |
| Interest on indebtedness | - | - |
| Depreciation | - | - |
| Disposal of plant assets | - | - |
| Total expenditures | <u>16,861,811</u> | <u>13,488,839</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,271,695</u> | <u>(81,937)</u> |
| Non-mandatory transfers among funds | (1,289,288) | 225,674 |
| Net increase (decrease) in fund balances (deficit) | <u>(17,593)</u> | <u>143,737</u> |
| Fund balances (deficit), beginning of year | 1,812,603 | 248,085 |
| Fund balances (deficit), end of year | <u>\$ 1,795,010</u> | <u>\$ 391,822</u> |

See Note to Supplementary Information.

| Loan Funds | Plant Funds | | | Adjustment | Total |
|------------|--------------|-------------------------------|------------------------|----------------|---------------|
| | Unexpended | Retirement of Indebtedness | Investment In Plant | | |
| \$ - | \$ - | \$ - | \$ - | \$ (3,027,646) | \$ 5,664,419 |
| - | 531,730 | 866,628 | - | - | 2,793,589 |
| - | 376,500 | - | - | - | 7,576,384 |
| - | - | - | - | - | 7,752,529 |
| - | 750 | - | - | - | 799,895 |
| - | 35,754 | - | - | - | 694,472 |
| - | 36,662 | 214,811 | - | - | (374,784) |
| - | - | - | - | - | 1,335,325 |
| - | - | - | - | - | 1,735,467 |
| - | - | - | 770,178 | (770,178) | - |
| - | - | - | 945,673 | (945,673) | - |
| - | 981,396 | 1,081,439 | 1,715,851 | (4,743,497) | 27,977,296 |
| - | - | - | - | (956,055) | 1,467,378 |
| - | - | - | - | - | 10,693 |
| - | - | - | - | - | 164,175 |
| - | - | - | - | (956,055) | 1,642,246 |
| - | 981,396 | 1,081,439 | 1,715,851 | (5,699,552) | 29,619,542 |
| - | - | - | - | (44,327) | 3,280,595 |
| - | - | - | - | (48,133) | 3,757,895 |
| - | - | - | - | (42,131) | 2,028,383 |
| - | - | - | - | (8,451) | 3,375,877 |
| - | - | - | - | (7,961) | 1,242,464 |
| - | - | - | - | (42,626) | 2,077,267 |
| - | - | - | - | (1,994) | 584,745 |
| - | 198,484 | 10,606 | - | (26,481) | 1,742,773 |
| - | - | - | - | (84,441) | 2,896,683 |
| - | 198,484 | 10,606 | - | (306,545) | 20,986,682 |
| - | - | - | - | - | 2,314,780 |
| - | - | - | - | (3,727,979) | 1,142,372 |
| - | - | - | - | - | 2,081,382 |
| - | 894,850 | - | - | (894,850) | - |
| - | - | 770,178 | - | (770,178) | - |
| - | - | 555,906 | - | - | 555,906 |
| - | - | - | - | 605,231 | 605,231 |
| - | - | - | 92,345 | (92,345) | - |
| - | 1,093,334 | 1,336,690 | 92,345 | (5,186,666) | 27,686,353 |
| - | (111,938) | (255,251) | 1,623,506 | (512,886) | 1,933,189 |
| - | 684,700 | 360,000 | - | - | (18,914) |
| - | 572,762 | 104,749 | 1,623,506 | (512,886) | 1,914,275 |
| 5,973 | 2,831,981 | (113,287) | 14,582,076 | (8,714,167) | 10,653,264 |
| \$ 5,973 | \$ 3,404,743 | \$ (8,538) | \$ 16,205,582 | \$ (9,227,053) | \$ 12,567,539 |

Southeastern Community College

Schedule of Revenues, Expenditures, and Changes in Fund Balances -
 Unrestricted Current Funds - Education and Support
 Year Ended June 30, 2005

