

**NORTH IOWA AREA COMMUNITY COLLEGE
MASON CITY, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006**

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Officials

Name	Title	Term Expires
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**Board of Directors
(Before September, 2005 Election)**

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

**Board of Directors
(After September, 2005 Election)**

David Steffens, Jr.	President	2006
Jean Torgeson	Vice President	2007
Colin Robinson	Member	2006
Karen Knudtson	Member	2008
Dean Cataldo	Member	2008
John Heilskov	Member	2008
Doug Morse	Member	2007
Gordon Anderson	Member	2007
Jim Niemants	Member	2006

Officials

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of North Iowa Area Community College, Mason City, Iowa, at and for the year ended June 30, 2006, which along with the discretely presented component unit collectively comprise the College's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of North Iowa Area Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the component unit, North Iowa Area Community College Foundation. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the North Iowa Area Community College Foundation is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of 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 North Iowa Area Community College and its discretely presented component unit at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2006 on our consideration of North Iowa Area Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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 budgetary comparison information on Pages 4 through 12 and Page 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise North Iowa Area Community College's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements and supplemental data. The supplementary information on Pages 29 through 35, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. Information included in the statistical section (Pages 38 through 40) has not been audited by us, and we express no opinion or provide any other assurance on it.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 13, 2006

**North Iowa Area Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2006**

Management of North Iowa Area Community College has prepared this discussion and analysis of the College's financial statements that provides an overview of financial activities for the year beginning July 1, 2005 and ending June 30, 2006. We encourage readers to consider this information in conjunction with the College's financial statements, which follow.

North Iowa Area Community College is in the fourth year of implementing new reporting standards with significant changes in content and structure. This report makes comparisons between FY06 and FY05.

FINANCIAL HIGHLIGHTS

- College operating revenue increased 5.24% in FY06. Some of the increase was due to tuition revenue. Tuition and fees rates were increased by 5.08% for FY06. In FY05, the Dormitory Corporation dissolved and in FY06 the College began accounting for revenue related to the dorm operation in the Auxiliary Fund resulting in a significant increase in Auxiliary revenue. Revenue associated with the Iowa Industrial New Jobs Training Program decreased by 30.44% in FY06. This program involves the diversion of state withholding to repay bonds that are issued for workforce training. Revenue for this program can vary from year to year depending on funds needed for annual bond payments.
- College operating expenses in FY06 increased 7.61% over FY05. Salary and benefit costs increased by 6.98%. Additional instructional positions were added in the Business Department and Health Department. An Adult Recruiter and a Financial Management Advisor were added in the Student Services Division. A Director of Regional Business Development Services was also hired to manage the Incubator Planning Grant received from the United States Department of Small Business. Due to the early retirement of three employees, the costs associated with the early retirement program also contributed to the increase in salary and benefit costs. Auxiliary Fund expenses also increased due to costs associated with the change in ownership of the Dormitories.
- Construction on a new maintenance/storage building began in FY06. NIACC's Plant Fund will pay for the construction.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the College's financial activities.

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

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

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

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

REPORTING THE COLLEGE AS A WHOLE

The Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the College as a whole, as of the end of the fiscal year. The Statement of Net Assets is a point-in-time financial statement and reflects FY06 and FY05 numbers. The purpose of this statement is to present a fiscal snapshot of the College to the readers of the financial statements. The Statement of Net Assets includes year-end information concerning current and noncurrent assets, current and noncurrent liabilities and net assets (assets less liabilities). Over time, readers of the financial statements are able to determine the College's financial position by analyzing the increases and decreases in net assets. This statement is also a good source for readers to determine how much the College owes to outside vendors and creditors. The statement presents the available assets that can be used to satisfy those liabilities.

Statement of Net Assets

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets	\$ 24,967,173	\$ 22,665,239
Noncurrent assets	2,075,160	2,008,111
Capital assets, net of accumulated depreciation	<u>17,289,150</u>	<u>16,591,148</u>
Total Assets	<u>44,331,483</u>	<u>41,264,498</u>
Current liabilities	7,775,370	7,617,361
Noncurrent liabilities	<u>9,589,897</u>	<u>7,862,722</u>
Total Liabilities	<u>17,365,267</u>	<u>15,480,083</u>
Net Assets		
Invested in capital assets, net of related debt	17,289,150	16,588,749
Restricted, expendable	1,260,285	1,223,937
Unrestricted	<u>8,416,781</u>	<u>7,971,729</u>
Total Net Assets	<u>\$ 26,966,216</u>	<u>\$ 25,784,415</u>

The largest portion of the College’s net assets (64.1%) is in Invested in Capital Assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the Invested in Capital Assets is liquidated with sources other than capital assets. The restricted portion of net assets (4.7%) includes resources that are subject to external restrictions. Unrestricted net assets represent the remaining net assets (31.2%). These can be used to meet the College’s obligations as they come due.

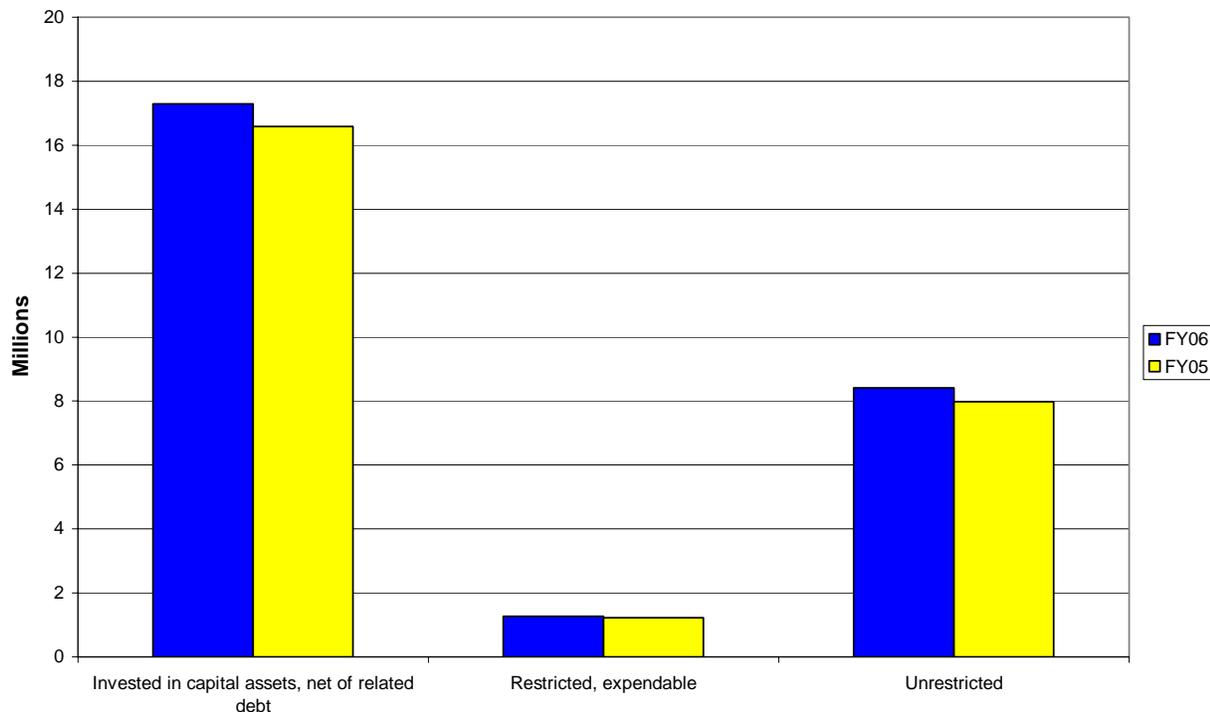
Restricted, expendable net assets in FY06 increased \$36,348 from FY05 or 3%. This was due to an increase in the performance of the Economic Development and Entrepreneurial programs.

Unrestricted net assets increased \$445,052 or 5.6%. Much of this increase is the result of accounting for the dormitory operation and the food service activity. During the spring of 2006, the college began a construction project to replace the current maintenance facility. The project was not completed until after July 1, 2006. After the current facility is vacated, the area will become a Business Incubator.

Statement of Revenue, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenue, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenue received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, and any other revenue, expenses, gains and losses received or spent by the College. The report reflects FY06 and FY05 numbers.

