

# Hawkeye Community College

Financial and Compliance Report

06.30.2006

**McGladrey & Pullen**  
Certified Public Accountants

McGladrey & Pullen, LLP is a member firm of RSM International –  
an affiliation of separate and independent legal entities.

---

## Contents

Officials	1
<b>Independent Auditor's Report</b>	<b>2 – 3</b>
Management's Discussion and Analysis	4 – 12
Basic Financial Statements:	
Statement of net assets	13
Statement of revenues, expenses and changes in net assets	14
Statement of cash flows	15 – 16
Notes to basic financial statements	17 – 29
Supplementary information:	
Required supplementary information, budgetary comparison schedule of expenditures, budget and actual	30
Balance sheet	31 – 32
Schedule of revenues, expenditures and changes in fund balances	33 – 36
Unrestricted current funds:	
Education and support	37 – 38
Auxiliary enterprises	39 – 40
Restricted current funds	41 – 42
Schedule of changes in assets held in custody for others, agency funds	43
Note to supplementary information	44 – 45
Schedule of credit and contact hours	46
Comparison of taxes and intergovernmental revenues	47
Schedule of expenditures of federal awards	48 – 49
Summary schedule of prior audit findings	50
<b>Independent Auditor's Report</b> <b>on Internal Control over Financial Reporting and on Compliance and</b> <b>Other Matters Based on an Audit of Financial Statements</b> <b>Performed in Accordance with Government Auditing Standards</b>	<b>51 – 52</b>
<b>Independent Auditor's Report</b> <b>on Compliance with Requirements Applicable to Each</b> <b>Major Program and Internal Control over Compliance in</b> <b>Accordance with OMB Circular A-133</b>	<b>53 – 54</b>
Schedule of findings and questioned costs	55– 62
Corrective action plan	63

---

# Hawkeye Community College

## Officials

Name	Title	Term Expires
Board of Trustees:		
Mark Birdnow	Chairperson	2006
Ruth Niemann	Vice Chairperson	2007
Harold Brock	Member	2007
Ronald McGregor	Member	2007
Donna Miller	Member	2006
Miriam Tyson	Member	2008
Micala Lorenz	Member	2008
Luane Lorenzen	Member	2006
Dr. Charles Johnson	Member	2008
Community College:		
Greg Schmitz	President	
Galen Howsare	Vice President, Administration and Finance	
Linda Nielsen	Board Treasurer	
Donna McNulty	President Secretary	
Denise Dunn	Board Secretary	

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Trustees  
Hawkeye Community College  
Waterloo, Iowa

We have audited the accompanying basic financial statements of Hawkeye Community College as of and for the year ended June 30, 2006. These basic financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely on the reports of the other auditors.

We conducted our audit of the College in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The discretely presented component unit was not audited in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Hawkeye Community College and its discretely presented component unit, as of June 30, 2006, and the respective changes in financial position and cash flows 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 December 1, 2006 on our consideration of Hawkeye Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Budgetary Comparison Schedule of Expenditures are not a required part of the basic financial statements, but are supplementary information required by 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the College taken as a whole. The schedules listed in the table of contents as supplementary information, as well as the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
December 1, 2006

## Hawkeye Community College

### Management's Discussion and Analysis Year Ended June 30, 2006

---

Management of Hawkeye Community College provides this Management's Discussion and Analysis of the College's annual financial statements. This narrative overview and analysis of the financial activities of Hawkeye Community College is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the College's financial statements, which follow.

#### Financial Highlights

- College operating revenues totaled \$27,322,826 for fiscal year 2006 and increased \$3,141,770, as compared to fiscal year 2005 operating revenues of \$24,181,056. The increase resulted primarily from increases in revenue from Iowa Industrial New Jobs Training Program.
- College operating expenses totaled \$40,781,123 for fiscal year 2006 and increased \$2,819,000, as compared to fiscal year 2005. The increase resulted primarily from increases in cooperative services, general administration and student services.
- The College's net assets increased 16% or \$6,578,810 during the year ended 2006 and increased 9.0% or \$3,524,109 during the year ended 2005.