| | Education | | | |
|--|-----------------------------|-------------------------|--------------------|-------------------------|
| | Liberal Arts and Science | Vocational Technical | Adult Education | Cooperative Services |
| Revenues: | | | | |
| Tuition and fees | \$ 2,872,886 | \$ 3,635,729 | \$ 1,058,792 | \$ 564,571 |
| Property taxes | - | - | - | - |
| State appropriations | 2,411,553 | 3,236,557 | 701,721 | - |
| Sales and services | - | - | 104,936 | 9,544 |
| Interest | - | - | - | - |
| Miscellaneous | 2,880 | 4,512 | 44,029 | - |
| | <u>5,287,319</u> | <u>6,876,798</u> | <u>1,909,478</u> | <u>574,115</u> |
| Allocation of support services revenue | 333,375 | 456,549 | 97,571 | - |
| Total revenues | <u>5,620,694</u> | <u>7,333,347</u> | <u>2,007,049</u> | <u>574,115</u> |
| Expenditures: | | | | |
| Salaries and benefits | 3,177,126 | 2,306,905 | 778,437 | 394,238 |
| Services | 67,114 | 573,323 | 441,061 | 94,326 |
| Materials and supplies | 48,704 | 233,080 | 99,251 | 59,205 |
| Travel | 9,086 | 15,526 | 40,861 | 6,010 |
| Expended for plant assets | - | - | - | - |
| Scholarships | - | - | - | 118,988 |
| Miscellaneous | - | - | - | 1,652 |
| | <u>3,302,030</u> | <u>3,128,834</u> | <u>1,359,610</u> | <u>674,419</u> |
| Allocation of support services expenditures | 2,284,665 | 3,128,801 | 668,672 | - |
| Total expenditures | <u>5,586,695</u> | <u>6,257,635</u> | <u>2,028,282</u> | <u>674,419</u> |
| Excess (deficiency) of revenues over expenditures | 33,999 | 1,075,712 | (21,233) | (100,304) |
| Non-mandatory transfers | - | - | - | (10,654) |
| Net increase (decrease) in fund balances | <u>\$ 33,999</u> | <u>\$ 1,075,712</u> | <u>\$ (21,233)</u> | <u>\$ (110,958)</u> |

Fund balance, beginning of year
 Fund balance, end of year

See Note to Supplementary Information.

| Support | | | | | | |
|---------------------|---------------------|-----------------------|-------------------|------------------------|------|---------------------|
| Admini- stration | Student Services | Learning Resources | Physical Plant | General Institution | | Total |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 8,131,978 |
| 566,989 | - | - | - | - | - | 566,989 |
| - | - | 67,998 | - | - | - | 6,417,829 |
| 62,580 | 5,430 | 3,220 | 39,937 | 45,900 | - | 271,547 |
| 70,400 | - | - | - | - | - | 70,400 |
| 16,622 | 257 | 793 | 2,091 | 5,278 | - | 76,462 |
| <u>716,591</u> | <u>5,687</u> | <u>72,011</u> | <u>42,028</u> | <u>51,178</u> | | <u>15,535,205</u> |
| (716,591) | (5,687) | (72,011) | (42,028) | (51,178) | | - |
| - | - | - | - | - | | <u>15,535,205</u> |
| 1,043,474 | 1,211,153 | 431,856 | 748,915 | 886,919 | | 10,979,023 |
| 54,545 | 24,855 | 37,827 | 481,720 | 574,599 | | 2,349,370 |
| 21,361 | 45,639 | 113,830 | 106,190 | 120,071 | | 847,331 |
| 31,765 | 27,229 | 3,226 | 30 | 8,075 | | 141,808 |
| - | - | - | 17,745 | 6,114 | | 23,859 |
| - | - | - | - | - | | 118,988 |
| 11,586 | 3,942 | - | - | 69,472 | | 86,652 |
| <u>1,162,731</u> | <u>1,312,818</u> | <u>586,739</u> | <u>1,354,600</u> | <u>1,665,250</u> | | <u>14,547,031</u> |
| (1,162,731) | (1,312,818) | (586,739) | (1,354,600) | (1,665,250) | | - |
| - | - | - | - | - | | <u>14,547,031</u> |
| - | - | - | - | - | | 988,174 |
| - | (248,053) | - | - | (700,118) | | (958,825) |
| <u>\$ -</u> | <u>\$ (248,053)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (700,118)</u> | | <u>29,349</u> |
| | | | | | | 1,278,061 |
| | | | | | | <u>\$ 1,307,410</u> |

Southeastern Community College

Schedule of Revenues, Expenditures, and Changes in Fund Balances -
 Unrestricted Current Funds - Auxiliary Enterprises
 Year Ended June 30, 2005

| | Bookstore | Food Services |
|--|------------------|------------------|
| Revenues: | | |
| Sales and services | \$ 1,697,300 | \$ 185,785 |
| Federal appropriations | 6,888 | 3,804 |
| Miscellaneous | - | - |
| Total revenues | 1,704,188 | 189,589 |
| Expenditures: | | |
| Salaries and benefits | 169,307 | 14,189 |
| Services | 5,807 | 108,771 |
| Materials and supplies | 5,595 | 18,957 |
| Cost of goods sold | 1,358,141 | 16,307 |
| Travel | 4,889 | 26 |
| Expended for plant assets | - | 9,177 |
| Miscellaneous | 6,456 | - |
| Total expenditures | 1,550,195 | 167,427 |
| Excess (deficiency) of revenues over expenditures | 153,993 | 22,162 |
| Non-mandatory transfers | (160,000) | - |
| Net increase (decrease) in fund balances | (6,007) | 22,162 |
| Fund balance: | | |
| Beginning | 148,128 | 59,600 |
| Ending | \$ 142,121 | \$ 81,762 |