Comparison of Net Assets



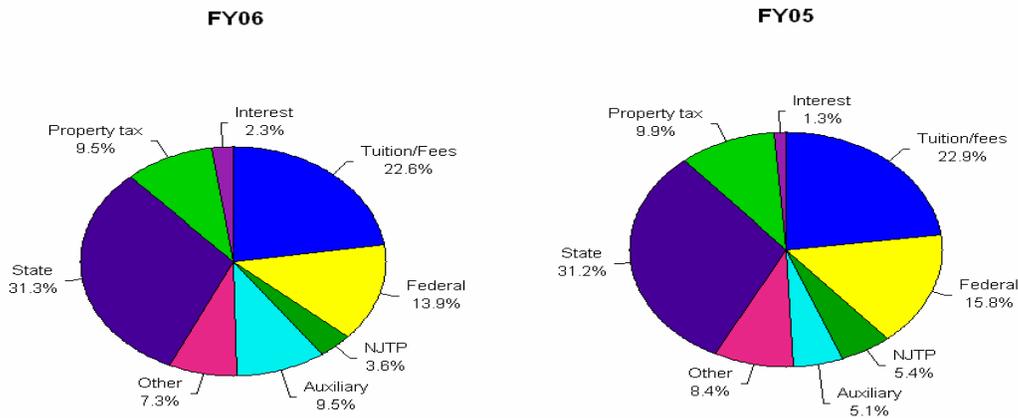
In general, a public college such as North Iowa Area Community College will report an operating loss, as the financial reporting model classifies state appropriations and property taxes as nonoperating revenue. Operating revenue is received for providing goods and services to students, customers and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

Changes in Net Assets

	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>
Operating Revenue		
Tuition and fees	\$ 6,673,743	\$ 6,349,105
Federal appropriations	4,094,963	4,377,657
State grants and contracts	—	102,478
Sales and services	303,805	248,521
Iowa Industrial New Jobs Training Program	1,051,756	1,512,085
Accounts receivable and student loan interest	4,118	8,744
Auxiliary	2,820,567	1,411,936
Miscellaneous	<u>1,448,105</u>	<u>1,570,600</u>
Total Operating Revenue	16,397,057	15,581,126
Total operating expense	<u>28,154,480</u>	<u>26,163,899</u>
Operating Loss	<u>(11,757,423)</u>	<u>(10,582,773)</u>
Nonoperating Revenue (Expenses)		
State appropriations	9,244,435	8,572,046
Property tax	2,810,438	2,757,931
Gifts	419,363	515,106
Interest income from investments	689,986	356,877
Gain/loss on sale of capital assets	—	(12,962)
Interest on indebtedness	<u>(458,018)</u>	<u>(468,600)</u>
Net Nonoperating Revenue	<u>12,706,204</u>	<u>11,720,398</u>
Increase in Net Assets Before Other Revenue, Expenses, Gains or Losses and Transfers		
Transfer from Dorms to College	948,781	1,137,625
Capital grants and gifts	<u>233,020</u>	<u>668,536</u>
Increase in Net Assets	<u>1,181,801</u>	<u>3,993,668</u>
Net assets - beginning of year	<u>25,784,415</u>	<u>21,790,747</u>
Net Assets - End of Year	<u>\$ 26,966,216</u>	<u>\$ 25,784,415</u>

The Statement of Revenue, Expenses and Changes in Net Assets reflects a positive year with an increase (\$1,181,801 or 4.6%) in the net assets at the end of the fiscal year and an increase (\$1,174,650 or 11.1%) in net operating loss.

Total Revenue by Source



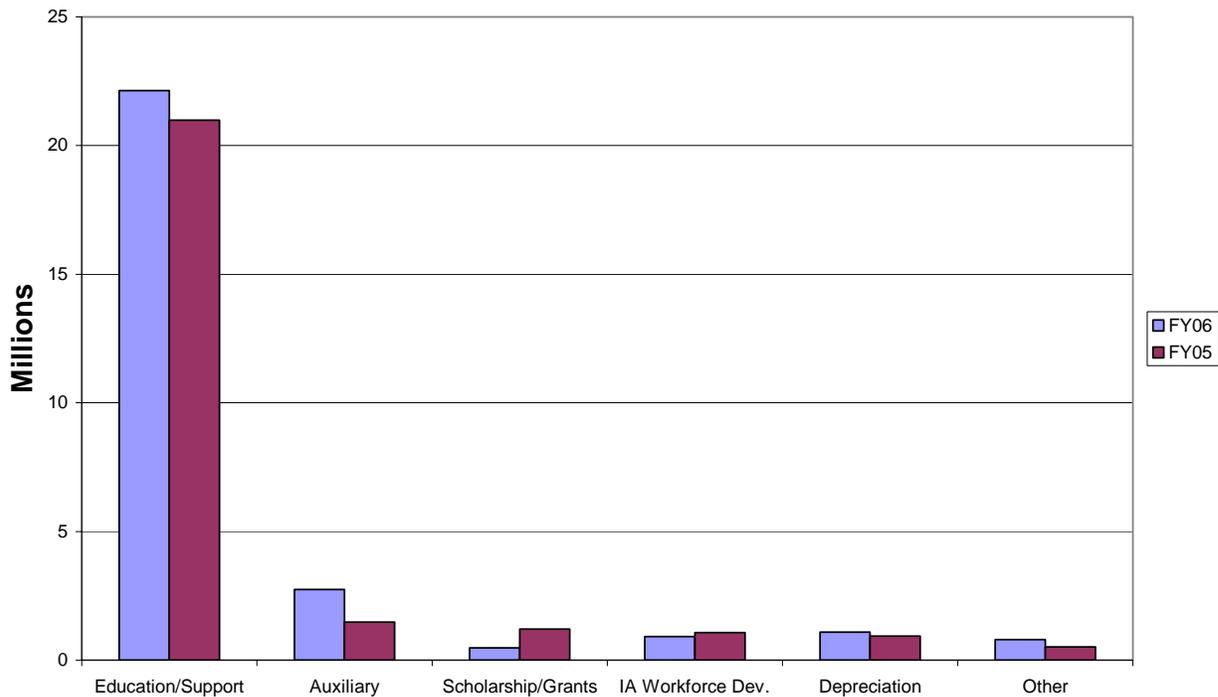
In fiscal year 2006, operating revenue increased (\$815,931 or 5.2%) as a net result of the following changes:

- Tuition for credit classes increased due to an increase in the tuition rate from \$88.50 per credit hour in FY05 to \$93.00 per credit hour in FY06.
- Auxiliary revenue increased \$1,408,631 or 99.8% in FY06 because of the addition of the dormitories and performance of the food service.
- Revenue associated with the Iowa Industrial New Jobs Training Program actually decreased by \$460,329 in FY06. This program issues bonds used for workforce training by new or expanding companies. The bonds are repaid from employee state withholding revenue that is diverted to this program. Revenue depends on what is needed to make the annual principal and interest payments.

Operating Expenses

	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>
Education and Support		
Liberal arts and science	\$ 5,582,036	\$ 5,613,513
Vocational technical	3,144,755	3,106,784
Adult education	3,483,153	3,022,549
Cooperative services	1,586,605	1,709,512
Administration	1,319,416	1,101,030
Student services	3,057,900	2,485,806
Learning resources	535,340	529,712
Physical plant	1,780,821	1,889,807
General institution	1,648,937	1,524,971
Auxiliary enterprises	2,746,834	1,474,241
Scholarship and grants	472,923	1,196,668
Iowa Workforce Development Contract	919,756	1,064,643
Loan cancellations and bad debt	2,309	(1,225)
Administrative and collection costs	791,378	516,928
Depreciation	<u>1,082,317</u>	<u>928,960</u>
Total	<u>\$ 28,154,480</u>	<u>\$ 26,163,899</u>

Total Operating Expenses



In FY06, operating expenses increased by 7.6% as a result of the following changes:

- Faculty and staff received an average salary increase of 4.5% accompanied by a 9.12% increase in the cost of the College's health insurance program.
- Auxiliary enterprise costs increased by \$1,272,593 or 86.3% due to the addition of the dormitories.

Statement of Cash Flows

The final statement included in North Iowa Area Community College's basic financial statements is the Statement of Cash Flows. The Statement of Cash Flows is an important tool in helping the users to assess an entity'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. Information is presented for FY06 and FY05.

Cash Flows

	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>
Cash Provided by (Used in)		
Operating activities	\$ (9,909,398)	\$ (9,210,695)
Noncapital financing activities	12,801,800	11,464,566
Capital and related financing activities	(892,740)	(411,261)
Investing activities	<u>(2,660,014)</u>	<u>6,877</u>
Net Increase (Decrease) in Cash	(660,352)	1,849,487
Cash - beginning of the year	<u>3,157,127</u>	<u>1,307,640</u>
Cash - End of the Year	<u>\$ 2,496,775</u>	<u>\$ 3,157,127</u>

Cash used for operating activities includes tuition and fees and grants and contracts along with payments to employees and to suppliers. Much of the increase in use of cash for operating activities is related to costs associated with salary and benefits.

Cash provided by noncapital financing activities includes state appropriations, local property taxes received by the College and the receipt and disbursement of federal direct loan program proceeds. The increase in cash flow is directly related to the increase in state appropriations. NIACC's state appropriations increased by \$1,151,472 or 14.1%.

Cash used for capital and related financing activities represents the proceeds from debt, the principal and interest payments of debt and the purchase of capital assets. NIACC issued \$2,525,000 in Iowa New Jobs Training bonds in FY06. This was \$735,000 more than in FY05 but there were additional principal payments of \$429,170 in FY06. There was also an increase in the use of cash for the acquisition of capital assets (\$896,905). These areas of expenditures contributed to the change in "Capital and related financing activities".

Cash flows from investing activities reflects that more funds are invested in certificates of deposit than a year ago. Investment income also increased in FY06 by \$333,109. Most of this is due to higher interest rates in FY06.

CAPITAL ASSETS

At June 30, 2006 the College has \$33,433,830 invested in capital assets, less accumulated depreciation of \$16,144,680. Depreciation charges totaled \$1,082,317 for the 2006 fiscal year. Details for the capital assets are shown below.

Capital Assets, Net, at Year End

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Land	\$ 340,756	\$ 340,756
Buildings	13,930,848	12,663,389
Construction in progress	332,672	976,946
Other structures and improvement	886,875	791,465
Equipment and vehicles	<u>1,797,999</u>	<u>1,818,592</u>
Total	<u>\$ 17,289,150</u>	<u>\$ 16,591,148</u>

With the completion of the remodeling in the Auditorium and the food service addition, capital assets of land and buildings increased \$1,267,459 in FY06. Construction on a new maintenance/storage building began in the spring of 2006.