See Note to Supplementary Information.

| Shop Sales | Printing Services | Dormitories | Athletics | Other | Total |
|---------------|----------------------|-------------|-----------|------------|--------------|
| \$ 61,845 | \$ 155,084 | \$ 166,835 | \$ 80,262 | \$ 76,323 | \$ 2,423,434 |
| - | - | - | - | - | 10,692 |
| - | - | - | 162,064 | 2,111 | 164,175 |
| 61,845 | 155,084 | 166,835 | 242,326 | 78,434 | 2,598,301 |
| - | 96,119 | 10,765 | 268 | 13,592 | 304,240 |
| - | - | 73,562 | 11,847 | - | 199,987 |
| 4,270 | 6,964 | 30,664 | 90,496 | 39,138 | 196,084 |
| 52,732 | 34,978 | - | - | - | 1,462,158 |
| - | - | 44 | 89,824 | - | 94,783 |
| 9,088 | - | - | - | 8,700 | 26,965 |
| - | - | - | 24,107 | - | 30,563 |
| 66,090 | 138,061 | 115,035 | 216,542 | 61,430 | 2,314,780 |
| (4,245) | 17,023 | 51,800 | 25,784 | 17,004 | 283,521 |
| - | - | (165,000) | (5,463) | - | (330,463) |
| (4,245) | 17,023 | (113,200) | 20,321 | 17,004 | (46,942) |
| 44,955 | 58,644 | 105,212 | 2,386 | 115,617 | 534,542 |
| \$ 40,710 | \$ 75,667 | \$ (7,988) | \$ 22,707 | \$ 132,621 | \$ 487,600 |

Southeastern Community College

Schedule of Revenues, Expenditures, and Changes in Fund Balances -
 Restricted Current Funds
 Year Ended June 30, 2005

| | Scholarships and Grants | Equipment Replacement | Early Retirement | Insurance |
|---|----------------------------|--------------------------|---------------------|-----------------|
| Revenues: | | | | |
| Tuition and fees | \$ - | \$ - | \$ - | \$ - |
| Property taxes | - | 83,969 | 399,336 | 284,634 |
| State appropriations | 104,754 | - | - | - |
| Federal appropriations | 3,736,251 | - | - | - |
| Gifts and grants | 779,145 | - | - | - |
| Sales and services | - | - | - | - |
| Interest | 70 | - | - | - |
| Iowa Industrial New Jobs Training Program | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total revenues | 4,620,220 | 83,969 | 399,336 | 284,634 |
| Expenditures: | | | | |
| Salaries and benefits | - | - | 116,987 | 34,944 |
| Services | - | - | - | 280,732 |
| Materials and supplies | - | 87,706 | - | - |
| Travel | - | - | - | - |
| Expended for plant assets | - | - | - | - |
| Interest on indebtedness | - | - | - | - |
| Federal Pell Grant Program | 3,647,991 | - | - | - |
| Supplemental Educational Opportunity Grant (SEOG) | 77,300 | - | - | - |
| Other miscellaneous scholarships | 1,145,060 | - | - | - |
| Other | - | - | - | - |
| Total expenditures | 4,870,351 | 87,706 | 116,987 | 315,676 |
| Excess (deficiency) of revenues over expenditures | (250,131) | (3,737) | 282,349 | (31,042) |
| Non-mandatory transfers | 250,200 | - | - | - |
| Net increase (decrease) in fund balances (deficit) | 69 | (3,737) | 282,349 | (31,042) |
| Fund balance (deficit): | | | | |
| Beginning | 13,144 | 37,984 | (1,486,010) | 87,145 |
| Ending | \$ 13,213 | \$ 34,247 | \$ (1,203,661) | \$ 56,103 |

See Note to Supplementary Information.