Planned capital expenditures for the fiscal year ending June 30, 2007 include the completion of the maintenance/storage building, an addition to the Murphy Manufacturing Center for the expansion of the welding program funded by the ACE program, remodeling a storage building at the farm site for an agricultural lab, a show pig facility and several remodeling projects to add additional space for tutoring funded by the Title 3 grant. Currently, the College is in the process of planning a recreational building. More detailed information about the College's capital assets is presented in Note 3 to the financial statements.

DEBT

At June 30, 2006, the College had \$8,900,000 in debt outstanding, an increase of \$1,125,000 from FY05. The table below summarizes these amounts by type.

Outstanding Debt

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Capital leases payable	\$ —	\$ 2,399
Certificates payable	<u>8,900,000</u>	<u>7,775,000</u>
Total	<u>\$ 8,900,000</u>	<u>\$ 7,777,399</u>

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

ECONOMIC FACTORS

North Iowa Area Community College continued to improve its financial position during the current fiscal year. Increased state revenue for FY06 and FY07 has contributed to the financial health of the College and it appears that there will be substantial new revenue from the state in FY08. However, the continuing decline in the demographics of high school students continues to be a concern for College officials.

- Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up-to-date technology at a reasonable cost.
- Demographics of the area continue to be a source of concern. The number of high school graduates will decline over the next five years and the population continues to age. This could impact enrollment at the College.
- Expenses will continue to increase due to normal increases in salaries and benefits. Higher utility costs will also contribute to increased costs of operation.

CONTACT THE COLLEGE'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Statement of Net Assets

At June 30, 2006

	Primary Institution	<u>Component Unit</u> Foundation
Assets		
Current Assets		
Cash and certificates of deposit	\$ 19,146,775	\$ 8,562,383
Receivables		
Accounts (net of allowance for doubtful accounts		
College - \$228,468).....	726,855	53,584
Property tax - succeeding year	2,954,217	—
Notes (net of allowance for doubtful accounts -		
College - \$18,519).....	19,406	—
Iowa Industrial New Jobs Training Program	1,272,618	—
Contributions.....	—	207,632
Due from other governments	836,063	—
Prepaid expenses.....	10,639	—
Inventories.....	600	—
Total Current Assets	<u>24,967,173</u>	<u>8,823,599</u>
Noncurrent Assets		
Cash and investments	—	5,237,964
Receivables		
Notes.....	25,691	—
Iowa Industrial New Jobs Training Program	2,049,469	—
Contributions receivable	—	325,304
Investments in real estate.....	—	543,656
Beneficial interest in assets held by others	—	328,467
Capital assets, net of accumulated depreciation	17,289,150	—
Total Noncurrent Assets	<u>19,364,310</u>	<u>6,435,391</u>
Total Assets	<u>\$ 44,331,483</u>	<u>\$ 15,258,990</u>

See accompanying notes to the financial statements.

	Primary Institution	<u>Component Unit Foundation</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 598,575	\$ —
Salaries and benefits payable	857,521	—
Annuity payable	—	24,671
Interest payable	41,592	—
Compensated absences	428,313	—
Insurance claims incurred but not reported	47,146	—
Deposits held in custody for others	458,575	—
Advance payable	62,000	—
Deferred Revenue		
Succeeding year property tax	2,954,217	—
Tuition	193,077	—
Other	779,296	—
Early retirement payable	125,058	—
Certificates payable	<u>1,230,000</u>	<u>—</u>
Total Current Liabilities	<u>7,775,370</u>	<u>24,671</u>
Noncurrent Liabilities		
Early retirement payable	224,358	—
Deferred revenue, other	1,567,589	—
Deferred compensation	61,375	—
Annuity payable	—	71,746
Certificates payable	7,670,000	—
Refundable advances on student loans	<u>66,575</u>	<u>—</u>
Total Noncurrent Liabilities	<u>9,589,897</u>	<u>71,746</u>
Total Liabilities	<u>17,365,267</u>	<u>96,417</u>
Net Assets		
Invested in capital assets, net of related debt	17,289,150	—
Restricted		
Nonexpendable	—	2,316,168
Expendable		
Loans	21,611	—
Cash reserve	285,793	—
Other	952,881	10,591,451
Unrestricted	<u>8,416,781</u>	<u>2,254,954</u>
Total Net Assets	<u>26,966,216</u>	<u>15,162,573</u>
Total Liabilities and Net Assets	<u>\$ 44,331,483</u>	<u>\$ 15,258,990</u>

Statement of Revenue, Expenses and Changes in Net Assets

Year Ended June 30, 2006

	Primary Institution	Component Unit Foundation
Operating Revenue		
Tuition and fees, net of scholarship allowances of \$1,693,116	\$ 6,673,743	\$ —
Federal appropriations.....	4,094,963	—
Sales and service	303,805	—
Iowa Industrial New Jobs Training Program.....	1,051,756	—
Accounts receivable and student loan interest.....	4,118	—
Auxiliary enterprises	2,820,567	—
Contributions	—	1,807,127
Miscellaneous.....	1,448,105	—
Total Operating Revenue.....	<u>16,397,057</u>	<u>1,807,127</u>
Operating Expenses		
Education and Support		
Liberal arts and sciences	5,582,036	—
Vocational technical.....	3,144,755	—
Adult education	3,483,153	—
Cooperative services	1,586,605	—
Administration	1,319,416	—
Student services	3,057,900	—
Learning resources	535,340	—
Physical plant.....	1,780,821	—
General institution	1,648,937	—
Auxiliary enterprises	2,746,834	—
Scholarship and grants.....	472,923	—
Iowa Workforce Development contract.....	919,756	—
Loan cancellations and bad debts.....	2,309	—
Administrative and collection costs.....	791,378	—
Program services.....	—	2,178,459
Fundraising expenses	—	148,201
Management and general expenses	—	28,112
Depreciation	1,082,317	—
Total Operating Expenses.....	<u>28,154,480</u>	<u>2,354,772</u>
Operating Loss.....	<u>(11,757,423)</u>	<u>(547,645)</u>
Nonoperating Revenue (Expenses)		
State appropriations	9,244,435	—
Property tax	2,810,438	—
Gifts	419,363	—
Investment income, net of investment expense of \$58,612 for the Foundation.....	689,986	1,125,698
Change in value of beneficial interests.....	—	5,195
Interest on indebtedness	(458,018)	—
Net Nonoperating Revenue.....	<u>12,706,204</u>	<u>1,130,893</u>
Increase in Net Assets Before Other Revenue,		
Gains or Losses.....	948,781	583,248
Capital grants and gifts.....	233,020	—
Increase in Net Assets.....	1,181,801	583,248
Net Assets - Beginning of Year	25,784,415	14,579,325
Net Assets - End of Year.....	<u>\$ 26,966,216</u>	<u>\$ 15,162,573</u>

See accompanying notes to the financial statements.

Statement of Cash Flows

Year Ended June 30, 2006

Cash Flows From Operating Activities

Tuition and fees	\$ 6,825,041
Federal appropriations.....	4,182,576
Iowa Industrial New Jobs Training Program.....	1,540,766
Payments to employees for salaries and benefits	(16,429,694)
Payments to suppliers for goods and services	(9,185,766)
Payments to New Jobs Training Program recipients.....	(1,161,442)
Scholarships	(285,946)
Loans issued to students.....	(34,317)
Loan collections from students	35,247
Auxiliary enterprise receipts	2,863,503
Other receipts.....	1,740,634
Net Cash Used in Operating Activities	<u>(9,909,398)</u>

Cash Flows From Noncapital Financing Activities

State appropriations	9,342,648
Property tax	2,810,438
Gifts for other than capital purposes.....	592,868
Federal direct lending receipts	4,063,808
Federal direct lending disbursements.....	(4,118,464)
Miscellaneous agency fund receipts.....	559,050
Miscellaneous agency fund disbursements.....	(448,548)
Net Cash Provided by Noncapital Financing Activities	<u>12,801,800</u>

Cash Flows From Capital and Related Financing Activities

Proceeds from issuance of debt.....	2,525,000
Proceeds from disposal of capital assets	21,537
Gifts for purchase of capital assets	450,029
Acquisition of capital assets	(2,034,786)
Principal paid on debt and leases.....	(1,402,399)
Interest paid on debt and leases	(452,121)
Net Cash Used in Capital and Related Financing Activities	<u>(892,740)</u>

Cash Flows From Investing Activities

Proceeds from maturity of certificates of deposit.....	21,800,000
Purchase of certificates of deposit.....	(25,150,000)
Investment income	689,986
Net Cash Used in Investing Activities.....	<u>(2,660,014)</u>

Net Decrease in Cash.....	(660,352)
Cash at Beginning of Year, as reclassified (Note 13).....	3,157,127

Cash at End of Year..... **\$ 2,496,775**

Statement of Cash Flows

Year Ended June 30, 2006

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

Loss from operations	\$ (11,757,423)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Depreciation	1,082,317
Changes in Assets and Liabilities	
Increase in accounts receivable, net	(9,251)
Decrease in notes receivable, net	3,239
Increase in Iowa Industrial New Jobs Training Program receivable	(38,538)
Decrease in due from governments	87,613
Decrease in prepaid expenses	399
Decrease in inventories	3,475
Increase in accounts payable	(224,957)
Decrease in salaries and benefits payable	54,983
Decrease in deferred revenue	690,035
Decrease in deferred compensation	39,000
Decrease in compensated absences	22,910
Decrease in early retirement payable	112,316
Increase in reserve for unsubmitted insurance claims	(1,815)
Decrease in refundable advances on student loans	695
Decrease in deposits held in custody	<u>25,604</u>
Net Cash Used in Operating Activities	<u>\$ (9,909,398)</u>

Supplemental Disclosures

Noncash, Capital Financing Activities

At June 30, 2006

Cash	\$ 2,496,775
Certificates of deposit	<u>16,650,000</u>
Total Cash and Certificates of Deposit	<u>\$ 19,146,775</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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

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

Reporting Entity

For financial reporting purposes, the College has included all funds, organizations, agencies, boards, commissions and authorities. The College has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the College are such that exclusion would cause the College's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the College to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the College.