| Unemploy- ment Compensation | Workforce Investment Act and Related | Temporary Assistance for Needy Families | Iowa Industrial New Jobs Training Program | Other | Cash Reserve | Total |
|-----------------------------------|--|--|---|--------------|-----------------|------------|
| \$ - | \$ - | \$ - | \$ - | \$ 560,087 | \$ - | \$ 560,087 |
| 60,303 | - | - | - | - | - | 828,242 |
| - | 34,277 | - | - | 643,024 | - | 782,055 |
| - | 1,995,764 | 433,482 | - | 1,587,032 | - | 7,752,529 |
| - | - | - | - | 20,000 | - | 799,145 |
| - | 51,341 | - | - | 335,830 | - | 387,171 |
| - | - | - | (696,727) | - | - | (696,657) |
| - | - | - | 1,333,813 | - | - | 1,333,813 |
| - | - | - | - | 1,660,517 | - | 1,660,517 |
| 60,303 | 2,081,382 | 433,482 | 637,086 | 4,806,490 | - | 13,406,902 |
| 39,315 | 1,211,697 | 324,455 | - | 2,009,726 | - | 3,737,124 |
| - | 617,646 | 29,414 | 424,726 | 2,089,905 | - | 3,442,423 |
| - | 77,009 | 10,042 | - | 587,585 | - | 762,342 |
| - | 92,548 | 9,057 | - | 135,885 | - | 237,490 |
| - | - | - | - | (11) | - | (11) |
| - | - | - | 212,360 | - | - | 212,360 |
| - | - | - | - | - | - | 3,647,991 |
| - | - | - | - | - | - | 77,300 |
| - | - | - | - | 22,892 | - | 1,167,952 |
| - | 82,482 | 60,514 | - | 60,872 | - | 203,868 |
| 39,315 | 2,081,382 | 433,482 | 637,086 | 4,906,854 | - | 13,488,839 |
| 20,988 | - | - | - | (100,364) | - | (81,937) |
| - | - | - | - | (24,526) | - | 225,674 |
| 20,988 | - | - | - | (124,890) | - | 143,737 |
| 52,346 | - | - | - | 1,312,068 | 231,408 | 248,085 |
| \$ 73,334 | \$ - | \$ - | \$ - | \$ 1,187,178 | \$ 231,408 | \$ 391,822 |

Southeastern Community College

Schedule Of Changes In Deposits Held In Custody For Others -
 Agency Funds
 Year Ended June 30, 2005

| | Retraining 260F | Student Organizations | Total |
|-------------------------------------|--------------------|--------------------------|-------------------|
| Balance, beginning of year | \$ 163,321 | \$ 170,429 | \$ 333,750 |
| Receipts and other additions: | | | |
| Fees | - | 74,132 | 74,132 |
| State support | 14,785 | - | 14,785 |
| Federal support | - | 17,081 | 17,081 |
| Sales and services | - | 22,037 | 22,037 |
| Transfers | - | 18,914 | 18,914 |
| Other | - | 276,946 | 276,946 |
| | <u>14,785</u> | <u>409,110</u> | <u>423,895</u> |
| Disbursements and other deductions: | | | |
| Salaries and benefits | - | 121,599 | 121,599 |
| Services | 75,418 | 63,320 | 138,738 |
| Materials and supplies | - | 89,322 | 89,322 |
| Travel | - | 104,624 | 104,624 |
| Other | - | 8,887 | 8,887 |
| | <u>75,418</u> | <u>387,752</u> | <u>463,170</u> |
| Balance, end of year | <u>\$ 102,688</u> | <u>\$ 191,787</u> | <u>\$ 294,475</u> |

See Note to Supplementary Information.

Southeastern Community College

Note to Supplementary Information Year Ended June 30, 2005

Statements presented in the supplementary information are reported using the current financial resources measurement focus and the accrual basis of accounting, except for depreciation. The schedule of revenues, expenditures, and changes in fund balances is the statement of financial activities related to the current reporting period. It does not purport to present the results of operations or net income or loss for the period as would a statement of income or a statement of revenues and expenses. In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions are accounted for and reported by fund group. Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated for specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary revenue derived from investments, receivables, and the like, is accounted for in the fund owning such assets.

The College utilizes the following fund groups:

Current funds:

These 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.

Unrestricted: These current funds are available for any legally authorized purpose and are used to account for the revenue and expenditures of activities not provided for in other funds.

The education and support subgroup of the unrestricted current funds account for the general operations of the College. All property taxes and other revenue that are not allocated by law or contractual agreement, to some other fund, are accounted for in the subgroup. From this subgroup are paid the general operating expenses, the fixed charges, and the expenditures for plant assets that are not paid from other funds.

The auxiliary enterprises subgroup accounts for activities which are intended to provide non-instructional services for sale to students, staff, and/or institutional departments, and which are supplemental to the educational and general objectives of the College.

Restricted: These current funds are used to account for amounts received which are subject to restrictions made by donors or outside agencies.

The scholarship and grants subgroup of the restricted current funds account for resources available for awards to students which are not in payment of services rendered to the College and which will not require repayment to the College.

Southeastern Community College

Note to Supplementary Information Year Ended June 30, 2005

The College has agreements with various businesses under the Iowa Industrial New Jobs Training Program (NJTP). The College administers the program, with the revenues and expenditures being restricted by the state for use in this program. The College is accounting for the activity of the NJTP in the restricted current funds.

Loan funds:

These funds are used to account for student loan transactions.

Plant funds:

Plant funds account for the transactions related to the investment in physical properties and consist of the following self-balancing subfunds:

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

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

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

Agency funds:

These funds are used to account for assets held by the College as custodian or fiscal agent for others. Accordingly, the transactions of these funds do not affect the schedule of revenues, expenditures, and changes in fund balances.

Southeastern Community College

Schedule of Credit and Contact Hour Enrollment
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 | 37,697 | - | 37,697 | 722,726 | - | 722,726 |
| Vocational preparatory | 37,460 | - | 37,460 | 989,758 | - | 989,758 |
| Adult/continuing education | - | - | - | 200,286 | 11,240 * | 211,526 |
| Related services and activities | - | - | - | - | 75,721 | 75,721 |
| | <u>75,157</u> | <u>-</u> | <u>75,157</u> | <u>1,912,770</u> | <u>86,961</u> | <u>1,999,731</u> |

*Includes 240 hour adjustment of 2,160 hours.

Southeastern Community College

Schedule of Credit and Contact Hours
Last Five Years

| | Arts and Sciences | Vocational Education | Adult Education/ Continuing Education | Cooperative Programs/ Services | Related Services and Activities | Total |
|---------------------|----------------------|-------------------------|--|--------------------------------------|---------------------------------------|-----------|
| 2005: | | | | | | |
| Total contact hours | 722,726 | 989,758 | 211,526 | - | 75,721 | 1,999,731 |
| Total credit hours | 37,697 | 37,460 | - | - | - | 75,157 |
| 2004: | | | | | | |
| Total contact hours | 750,862 | 977,300 | 243,306 | - | 75,772 | 2,047,240 |
| Total credit hours | 38,968 | 37,719 | - | - | - | 76,687 |
| 2003: | | | | | | |
| Total contact hours | 781,813 | 918,831 | 253,058 | - | 132,191 | 2,085,893 |
| Total credit hours | 39,664 | 34,968 | - | - | - | 74,632 |
| 2002: | | | | | | |
| Total contact hours | 728,081 | 890,058 | 292,871 | - | 146,469 | 2,057,479 |
| Total credit hours | 37,303 | 34,187 | - | - | - | 71,490 |
| 2001: | | | | | | |
| Total contact hours | 678,603 | 746,799 | 298,913 | - | 168,027 | 1,892,342 |
| Total credit hours | 34,583 | 27,973 | - | - | - | 62,556 |

Southeastern Community College

Comparison of Taxes and Intergovernmental Revenues
Last Four Years

| | Year Ended June 30, | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2005 | 2004 | 2003 | 2002 |
| Local (property tax) | \$ 2,793,589 | \$ 3,068,840 | \$ 3,340,799 | \$ 2,230,411 |
| State | 7,576,384 | 7,085,031 | 7,055,982 | 7,680,939 |
| Federal | 7,752,529 | 6,982,845 | 6,792,838 | 6,036,922 |
| | <u>\$ 18,122,502</u> | <u>\$ 17,136,716</u> | <u>\$ 17,189,619</u> | <u>\$ 15,948,272</u> |

Southeastern Community College

Current Fund (Unrestricted and Restricted) Revenue by Source
Last Four Years

| | Year Ended June 30, | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2005 | 2004 | 2003 | 2002 |
| State appropriations | \$ 7,199,884 | \$ 6,902,558 | \$ 6,889,315 | \$ 7,350,429 |
| Tuition and fees | 8,692,065 | 8,519,340 | 7,540,213 | 7,032,171 |
| Property tax | 1,395,231 | 1,585,201 | 1,829,534 | 1,327,389 |
| Federal appropriations | 7,752,529 | 6,982,845 | 6,792,838 | 6,036,922 |
| Interest earnings | (626,257) | (43,411) | 182,227 | 540,620 |
| Iowa Industrial New Jobs Training Program | 1,335,325 | 1,124,406 | 479,913 | 449,246 |
| Auxiliary enterprises | 2,598,301 | 2,608,691 | 2,480,653 | 2,198,742 |
| Miscellaneous | 3,193,330 | 2,875,931 | 2,283,838 | 1,555,006 |
| | <u>\$ 31,540,408</u> | <u>\$ 30,555,561</u> | <u>\$ 28,478,531</u> | <u>\$ 26,490,525</u> |