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

Discrete Component Unit

North Iowa Area Community College Foundation (Foundation) is a legally separate not-for-profit foundation. The Foundation was established for the purpose of soliciting gifts and grants to support the activities and services of the College. The Foundation is governed by a Board of Directors who are not appointed by the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of the resources that are held are used for the benefit of the College. A copy of the Foundation's financial statements may be obtained from Kathy Grove, Vice President for Administrative Services, Pierce Administration Building, Mason City, Iowa.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

The Foundation has a year end of June 30. The Foundation previously had a year end of December 31 through December 31, 2005. Accordingly, the Foundation's financial information included in the College's financial reporting entity is as of and for the 18 months ended June 30, 2006.

Basis of Presentation

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

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Assets

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

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

Unrestricted Net Assets

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

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

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

Measurement Focus and Basis of Accounting

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Assets, Liabilities and Net Assets

Cash and Certificates of Deposit

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

Certificates of deposit are stated at cost.

Due from Other Governments

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

Inventories

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

Property Tax Receivable

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

Receivable for Iowa Industrial New Jobs Training Program (NJTP)

This represents the amount to be remitted to the College for training projects entered into between the College and employers under the provisions of Chapter 260E of the Code of Iowa. The receivable amount is based on expenditures incurred through June 30, 2006 on NJTP projects, including interest incurred on NJTP certificates, less revenue received to date.

Capital Assets

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

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

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

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

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

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

Salaries and Benefits Payable

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

Deferred Revenue

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

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

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

Compensated Absences

College employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Amounts representing the cost of compensated absences are recorded as liabilities. These liabilities have been computed based on rates of pay in effect at June 30, 2006.

Advance Payable

The College entered into a five-year cost-sharing arrangement on December 30, 1998 related to health care education programs, services to health care providers and community health-related courses provided by the College. The arrangement automatically renewed on December 30, 2003 for an additional five-year period. Pursuant to the arrangement, the College was advanced \$62,000 (to be returned upon termination of the arrangement) and receives a subsidy equal to 76% of the operating and capital costs not covered by tuition and fees. The arrangement can be terminated by either party upon 90 days written notice. The subsidy for the year ended June 30, 2006 totaled \$62,000.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Refundable Advances on Student Loans

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

Tuition and Fees

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

Auxiliary Enterprise Revenue

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

Operating and Nonoperating Activities

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

Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements under the alternative method, 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. Under the alternative method, these amounts are computed on a total College basis by allocating the cash payments to students, excluding payments for services, on the ratio of all aid to the aid not considered to be third-party aid.

Income Taxes

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

Estimates and Assumptions

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

Notes to the Financial Statements

(2) Cash and Certificates of Deposit

The College's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

The College is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Foundation

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

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

Marketable securities and other investments are stated at fair value. Fair value and unrealized appreciation at June 30, 2006 are summarized as follows:

	Cost or Donated Value	Fair Value	Unrealized Appreciation
Mutual Funds (Common Fund)			
Multi-Strategy Equity Fund.....	\$ 5,439,605	\$ 8,986,379	\$ 3,546,774
Multi-Strategy Bond Fund	2,454,403	2,887,747	433,344
Intermediate Term Fund.....	<u>5,048</u>	<u>4,931</u>	<u>(117)</u>
	7,899,056	11,879,057	3,980,001
Corporate stocks	<u>64,128</u>	<u>50,554</u>	<u>(13,574)</u>
	<u>\$ 7,963,184</u>	<u>\$ 11,929,611</u>	<u>\$ 3,966,427</u>

(3) Capital Assets

Capital assets activity for the College for the year ended June 30, 2006 was as follows:

	Balance - Beginning of Year	Reclass- ification	Other		Balance - End of Year
			Increases	Decreases	
Capital Assets Not Being Depreciated					
Land	\$ 340,756	\$ —	\$ —	\$ —	\$ 340,756
Construction in progress	<u>976,946</u>	<u>—</u>	<u>332,672</u>	<u>976,946</u>	<u>332,672</u>
Total Capital Assets Not Being Depreciated.....	<u>1,317,702</u>	<u>—</u>	<u>332,672</u>	<u>976,946</u>	<u>673,428</u>

Notes to the Financial Statements

(3) Capital Assets

	Balance - Beginning of Year	Reclass- ification	Other		Balance - End of Year
			Increases	Decreases	
Capital Assets Being Depreciated					
Buildings.....	\$ 23,015,582	\$ (277,805)	\$ 1,952,500	\$ —	\$ 24,690,277
Other structures and improvements.....	2,321,235	281,965	14,896	—	2,618,096
Furniture, vehicles and equipment	5,096,551	(4,160)	478,734	119,096	5,452,029
Total Capital Assets Being Depreciated.....	<u>30,433,368</u>	<u>—</u>	<u>2,446,130</u>	<u>119,096</u>	<u>32,760,402</u>
Less Accumulated Depreciation For					
Buildings.....	10,352,193	(174,550)	581,786	—	10,759,429
Other structures and improvements.....	1,529,770	104,881	96,570	—	1,731,221
Furniture, vehicles and equipment	3,277,959	69,669	403,961	(97,559)	3,654,030
Total Accumulated Depreciation	<u>15,159,922</u>	<u>—</u>	<u>1,082,317</u>	<u>(97,559)</u>	<u>16,144,680</u>
Net Total Capital Assets Being Depreciated.....	<u>15,273,446</u>	<u>—</u>	<u>1,363,813</u>	<u>21,537</u>	<u>16,615,722</u>
Capital Assets, Net.....	<u>\$ 16,591,148</u>	<u>\$ —</u>	<u>\$ 1,696,485</u>	<u>\$ 998,483</u>	<u>\$ 17,289,150</u>

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Current Portion
Capital leases.....	\$ 2,399	\$ —	\$ 2,399	\$ —	\$ —
Certificates payable.....	7,775,000	2,525,000	1,400,000	8,900,000	1,230,000
Early retirement benefits.....	237,100	204,777	92,461	349,416	125,058
Deferred revenue, other	1,762,131	1,218,606	633,852	2,346,885	779,296
Deferred compensation	28,375	33,000	—	61,375	—
Advance payable.....	62,000	—	—	62,000	62,000
Refundable advances on student loans	65,880	695	—	66,575	—
	<u>\$ 9,932,885</u>	<u>\$ 3,982,078</u>	<u>\$ 2,128,712</u>	<u>\$ 11,786,251</u>	<u>\$ 2,196,354</u>

Notes to the Financial Statements

(4) Long-Term Liabilities

Certificates Payable

In accordance with agreements dated between December 1, 1995 and June 1, 2006, the College issued certificates totaling \$14,335,000 with interest rates ranging from 2.65% to 8.25%. The debt was incurred to fund the development and training costs incurred relative to implementing Chapter 260E of the Code of Iowa, Iowa Industrial New Jobs Training Program (NJTP). NJTP's purpose is to provide tax-aided training for employees of industries which are new to or are expanding their operations within the State of Iowa. Interest is payable semiannually, while principal payments are due annually. The certificates are to be retired by proceeds from anticipated job credits from withholding taxes, incremental property tax, budgeted reserves and, in the case of default, from standby property tax.

The certificates mature as follows:

Year Ending June 30,	Principal	Interest	Total
2007.....	\$ 1,230,000	\$ 523,489	\$ 1,753,489
2008.....	1,420,000	464,132	1,884,132
2009.....	1,315,000	371,976	1,686,976
2010.....	1,245,000	293,823	1,538,823
2011.....	1,075,000	216,388	1,291,388
2012 to 2016.....	<u>2,615,000</u>	<u>377,823</u>	<u>2,992,823</u>
Total	<u>\$ 8,900,000</u>	<u>\$ 2,247,631</u>	<u>\$ 11,147,631</u>

Total interest expenditures were \$458,018 for the certificates payable and capital lease for the year ended June 30, 2006.

Early Retirement Benefits Payable

The liability at June 30, 2006 for those employees who have elected early retirement was \$349,416. For more details, see Note 8.

(5) Operating Leases

The College has leased various facilities within merged Area 11 to house different divisions of the College. These leases have been classified as operating leases and, accordingly, all rents are expensed as incurred. The leases expire between 2007 and 2008 and require various minimum annual rentals. Certain leases are renewable for additional periods. The College also leases several copiers, with terms ranging from three to five years, under operating leases. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by years of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2006.

Year Ending June 30,	
2007.....	\$ 34,910
2008.....	28,334
2009.....	<u>28,334</u>
Total	<u>\$ 91,578</u>

Total rental expenditures for the year ended June 30, 2006 for all operating leases was \$48,750.

Notes to the Financial Statements

(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 covered payroll. Contribution requirements are established by State statute. The College's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 was \$329,681, \$306,396 and \$291,796, respectively, equal to the required contributions for the year.