Southeastern Community College

Current Fund (Unrestricted and Restricted) Expenditures by Function
Last Four Years

| | Year Ended June 30, | | | |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2005 | 2004 | 2003 | 2002 |
| Liberal arts and sciences | \$ 3,324,922 | \$ 3,369,257 | \$ 3,162,599 | \$ 3,030,141 |
| Vocational technical | 3,806,028 | 3,464,655 | 3,509,506 | 3,203,983 |
| Adult education | 2,070,514 | 1,934,620 | 1,732,573 | 2,064,459 |
| Cooperative services | 3,384,328 | 3,635,751 | 2,719,261 | 2,664,713 |
| Administration | 1,250,425 | 1,397,932 | 1,511,720 | 1,444,772 |
| Student services | 2,119,893 | 1,998,806 | 1,949,628 | 1,800,522 |
| Learning resources | 586,739 | 577,602 | 580,175 | 599,342 |
| Physical plant | 1,560,164 | 1,370,982 | 1,209,787 | 1,194,875 |
| General institution | 2,981,124 | 3,723,699 | 2,202,684 | 3,526,765 |
| Auxiliary enterprises | 2,314,780 | 2,375,671 | 2,264,833 | 1,899,681 |
| Scholarships and grants | 4,870,351 | 4,928,401 | 4,523,246 | 3,506,357 |
| Workforce Investment Act | 2,081,382 | 1,850,071 | 1,484,087 | 1,660,739 |
| | <u>\$ 30,350,650</u> | <u>\$ 30,627,447</u> | <u>\$ 26,850,099</u> | <u>\$ 26,596,349</u> |

Southeastern Community College

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

| Federal Grantor/ Pass-Through Grantor/Program Name | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures | New Loans |
|---|---------------------------|---|-------------------------|------------------|
| U.S. Department of Education: | | | | |
| Direct Programs: | | | | |
| Student Financial Assistance: | | | | |
| Federal Supplemental Educational Opportunity | | | | |
| Grants (SEOG) | 84.007 | | \$ 77,300 | \$ - |
| Federal Family Education Loans (FFEL) | 84.032 | | - | 3,022,342 |
| Federal Work Study Program (FWS) | 84.033 | | 130,528 | - |
| Federal Pell Grant Program | 84.063 | | 3,663,251 | - |
| Total Student Financial Assistance Cluster | | | 3,871,079 | 3,022,342 |
| TRIO-Student Support Services | 84.042A | | 314,936 | - |
| TRIO-Talent Search | 84.044A | | 224,726 | - |
| TRIO-Upward Bound | 84.047A | | 212,253 | - |
| Total TRIO Cluster | | | 751,915 | - |
| Passed through Iowa Department of Education: | | | | |
| Vocational Education - Basic Grants to States: | | | | |
| Carl Perkins | 84.048A | 6805010000 | 297,310 | - |
| WWW.NL | 84.048A | 6805020000 | 33,031 | - |
| | | | 330,341 | - |
| Carl Perkins - Corrections | 84.048A | N/A | 34,375 | - |
| Tech-Prep Education | 84.243A | 6806010000 | 65,829 | - |
| Adult Education - State Grant Program | 84.002 | 6806010000 | 265,148 | - |
| | | | 695,693 | - |
| Total U.S. Department of Education | | | 5,318,687 | 3,022,342 |
| U.S. Department of Agriculture: | | | | |
| Passed through Iowa Department of Education | | | | |
| Summer Foods Program | 10.559 | 1-W-16-FR-0 | \$ 3,414 | \$ - |

(Continued)

Southeastern Community College

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2005

| Federal Grantor/ Pass-Through Grantor/Program Name | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures | New Loans |
|--|---------------------------|---|-------------------------|---------------------|
| U.S. Department of Labor: | | | | |
| Passed through Iowa Department of Workforce Development: | | | | |
| Workforce Investment Act (WIA) - Adult Program | 17.258 | 1-W-16-FR-1 | \$ 545,622 | \$ - |
| Workforce Investment Act (WIA) - Youth Activities | 17.259 | 1-W-16-FR-1 | 554,912 | - |
| Workforce Investment Act (WIA) - Dislocated Workers | 17.260 | 1-W-16-FR-1 | 549,676 | - |
| Workforce Investment Act (WIA) - Dislocated Workers | 17.260 | 5-W-PF-RR-0-00 | 7,600 | - |
| Workforce Investment Act (WIA) - Dislocated Workers | 17.260 | 1-W-16-FR-1 | 60,423 | - |
| Workforce Investment Act (WIA) - Dislocated Workers | 17.260 | 5-W-PF-RR-0-13 | 1,854 | - |
| Workforce Investment Act (WIA) - Dislocated Workers | 17.260 | 5-W-PF-RR-0-09 | 2,983 | - |
| Workforce Investment Act (WIA) - Dislocated Workers | 17.260 | 3-W-FR-W3-0-03 | 3,591 | - |
| Workforce Investment Act (WIA) - Dislocated Workers | 17.260 | 3-W-FR-W3-1-03 | 178,101 | - |
| Workforce Investment Act (WIA) - Dislocated Workers | 17.260 | 3-W-FR-W3-3-03 | 42,182 | - |
| Total Workforce Investment Act Cluster | | | <u>1,946,944</u> | - |
| Employment Service | 17.207 | 1-W-16-FR-0 | 19,377 | - |
| Unemployment Insurance | 17.225 | 1-W-16-FR-0 | 12,981 | - |
| Trade Adjustment Assistance Workers | 17.245 | 1-W-16-FR-0 | 3,824 | - |
| Work Incentives Grant (Disability Navigator) | 17.266 | 1-W-16-FR-0 | 1,977 | - |
| Passed through Iowa Department of Education, | | | | |
| Veterans' Employment Program, DVOP | 17.801 | 1-W-16-FR-0 | 9,228 | - |
| Veterans' Employment Program | 17.802 | N/A | 888 | - |
| Total U.S. Department of Labor | | | <u>1,995,219</u> | - |
| U.S. Department of Health and Human Services: | | | | |
| Passed through Iowa Department of Workforce Development, | | | | |
| Temporary Assistance for Needy Families | 93.558 | 1-W-16-FR-0 | 433,482 | - |
| Passed through Iowa Department of Public Health, | | | | |
| Nursing Assistance Projects | 93.300 | 5884NW07 | 3,599 | - |
| Total U.S. Department of Health and Human Services | | | <u>437,081</u> | - |
| U.S. Department of Corrections: | | | | |
| Passed through Iowa Department of Corrections, | | | | |
| Title I Corrections | 84.013A | N/A | 25,000 | - |
| Federal Mediation and Conciliation Service: | | | | |
| Passed through Iowa Department of Workforce Development, | | | | |
| Labor Management Cooperation | 34.002 | 1-W-16-FR-0 | 1,431 | - |
| Library of Congress: | | | | |
| Direct Program, Women as Leaders - Open World Russian Leadership Program | | | | |
| | 42.XXX | N/A | 14,000 | - |
| Total federal awards expended | | | <u>\$ 7,794,832</u> | <u>\$ 3,022,342</u> |

See Note to Schedule of Expenditures of Federal Awards.

Southeastern Community College

Note to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southeastern 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.

Southeastern Community College

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

| Finding Number | Comment | Corrective Action |
|----------------------------|--|---|
| Compliance Finding: | | |
| 04-III-A | There was an instance of a return of Title IV funds (PELL) that was not made timely for one student. | Uncorrected. See similar finding at 05-III-A. |
| Statutory Finding: | | |
| IV-J-04 | For credit contact hours there were some discrepancies in categories within adult education. | Uncorrected. See similar finding at IV-J-05. |

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Southeastern Community College
West Burlington, Iowa

We have audited the financial statements of Southeastern Community College as of and for the year ended June 30, 2005, and have issued our report thereon dated September 23, 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. We did not audit the financial statements of the discretely presented component unit which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely on the reports of the other auditors.

The discretely presented component unit's financial statements were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not extend to the discretely presented component unit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which we have reported to management of the College in a separate letter dated September 23, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeastern Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that is described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Southeastern 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 basic financial statements of Southeastern 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 is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
September 23, 2005

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
Southeastern Community College
West Burlington, Iowa

Scope of this Report

Southeastern Community College's basic financial statements include the financial statements of Southeastern Community College Foundation, a discretely presented component unit, which was audited by other auditors. We did not audit the compliance with the requirements of laws, regulations, contracts, and grants of the discretely presented component unit, and accordingly, this report does not extend to the discretely presented component unit.

Compliance

We have audited the compliance of Southeastern Community College 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. The Southeastern 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 Southeastern Community College's management. Our responsibility is to express an opinion on the Southeastern 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 OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southeastern 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 Southeastern Community College's compliance with those requirements.

In our opinion, Southeastern 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Items 05-III-A and 05-III-B.

Internal Control Over Compliance

The management of Southeastern 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 Southeastern 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.