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

The College contributes to the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) retirement program which is a defined contribution plan. TIAA administers the retirement plan for the College. The defined contribution retirement plan provides individual annuities for each plan participant. As required by the Code of Iowa, all eligible College employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA-CREF, and in accordance with the Code of Iowa, each employee is required to contribute 3.7% and the College is required to contribute 5.75%. The College's and employees' required and actual contributions to TIAA-CREF for the year ended June 30, 2006 were \$326,376 and \$210,017, respectively.

(8) Termination Benefits

The College offers a voluntary early retirement plan to its employees. In order to qualify, an employee must be a minimum of 59 years of age and have ten or more years of service with the College in a part-time or full-time Board-approved position. Written acceptance of this offer must be received by the President by the first Monday of January in the year of retirement. Acceptance of this offer shall be considered by the Board as a voluntary resignation and termination of the continuing contract. An eligible employee may select one of the following options (1) cash payment, (2) partially paid family health insurance coverage, (3) partially paid individual health insurance coverage and partial cash payment or (4) mid-year early retirement. Early retirement benefits shall be calculated as a percent of the employee's last Board-approved salary.

A staff member electing retirement may, at his or her option, elect at the time of retirement to apply any retirement cash incentive, so long as it lasts, directly to continued participation in the College's group health insurance plan and/or life insurance plan (maximum benefits for life insurance coverage are equal to two times the employee's last annual salary rounded to the next highest thousand), provided that the College's insurer allows such. Such continued participation is limited to the plan that is offered to continuing staff members and is subject to the same terms, conditions, options and cost-sharing arrangements applicable to continuing staff members. Any unused cash incentive upon cessation of group health and/or life insurance plan participation shall be paid directly to the retiree or his or her beneficiary.

Notes to the Financial Statements

(8) Termination Benefits

A retiree may elect to continue to insure his/her spouse in the College's group health plan until the spouse becomes eligible for Medicare. All costs of continued participation shall be paid by the participant.

If a staff member is at least 55 years of age, has ten years of service and has accumulated at least 90 days of sick leave on February 1 of the year of retirement, \$3,700 will be given for the accumulated sick leave. Those who meet the age and service criteria will be paid proportionately if they have less than 90 days on February 1 of the retirement year.

Included in the early retirement liability is a provision for future health insurance benefits elected by 20 retirees. Early retirement is funded on a pay-as-you-go basis through property tax levies. During the year ended June 30, 2006, 17 retirees received early retirement benefits. The College's early retirement expense for the year ended June 30, 2006 was \$92,461.

(9) Risk Management

The College is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The College assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2006.

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

Beginning balance	\$ 48,961
Claims and changes in estimates	187,206
Claims and administrative fees paid	<u>(189,022)</u>
Ending Balance	<u>\$ 47,145</u>

(10) New Jobs Training Programs

The College administers the Iowa Industrial New Jobs Training Program (NJTP) in Area II in accordance with Chapter 260E of the Code of Iowa. NJTP's purpose is to provide tax-aided training or retraining for employees of industries which are new to or are expanding their operations within the State of Iowa. Certificates are sold by the College to fund approved projects and are to be retired by proceeds from anticipated jobs credits from withholding taxes, incremental property tax, budgeted reserves and in the case of default, from standby property tax. Since inception, the Community College has administered 106 projects with 27 currently receiving project funding. The remaining 79 projects have been completed, of which 33 are in repayment process and 46 have been fully repaid.

Notes to the Financial Statements

(10) New Jobs Training Programs

The College also administers the Iowa Small Business New Jobs Training Program (SBNJTP) in Area II in accordance with Chapter 260F of the Code of Iowa. SBNJTP's purpose is to provide tax-aided training or retraining for employees of small businesses which are new to or are expanding their operations within the State of Iowa. Approved small businesses receive loans from the Iowa Employment Training Fund, a State administered fund. Since inception, the College has administered 143 projects, with 16 currently receiving project funding and the remaining 127 have been completed.

(11) Commitments

As of June 30, 2006, the College had outstanding commitments for capital improvements to facilities of approximately \$946,886.

(12) Related Party Transactions

The North Iowa Area Community College Foundation provided funding for the remodeling of the College's auditorium. The Foundation committed and paid \$233,020 of funds for the auditorium through June 30, 2006.

(13) Prior Period Reclassification

As disclosed in Note 1 to the financial statements, for purposes of the statement of cash flows, the College considers only those cash investments with original maturities of three months or less to be cash equivalents. During 2006, the College found that its 2005 statement of cash flows had improperly included \$10,000,000 of certificates of deposit as cash equivalents. Accordingly, a prior period reclassification has been made to reduce the June 30, 2005 cash balance from \$13,157,127, as previously reported, to \$3,157,127 and increase certificates of deposit by \$10,000,000. This adjustment had no effect on the increase in net assets of the College for either of the years ended June 30, 2006 or 2005 nor on its net assets at those dates.

Required Supplementary Information

Schedule of Budgetary Comparison of Expenditures - Budget and Actual

Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
Unrestricted	\$ 19,982,393	\$ 19,982,393	\$ 19,744,328	\$ 238,065
Restricted	4,282,671	4,282,671	2,897,516	1,385,155
Unemployment	15,000	15,000	36,678	(21,678)
Insurance.....	260,000	260,000	274,054	(14,054)
Early retirement	105,000	105,000	321,509	(216,509)
Equipment replacement.....	753,216	753,216	426,710	326,506
Total Restricted.....	<u>5,415,887</u>	<u>5,415,887</u>	<u>3,956,467</u>	<u>1,459,420</u>
Plant	<u>2,350,000</u>	<u>3,500,000</u>	<u>2,124,122</u>	<u>1,375,878</u>
Total	<u>\$ 27,748,280</u>	<u>\$ 28,898,280</u>	<u>\$ 25,824,917</u>	<u>\$ 3,073,363</u>

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

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

The College overexpended its budget in the unemployment, insurance and early retirement functions.

Note 1 - Reconciliation Between Budgetary Basis Statement and GAAP Expenses

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

Total actual expenditures above, budgetary basis	\$ 25,824,917
Items Not Required to be Budgeted	
Auxiliary enterprises.....	2,758,600
Scholarships and grants	2,111,449
Iowa Workforce Development contract	975,731
Loan funds	15,101
Investment in plant.....	119,016
Other	80
Accrual adjustments	<u>(3,192,396)</u>
Total Expenses	<u>\$ 28,612,498</u>

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

Total operating expenses	\$ 28,154,480
Interest on indebtedness	458,018
Total Expenses	<u>\$ 28,612,498</u>

Other Supplementary Information

Other Supplementary Information

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

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

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

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

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

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

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

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

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

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

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

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

Combining Balance Sheet Schedule

At June 30, 2006

	Current Funds		Loan Funds	Plant Funds			Agency Funds	Adjustments	Total
	Unrestricted	Restricted		Unexpended	Retirement of Indebtedness	Investment in Plant			
Assets									
Cash and certificates of deposit	\$ 5,133,959	\$ 9,106,845	\$ 42,964	\$ 4,606,280	\$ —	\$ —	\$ 256,727	\$ —	\$ 19,146,775
Receivables									
Accounts (net of allowance for doubtful accounts - \$228,468)	663,211	42,119	—	1,871	—	—	19,654	—	726,855
Property tax.....	958,562	1,037,093	—	958,562	—	—	—	—	2,954,217
Notes (net of allowance for doubtful accounts - \$18,319)	—	—	45,097	—	—	—	—	—	45,097
Iowa Industrial New Jobs Training Program	—	3,322,087	—	—	—	—	—	—	3,322,087
Due from other funds.....	16,230	27,534	125	—	—	—	—	(43,889)	—
Due from other governments.....	133,259	468,946	—	30,666	—	—	203,192	—	836,063
Prepaid expenses.....	7,251	2,538	—	—	—	—	850	—	10,639
Inventories.....	600	—	—	—	—	—	—	—	600
Plant Assets									
Land.....	—	—	—	—	—	340,756	—	—	340,756
Buildings	—	—	—	—	—	24,690,277	—	—	24,690,277
Construction in progress.....	—	—	—	—	—	332,672	—	—	332,672
Other structures and improvements.....	—	—	—	—	—	2,618,096	—	—	2,618,096
Furniture and equipment.....	—	—	—	—	—	5,452,029	—	—	5,452,029
Accumulated depreciation.....	—	—	—	—	—	—	—	(16,144,680)	(16,144,680)
Total Assets	\$ 6,913,072	\$ 14,007,162	\$ 88,186	\$ 5,597,379	\$ —	\$ 33,433,830	\$ 480,423	\$ (16,188,569)	\$ 44,331,483
Liabilities and Fund Equity									
Liabilities									
Accounts payable	\$ 305,718	\$ 79,086	\$ —	\$ 180,453	\$ —	\$ —	\$ 33,318	\$ —	\$ 598,575
Salaries and benefits payable	876,930	97,769	—	—	—	—	—	(55,803)	918,896
Interest payable	—	41,592	—	—	—	—	—	—	41,592
Due to other funds.....	—	—	—	29,755	—	—	14,134	(43,889)	—
Compensated absences.....	346,138	82,175	—	—	—	—	—	—	428,313
Insurance claims incurred but not reported	47,146	—	—	—	—	—	—	—	47,146
Deposits held in custody for others	25,604	—	—	—	—	—	432,971	—	458,575
Advance payable.....	62,000	—	—	—	—	—	—	—	62,000
Deferred Revenue									
Succeeding year property tax	958,562	1,037,093	—	958,562	—	—	—	—	2,954,217
Tuition	92,182	—	—	—	—	—	—	100,895	193,077
Other.....	165,528	2,181,357	—	—	—	—	—	—	2,346,885
Early retirement payable.....	—	349,416	—	—	—	—	—	—	349,416
Certificates payable.....	—	8,900,000	—	—	—	—	—	—	8,900,000
Refundable advances on student loans	—	—	66,575	—	—	—	—	—	66,575
Total Liabilities.....	2,879,808	12,768,488	66,575	1,168,770	—	—	480,423	1,203	17,365,267
Fund Balance									
Invested in capital assets, net of related debt	—	—	—	—	—	33,433,830	—	(16,144,680)	17,289,150
Fund Balances									
Restricted, Expendable									
Loans	—	—	21,611	—	—	—	—	—	21,611
Cash reserve.....	—	285,793	—	—	—	—	—	—	285,793
Other	—	952,881	—	—	—	—	—	—	952,881
Unrestricted.....	3,154,434	—	—	4,428,609	—	—	—	(45,092)	7,537,951
Auxiliary enterprises.....	878,830	—	—	—	—	—	—	—	878,830
Total Fund Balance	4,033,264	1,238,674	21,611	4,428,609	—	33,433,830	—	(16,189,772)	26,966,216
Total Liabilities and Fund Equity	\$ 6,913,072	\$ 14,007,162	\$ 88,186	\$ 5,597,379	\$ —	\$ 33,433,830	\$ 480,423	\$ (16,188,569)	\$ 44,331,483