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

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
September 23, 2005

Southeastern Community College

Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

I. Summary of Independent 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 that is not considered to be a material weakness? 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 that is not considered to be a material weakness? 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 Number | Name of Federal Program |
|----------------|--|
| 84.007 | Federal Supplemental Educational Opportunity Grants (SEOG) |
| 84.032 | Federal Family Education Loans (FFEL) |
| 84.033 | Federal Work Study Program (FWS) |
| 84.063 | Federal Pell Grant Program |
| 84.042A | TRIO-Student Support Services |
| 84.044A | TRIO-Talent Search |
| 84.047A | TRIO-Upward Bound |

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes No

Southeastern Community College

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Reportable Conditions in Internal Control

The audit of the basic financial statements of Southeastern Community College as of and for the year ended June 30, 2005 disclosed no matters involving internal control over financial reporting and its operations that are considered to be material weaknesses.

B. Compliance Findings

The audit disclosed no instances of noncompliance which are material to the basic financial statements of Southeastern Community College as of and for the year ended June 30, 2005.

III. Findings and Questioned Costs for Federal Awards

05-III-A

U.S. Department of Education
Federal Pell Grant Program (CFDA 84.063)

Finding: Return of Title IV funds (PELL) was not made timely for one student.

Questioned Costs: None

Condition: The College did not meet the deadline for return of Title IV funds within 30 days.

Criteria: The Office of Management and Budget Circular A-133, *Compliance Supplement*, requires that the institution deposit or transfer the funds into the federal funds account, initiate an electronic transfer, or issue a check within 30 days of becoming aware that a student has dropped.

Recommendation: We recommend that the College review student withdrawal listings on a regular basis and work with technical support to ensure that submissions of Title IV fund returns are initiated in a timely manner.

Response and Corrective Action Plan: The College will review student withdrawal listings on a regular basis and work with technical support to ensure that submissions of Title IV fund returns are initiated in a timely manner.

Southeastern Community College

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2005

05-III-B

U.S. Department of Education

Federal Family Education Loans (FFEL) (CFDA 84.032)

Finding: Return of Title IV funds (FFEL) was not calculated for one of the students selected for student financial aid testing.

Questioned Costs: None

Condition: The College did not perform the calculation, and therefore, did not meet the deadline for the return of Title IV funds within 30 days.

Criteria: The Office of Management and Budget Circular A-133, *Compliance Supplement*, requires that the institution complete the refund calculation and deposit or transfer the funds into the federal funds account, initiate an electronic transfer, or issue a check within 30 days of becoming aware that the student had dropped.

Recommendation: We recommend that the College review student withdrawal listings on a regular basis and work with technical support to ensure that Title IV return of federal funds calculations and submissions of Title IV

Response and Corrective Action Plan: The College will review student withdrawal listings on a regular basis and work with technical support to ensure that refunds are calculated timely and that submissions of Title IV fund returns are initiated in a timely manner.

Southeastern Community College

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

IV. Other Findings Related to Required Statutory Reporting

IV-A-05 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.

IV-B-05 Certified Budget

Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted in total.

IV-C-05 Questionable Expenditures

No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-05 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.

IV-E-05 Business Transactions

No business transactions between the College and College officials or employees were noted.

IV-F-05 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.

IV-G-05 Board Minutes

No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-05 Publication

The College published a statement showing all receipts and disbursements of all funds for fiscal year 2005, 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

IV-I-05 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.

Southeastern Community College

Schedule of Findings and Questioned Costs (Continued)
 Year Ended June 30, 2005

IV-J-05 Credit/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 except for the misclassification of contact hours, as shown below:

| | Contact Hours Reported | Total per Supporting Documentation | Difference |
|---|------------------------------|--|------------|
| Adult Education: | | | |
| Miscellaneous: | | | |
| Local Community College Use - Tests | 2 | 1 | 1 |
| Health Professions and Related Clinical Service | 7 | 8 | (1) |

Recommendation: The College should verify that the number of contact hours reported for each non-credit course agrees to the class schedule.

Response and Corrective Action: The College will investigate the discrepancies which appear to be in the continuing education software.

Conclusion: Response accepted.

Southeastern Community College

Corrective Action Plan Year Ended June 30, 2005

| Comment Number | Comment | Corrective Action Plan | Contact Person | Initial Date of Communication | Anticipated Date of Completion |
|-----------------------------|--|---|--|-------------------------------|--------------------------------|
| Compliance Findings: | | | | | |
| 05-III-A | Untimely Title IV refunds | See corrective action plan at 05-III-A. | Gwen Scholar, Student Financial Aid Director | June 2004 | June 2006 |
| 05-III-B | Calculation for return of Title IV funds was not calculated. | See corrective action plan at 05-III-B. | Gwen Scholar, Student Financial Aid Director | September 2005 | June 2006 |
| Statutory Reporting: | | | | | |
| IV-J-05 | Misclassification of contract hours | See corrective action plan at IV-J-05. | Annette Peterson, Controller | June 2002 | June 2006 |