Combining Schedule of Revenue, Expenditures and Changes in Fund Balance

Year Ended June 30, 2006

Revenue	Current Funds		Loan Funds	Plant Funds			Adjustments	Total
	Unrestricted	Restricted		Unexpended	Retirement of Indebtedness	Investment in Plant		
General								
State appropriations.....	\$ 8,603,055	\$ 107,959	\$ —	\$ 533,421	\$ —	\$ —	\$ —	\$ 9,244,435
Tuition and fees	8,371,061	—	—	—	—	—	(1,697,318)	6,673,743
Property tax.....	913,012	984,414	—	913,012	—	—	—	2,810,438
Federal appropriations.....	424,106	3,670,857	—	—	—	—	—	4,094,963
Sales and services.....	322,479	42,224	—	—	—	—	(60,898)	303,805
Interest on investments.....	167,978	319,626	720	157,123	—	—	—	645,447
Accounts receivable and student loan interest	1,558	—	2,560	—	—	—	—	4,118
Iowa Industrial New Jobs Training Program	—	1,536,809	—	—	—	—	(485,053)	1,051,756
Increase in plant investment due to plant expenditures (including \$353,279 in current fund expenditures)	—	—	—	—	—	1,801,856	(1,801,856)	—
Increase in plant investment due to retirement of debt	—	—	—	—	—	2,399	(2,399)	—
Gifts.....	85,326	151,067	—	233,020	—	—	—	469,413
Miscellaneous	1,148,126	399,976	7,146	10,386	—	—	(117,529)	1,448,105
Total General	20,036,701	7,212,932	10,426	1,846,962	—	1,804,255	(4,165,053)	26,746,223
Auxiliary Enterprises								
Sales and services.....	2,789,776	—	—	—	—	—	—	2,789,776
Interest on investments.....	44,539	—	—	—	—	—	—	44,539
Gifts.....	182,970	—	—	—	—	—	—	182,970
Miscellaneous	30,791	—	—	—	—	—	—	30,791
Total Auxiliary Enterprises	3,048,076	—	—	—	—	—	—	3,048,076
Total Revenue.....	23,084,777	7,212,932	10,426	1,846,962	—	1,804,255	(4,165,053)	29,794,299
Expenditures								
Education and Support								
Liberal arts and sciences	5,464,236	124,754	—	—	—	—	(6,954)	5,582,036
Vocational technical	3,067,171	200,492	—	—	—	—	(122,908)	3,144,755
Adult education	3,437,838	95,764	—	—	—	—	(50,449)	3,483,153
Cooperative services	59,833	2,017,782	—	—	—	—	(491,010)	1,586,605
Administration	1,374,413	32,986	—	—	—	—	(87,983)	1,319,416
Student services	2,553,835	525,152	—	—	—	—	(21,087)	3,057,900
Learning resources	522,759	17,873	—	—	—	—	(5,292)	535,340
Physical plant.....	1,751,095	316,376	—	—	—	—	(286,650)	1,780,821
General institution.....	1,513,148	167,496	—	—	—	—	(31,707)	1,648,937
Total Education and Support.....	19,744,328	3,498,675	—	—	—	—	(1,104,040)	22,138,963
Auxiliary enterprises	2,758,600	—	—	—	—	—	(11,766)	2,746,834
Scholarships and grants.....	—	2,111,449	—	—	—	—	(1,638,526)	472,923
Iowa Workforce Development contract.....	—	975,731	—	—	—	—	(55,975)	919,756
Loan cancellations and bad debts.....	—	—	2,309	—	—	—	—	2,309
Administrative and collection costs.....	—	—	12,792	778,586	—	—	—	791,378
Plant asset acquisitions.....	—	—	—	1,342,911	—	—	(1,342,911)	—
Retirement of indebtedness.....	—	—	—	—	2,399	—	(2,399)	—
Loss on disposal of plant assets.....	—	—	—	—	—	119,096	(119,096)	—
Interest on indebtedness	—	457,792	—	—	226	—	—	458,018
Depreciation	—	—	—	—	—	—	1,082,317	1,082,317
Total Expenditures.....	22,502,928	7,043,647	15,101	2,121,497	2,625	119,096	(3,192,396)	28,612,498
Revenue Over (Under) Expenditures.....	581,849	169,285	(4,675)	(274,535)	(2,625)	1,685,159	(972,657)	1,181,801
Other Financing Sources (Uses)								
Transfers in.....	144,813	16,551	—	309,000	2,625	—	(472,989)	—
Transfers out	(309,000)	(144,813)	—	(2,625)	—	—	456,438	—
Total Other Financing Sources (Uses).....	(164,187)	(128,262)	—	306,375	2,625	—	(16,551)	—
Net.....	417,662	41,023	(4,675)	31,840	—	1,685,159	(989,208)	1,181,801
Fund Balances - Beginning of Year.....	3,615,602	1,197,651	26,286	4,396,769	—	31,748,671	(15,200,564)	25,784,415
Fund Balances- End of Year.....	\$ 4,033,264	\$ 1,238,674	\$ 21,611	\$ 4,428,609	\$ —	\$ 33,433,830	\$ (16,189,772)	\$ 26,966,216

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

Year Ended June 30, 2006

	Education				Support					Total
	Liberal Arts and Sciences	Vocational Technical	Adult Education	Cooperative Services	General Administration	Student Services	Learning Resources	Physical Plant	General Institution	
Revenue										
State appropriations, grants and contracts.....	\$ 4,733,126	\$ 1,640,879	\$ 2,221,815	\$ —	\$ 5,227	\$ 2,008	\$ —	\$ —	\$ —	\$ 8,603,055
Tuition and fees.....	5,119,818	1,564,615	1,686,378	—	—	250	—	—	—	8,371,061
Property tax.....	—	—	—	—	913,012	—	—	—	—	913,012
Federal appropriations.....	—	161,894	257,021	—	4,690	501	—	—	—	424,106
Sales and services.....	4,848	42,631	176,953	12,302	—	—	1,385	84,159	201	322,479
Interest on investments.....	—	—	6,756	—	160,738	—	484	—	1,558	169,536
Gifts.....	3,200	3,548	—	—	—	1,358	430	—	76,790	85,326
Miscellaneous.....	<u>288,926</u>	<u>282,664</u>	<u>472,095</u>	<u>—</u>	<u>68,688</u>	<u>17,613</u>	<u>1,195</u>	<u>10,442</u>	<u>6,503</u>	<u>1,148,126</u>
	10,149,918	3,696,231	4,821,018	12,302	1,152,355	21,730	3,494	94,601	85,052	20,036,701
Allocation of support services.....	<u>659,790</u>	<u>232,444</u>	<u>464,998</u>	<u>—</u>	<u>(1,152,355)</u>	<u>(21,730)</u>	<u>(3,494)</u>	<u>(94,601)</u>	<u>(85,052)</u>	<u>—</u>
Total Revenue	<u>10,809,708</u>	<u>3,928,675</u>	<u>5,286,016</u>	<u>12,302</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,036,701</u>
Expenditures										
Salaries and benefits.....	5,181,223	2,527,375	1,382,608	27,466	919,976	2,011,319	354,309	1,001,901	689,337	14,095,514
Services.....	112,419	219,532	1,785,037	32,207	110,030	151,272	11,803	367,531	744,796	3,534,627
Materials and supplies.....	105,747	223,107	206,308	—	51,986	90,439	149,531	322,503	60,166	1,209,787
Travel.....	64,847	25,653	55,096	160	46,845	33,894	1,824	391	18,849	247,559
Plant asset acquisitions.....	—	71,504	8,789	—	—	9,890	5,292	58,769	—	154,244
Miscellaneous.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>245,576</u>	<u>257,021</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>502,597</u>
	5,464,236	3,067,171	3,437,838	59,833	1,374,413	2,553,835	522,759	1,751,095	1,513,148	19,744,328
Allocation of support services.....	<u>3,750,609</u>	<u>1,321,339</u>	<u>2,643,302</u>	<u>—</u>	<u>(1,374,413)</u>	<u>(2,553,835)</u>	<u>(522,759)</u>	<u>(1,751,095)</u>	<u>(1,513,148)</u>	<u>—</u>
Total Expenditures	<u>9,214,845</u>	<u>4,388,510</u>	<u>6,081,140</u>	<u>59,833</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,744,328</u>
Revenue Over (Under) Expenditures	<u>1,594,863</u>	<u>(459,835)</u>	<u>(795,124)</u>	<u>(47,531)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>292,373</u>
Other Financing Sources (Uses)										
Transfers in.....	—	—	144,813	—	—	—	—	—	—	144,813
Transfers out.....	—	—	—	—	—	—	—	(309,000)	—	(309,000)
Total Other Financing Sources (Uses)	<u>—</u>	<u>—</u>	<u>144,813</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(309,000)</u>	<u>—</u>	<u>(164,187)</u>
Net	<u>\$ 1,594,863</u>	<u>\$ (459,835)</u>	<u>\$ (650,311)</u>	<u>\$ (47,531)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (309,000)</u>	<u>\$ —</u>	<u>128,186</u>
Fund Balances - Beginning of Year.....										<u>3,026,248</u>
Fund Balances - End of Year										<u>\$ 3,154,434</u>

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

Year Ended June 30, 2006

	Trade and Industry	Farm	Food Services	Auditorium	Athletics	Dormitories	Tech-Prep	Miscellaneous	Total
Revenue									
Sales and services	\$ 40,931	\$ 161,220	\$ 883,816	\$ 377,110	\$ 136,169	\$ 1,170,505	\$ —	\$ 20,025	\$ 2,789,776
Interest on investments	1,479	848	13,433	7,458	—	11,123	295	9,903	44,539
Gifts	—	20,073	—	44,361	118,536	—	—	—	182,970
Miscellaneous	7,595	—	2,459	10,651	3,018	7,068	—	—	30,791
Total Revenue	<u>50,005</u>	<u>182,141</u>	<u>899,708</u>	<u>439,580</u>	<u>257,723</u>	<u>1,188,696</u>	<u>295</u>	<u>29,928</u>	<u>3,048,076</u>
Expenditures									
Salaries and benefits	—	37,165	304,088	57,642	5,486	203,263	—	—	607,644
Service	—	24,579	4,319	342,848	61,123	313,857	—	—	746,726
Materials and supplies	44,383	79,878	395,361	2,491	92,636	41,849	—	—	656,598
Travel	—	—	290	2,030	98,504	59	—	—	100,883
Miscellaneous	—	23,606	—	—	117,373	505,770	—	—	646,749
Total Expenditures	<u>44,383</u>	<u>165,228</u>	<u>704,058</u>	<u>405,011</u>	<u>375,122</u>	<u>1,064,798</u>	<u>—</u>	<u>—</u>	<u>2,758,600</u>
Revenue Over (Under) Expenditures	<u>5,622</u>	<u>16,913</u>	<u>195,650</u>	<u>34,569</u>	<u>(117,399)</u>	<u>123,898</u>	<u>295</u>	<u>29,928</u>	<u>289,476</u>
Other Financing Sources (Uses)									
Transfers In	—	—	—	—	150,000	—	—	—	150,000
Transfers out	—	—	(140,000)	—	—	—	—	(10,000)	(150,000)
Total Other Financing Sources (Uses)	<u>—</u>	<u>—</u>	<u>(140,000)</u>	<u>—</u>	<u>150,000</u>	<u>—</u>	<u>—</u>	<u>(10,000)</u>	<u>—</u>
Net	5,622	16,913	55,650	34,569	32,601	123,898	295	19,928	289,476
Fund Balances - Beginning of Year	40,766	(13,253)	279,418	65,715	(81,738)	173,505	8,276	116,665	589,354
Fund Balances - End of Year	<u>\$ 46,388</u>	<u>\$ 3,660</u>	<u>\$ 335,068</u>	<u>\$ 100,284</u>	<u>\$ (49,137)</u>	<u>\$ 297,403</u>	<u>\$ 8,571</u>	<u>\$ 136,593</u>	<u>\$ 878,830</u>

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

Year Ended June 30, 2006

	Scholarships and Grants	Equipment Replace- ment	Insurance	Unemploy- ment Early Retire- ment	Compensation	Cash Reserve	Iowa Workforce Development Contract Workforce Invest- ment Act	Temporary Assist- ance for Needy Families	Other	Iowa Industrial New Jobs Training Program Adminis- tration	Iowa Industrial New Jobs Training Program	Miscel- laneous	Total
Revenue													
State appropriations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 107,959	\$ 107,959
Property tax	—	405,782	248,272	329,919	441	—	—	—	—	—	—	—	984,414
Federal appropriations.....	2,111,449	—	—	—	—	—	327,940	321,395	326,396	—	—	583,677	3,670,857
Sales and services	—	—	—	—	—	—	—	—	—	—	—	42,224	42,224
Interest on investments	55	31,950	—	—	1,386	—	—	—	—	103,683	173,224	9,328	319,626
Iowa Industrial New Jobs Training Program Gifts	—	—	—	—	—	—	—	—	—	—	1,536,809	—	1,536,809
Miscellaneous.....	—	—	14,551	—	—	—	—	—	—	271,005	—	114,420	399,976
Total Revenue.....	2,111,504	437,732	262,823	329,919	1,827	—	327,940	321,395	326,396	374,688	1,710,033	1,008,675	7,212,932
Expenditures													
Salaries and benefits	—	—	—	321,509	36,678	—	179,026	262,880	187,376	207,708	—	756,414	1,951,591
Services.....	—	—	274,054	—	—	—	139,123	53,526	69,836	19,455	1,252,241	97,026	1,905,261
Materials and supplies.....	—	16,212	—	—	—	—	2,346	2,619	57,731	486	—	39,508	118,902
Travel.....	—	—	—	—	—	—	7,445	2,370	11,453	6,004	—	31,957	59,229
Plant asset acquisitions.....	—	410,498	—	—	—	—	—	—	—	—	—	—	410,498
Interest on indebtedness	—	—	—	—	—	—	—	—	—	—	457,792	—	457,792
Federal Pell Grant Program.....	2,044,543	—	—	—	—	—	—	—	—	—	—	—	2,044,543
Federal Supplemental Education Opportunity Grants.....	66,906	—	—	—	—	—	—	—	—	—	—	—	66,906
Miscellaneous.....	—	—	—	—	—	—	—	—	—	—	—	28,925	28,925
Total Expenditures.....	2,111,449	426,710	274,054	321,509	36,678	—	327,940	321,395	326,396	233,653	1,710,033	953,830	7,043,647
Revenue Over (Under) Expenditures.....	55	11,022	(11,231)	8,410	(34,851)	—	—	—	—	141,035	—	54,845	169,285
Other Financing Sources (Uses)													
Transfers in.....	—	—	—	—	—	—	—	—	—	16,551	—	—	16,551
Transfers out	—	—	—	—	—	—	—	—	—	(144,813)	—	—	(144,813)
Total Other Financing Sources (Uses).....	—	—	—	—	—	—	—	—	—	(128,262)	—	—	(128,262)
Net.....	55	11,022	(11,231)	8,410	(34,851)	—	—	—	—	12,773	—	54,845	41,023
Fund Balances - Beginning of Year.....	1,748	837,442	28,117	(477,848)	51,252	285,793	—	—	2,377	260,241	—	208,529	1,197,651
Fund Balances - End of Year	\$ 1,803	\$ 848,464	\$ 16,886	\$ (469,438)	\$ 16,401	\$ 285,793	\$ —	\$ —	\$ 2,377	\$ 273,014	\$ —	\$ 263,374	\$ 1,238,674

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

Year Ended June 30, 2006

	Fine Arts	Student Organi- zations	Iowa Small Business New Jobs Training Program	Federal Direct Student Loan Program	Miscel- laneous	Total
Balances - Beginning of Year.....	<u>\$ 63,473</u>	<u>\$ 56,897</u>	<u>\$ 146,723</u>	<u>\$ —</u>	<u>\$ 22,618</u>	<u>\$ 289,711</u>
Additions						
State appropriations ..	—	—	234,998	—	—	234,998
Federal appropriations	—	—	—	4,118,464	—	4,118,464
Tuition and fees	8,937	63,009	—	—	4,640	76,586
Sales and services	59,046	23,079	—	—	26,680	108,805
Interest on investments	1,997	1,913	8,040	—	7,409	19,359
Miscellaneous.....	12,100	1,726	—	—	140,983	154,809
Total Additions	<u>82,080</u>	<u>89,727</u>	<u>243,038</u>	<u>4,118,464</u>	<u>179,712</u>	<u>4,713,021</u>
Deductions						
Salaries and benefits	1,342	60	—	—	2,751	4,153
Services.....	10,458	65,642	119,016	4,118,464	123,227	4,436,807
Materials and supplies	11,942	18,978	—	—	7,186	38,106
Travel.....	53,915	26,750	—	—	85	80,750
Miscellaneous.....	639	9,306	—	—	—	9,945
Total Deductions .	<u>78,296</u>	<u>120,736</u>	<u>119,016</u>	<u>4,118,464</u>	<u>133,249</u>	<u>4,569,761</u>
Balances - End of Year	<u>\$ 67,257</u>	<u>\$ 25,888</u>	<u>\$ 270,745</u>	<u>\$ —</u>	<u>\$ 69,081</u>	<u>\$ 432,971</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Small Business Administration - Direct			
Micro Loan Program	59.046		<u>\$ 84,094</u>
U.S. Department of Veterans Affairs - Direct			
Vocational Rehabilitation for Disabled Veterans	64.116		<u>501</u>
U.S. Department of Education - Direct			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		57,224
Federal Work-Study Program	84.033		80,849
Federal Pell Grant Program	84.063		2,040,832
Federal Direct Student Loans	84.268		<u>4,118,464</u>
Total Student Financial Aid Cluster			<u>6,297,369*</u>
TRIO-Student Support Services	84.042		<u>280,348</u>
Total U.S. Department of Education - Direct			<u>6,577,717</u>
U.S. Department of Labor - Indirect			
Pass-Through Iowa Workforce Development			
Employment Service Cluster			
Employment Service - Incentive Awards	17.207	1-W-02-FR-0	41,999
Employment Service/Wagner-Peyser-Funded Activities	17.207	1-W-02-FR-0	187,720
Work Incentives Grant	17.266	1-W-02-FR-0	69,263
Disabled Veterans' Outreach Program	17.801	1-W-02-FR-0	<u>757</u>
Total Employment Service Cluster			<u>299,739</u>
Unemployment Insurance	17.225	1-W-02-FR-0	<u>56,067</u>
Workforce Investment Act Cluster			
WIA Adult Program	17.258	1-W-02-FR-0	67,293
WIA Youth Activities	17.259	1-W-02-FR-0	70,296
WIA Dislocated Workers	17.260	1-W-02-FR-0	<u>148,352</u>
Total Workforce Investment Cluster			<u>285,941</u>
Incentive Grants - WIA Section 503	17.267	28106	<u>29,225</u>
Pass-Through Iowa Department of Education			
Mine Health and Safety Grants	17.600		<u>4,909</u>
Total U.S. Department of Labor - Indirect			<u>675,881</u>
Federal Mediation and Conciliation Service - Indirect			
Pass-Through Iowa Workforce Development			
Labor Management Cooperation	34.002	1-W-02-FR-0	<u>12,589</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Small Business Administration - Indirect			
Pass-Through Iowa State University Small Business Development Center	59.037		<u>\$ 41,871</u>
U.S. Department of Education - Indirect			
Pass-Through Iowa Department of Education Adult Education - State Grant Program	84.002		252,112
Vocational Education, Basic Grants to States	84.048		170,820
Tech-Prep Education	84.243		78,613
Total U.S. Department of Education - Indirect.....			<u>501,545</u>
U.S. Department of Health and Human Services - Indirect			
Pass-Through Iowa Department of Education Student Financial Aid Cluster Nursing Student Loans - Federal Capital Contributions.....	93.364		62,294*
Pass-Through Iowa Workforce Development Temporary Assistance for Needy Families	93.558	1-W-02-FR-0	<u>321,395</u>
Total U.S. Department of Health and Human Services - Indirect.....			<u>383,689</u>
Social Security Administration - Indirect			
Pass-Through Iowa Workforce Development Social Security - Research and Demonstration	96.007	1-W-02-FR-0	<u>2,436</u>
Total Federal Financial Assistance.....			<u>\$ 8,280,323</u>

* Total Student Financial Aid Cluster - \$6,359,663.

(1) Basis of Presentation

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

(2) Loans Outstanding

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

The amount presented for Nursing Student Loans represents the balance of loans outstanding as of June 30, 2006 of \$62,294. Loan balances at June 30, 2006 include new loans advanced during the year of \$10,250 and \$52,044 for the balance of loans from previous years for which the government imposes continuing compliance requirements.

Statistical Section



Schedule of Credit and Contact Hours

Year Ended June 30, 2006

Category	Credit Hours			Contact Hours		
	Eligible for Aid	Not Eligible for Aid	Total	Eligible for Aid	Not Eligible for Aid	Total
Arts and sciences	53,752	—	53,752	—	—	—
Vocational education	12,494	—	12,494	—	—	—
Adult education/ continuing education	—	—	—	<u>491,416</u>	<u>53,825</u>	<u>545,241</u>
Total	<u>66,246</u>	<u>—</u>	<u>66,246</u>	<u>491,416</u>	<u>53,825</u>	<u>545,241</u>

Schedule of Tax and Intergovernmental Revenue

Years Ended June 30, 2006, 2005, 2004 and 2003

	2006	2005	2004	2003
Local (property tax).....	\$ 2,810,438	\$ 2,757,931	\$ 2,903,480	\$ 2,792,992
State	9,244,435	8,674,524	7,862,838	7,942,213
Federal	<u>4,094,963</u>	<u>4,377,657</u>	<u>4,277,760</u>	<u>3,920,410</u>
Total	<u>\$ 16,149,836</u>	<u>\$ 15,810,112</u>	<u>\$ 15,044,078</u>	<u>\$ 14,655,615</u>

Schedule of Current Funds Revenue by Source and Expenditures by Function

Years Ended June 30, 2006, 2005, 2004 and 2003

	2006	2005	2004	2003
Revenue				
State appropriations, grants and contracts	\$ 8,711,014	\$ 8,380,523	\$ 7,862,838	\$ 7,942,213
Tuition and fees	8,371,061	7,999,703	7,542,650	6,991,633
Property tax	1,897,426	1,865,506	1,944,177	1,842,351
Federal appropriations.....	4,094,963	4,377,657	4,277,760	3,920,410
Sales and services	364,703	321,134	451,282	543,487
Interest on investments	489,162	263,177	143,427	195,887
Iowa Industrial New Jobs Training Program	1,536,809	1,833,748	1,293,308	1,810,724
Auxiliary enterprises	3,048,076	1,566,038	836,274	850,365
Miscellaneous.....	<u>1,784,495</u>	<u>2,045,179</u>	<u>1,638,369</u>	<u>1,731,013</u>
Total Revenue	<u>\$ 30,297,709</u>	<u>\$ 28,652,665</u>	<u>\$ 25,990,085</u>	<u>\$ 25,828,083</u>
Expenditures				
Liberal arts and sciences.....	\$ 5,588,990	\$ 5,676,475	\$ 5,368,917	\$ 5,791,601
Vocational technical.....	3,267,663	3,266,549	3,075,553	3,177,517
Adult education.....	3,533,602	3,053,689	3,267,796	3,461,202
Cooperative services	2,077,615	2,153,615	1,456,014	1,905,524
Administration.....	1,407,399	1,189,597	1,126,724	1,052,522
Student services.....	3,078,987	2,715,377	2,441,405	2,198,980
Learning resources.....	540,632	582,289	467,132	476,031
Physical plant	2,067,471	2,006,982	1,923,055	1,689,474
General institution.....	1,680,644	1,561,915	1,361,546	1,306,644
Auxiliary enterprises	2,758,600	1,508,483	870,523	795,084
Scholarships and grants.....	2,111,449	2,431,863	2,382,837	2,092,749
Iowa Workforce Development contract.....	975,731	1,126,671	1,049,312	1,013,050
Interest on indebtedness	<u>457,792</u>	<u>468,070</u>	<u>466,249</u>	<u>467,138</u>
Total Expenditures	<u>\$ 29,546,575</u>	<u>\$ 27,741,575</u>	<u>\$ 25,257,063</u>	<u>\$ 25,427,516</u>

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

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

We have audited the financial statements of North Iowa Area Community College, Mason City, Iowa, as of and for the year ended June 30, 2006, which along with the discretely presented component unit collectively comprise the College's basic financial statements, on which we have issued our report dated October 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance

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

Comments involving statutory and other legal matters about North Iowa Area Community College's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of North Iowa Area Community College. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 13, 2006

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

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

Compliance

We have audited the compliance of North Iowa Area Community College, Mason City, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. North Iowa Area Community College's major federal program is 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 its major federal program is the responsibility of North Iowa Area Community College's management. Our responsibility is to express an opinion on North Iowa Area Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Iowa Area Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on North Iowa Area Community College's compliance with those requirements.

In our opinion, North Iowa Area Community College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 13, 2006

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? yes no

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

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

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

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

Identification of major programs:

CFDA Numbers

84.007

84.033

84.063

84.268

93.364

Name of Federal Program or Cluster

Student Financial Aid Cluster

Federal Supplemental Educational Opportunity Grants

Federal Work-Study Program

Federal Pell Grant Program

Federal Direct Student Loans

Nursing Student Loans - Federal Capital Contributions

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

Auditee qualified as low-risk auditee? yes no

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no current year reported instances of noncompliance.

Reportable Conditions

There were no current year matters reported.

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2006

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no current year reported instances of noncompliance.

Reportable Conditions

There were no current year matters reported.

Part IV: Findings Related to Statutory Reporting

- 06-IV-A Certified Budget** - While certain categories of the budget were overexpended, in total, expenditures for the year ended June 30, 2006 did not exceed the amounts budgeted.
- 06-IV-B Questionable Disbursements** - No expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 06-IV-C 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.
- 06-IV-D Business Transactions** - No business transactions between the College and College officials or employees were noted.
- 06-IV-E 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.
- 06-IV-F Board Minutes** - The list of claims approved by the Board was a complete list of all expenditures.
- 06-IV-G Publication** - The College published a statement showing the receipt and disbursement of all funds, including the names of all persons, firms or corporations to which disbursements were made, as required by Section 260C.14(12) of the Code of Iowa.
- 06-IV-H 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.
- 06-IV-I Credit and Contact Hours** - Eligible credit and contact hours reported to the Iowa Department of Education by the College were supported by detailed records maintained by the College.