#### Using This Annual Report

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

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

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

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

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

Hawkeye Community College

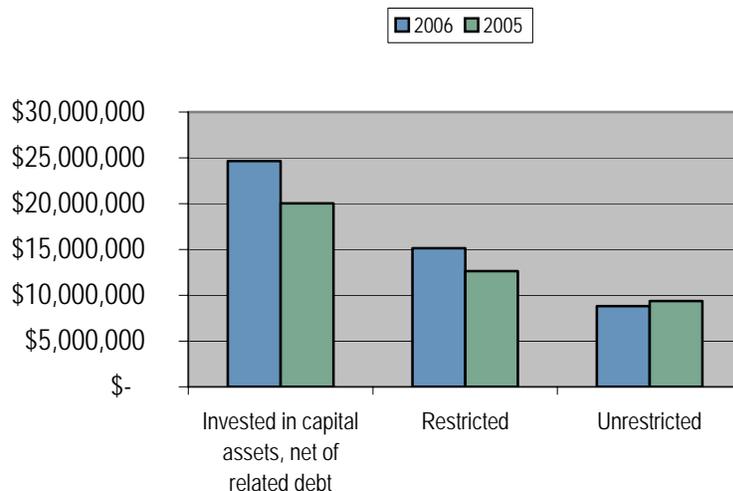
Management's Discussion and Analysis  
Year Ended June 30, 2006

**Reporting the College as a Whole**

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 June 30, 2006. The statement of net assets is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of the College to the readers of the financial statements. The statement of net assets includes year-end information concerning current and noncurrent assets, current and noncurrent liabilities and net assets (assets less liabilities). Over time, readers of the financial statements will be able to determine the College's financial position by analyzing the increases and decreases in net assets. This statement is also a good source for readers to determine how much the College owes to outside vendors and creditors. The statement also presents the available assets that can be used to satisfy those liabilities.

Net Assets	June 30,	
	2006	2005
Current and other assets	\$ 51,760,165	\$ 49,351,827
Capital assets, net of accumulated depreciation	26,907,866	24,460,862
<b>Total assets</b>	<b>78,668,031</b>	<b>73,812,689</b>
Current liabilities	15,508,780	16,541,775
Noncurrent liabilities	14,525,800	15,216,273
<b>Total liabilities</b>	<b>30,034,580</b>	<b>31,758,048</b>
Net assets:		
Invested in capital assets, net of related debt	24,667,357	20,039,435
Restricted	15,130,167	12,649,639
Unrestricted	8,835,927	9,365,567
<b>Total net assets</b>	<b>\$ 48,633,451</b>	<b>\$ 42,054,641</b>

**Comparison of Net Assets**



Hawkeye Community College

Management's Discussion and Analysis  
Year Ended June 30, 2006

A portion of the College's net assets (51%) is invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the invested in capital assets is liquidated with resources other than capital assets. The restricted portion of the net assets (31%) includes resources that are subject to external restrictions. The remaining net assets (18%) are the unrestricted net assets that can be used to meet the College's obligations as they come due.

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

Changes in Net Assets	Year Ended June 30,	
	2006	2005
Operating revenues:		
Tuition and fees, net	\$ 9,412,882	\$ 8,652,048
Federal appropriations	8,640,955	8,785,557
Iowa Industrial New Jobs Training Program	5,405,079	3,309,867
Auxiliary	2,399,139	2,227,806
Sales and services	23,377	19,908
Miscellaneous	1,441,394	1,185,870
<b>Total operating revenues</b>	<b>27,322,826</b>	<b>24,181,056</b>
Nonoperating revenues:		
State appropriations	12,001,695	10,597,041
Property taxes	6,584,025	6,056,036
Investment earnings	1,512,019	804,686
Transfers from agency fund	45,792	10,232
<b>Total nonoperating revenues</b>	<b>20,143,531</b>	<b>17,467,995</b>
<b>Total revenues</b>	<b>47,466,357</b>	<b>41,649,051</b>
Operating expenses	40,781,123	37,962,123
Nonoperating expenses:		
Interest on indebtedness	66,625	132,400
Loss on disposal of plant assets	39,799	30,419
<b>Total expenses</b>	<b>40,887,547</b>	<b>38,124,942</b>
<b>Increase in net assets</b>	<b>6,578,810</b>	<b>3,524,109</b>
Net assets:		
Beginning	42,054,641	38,530,532
Ending	<b>\$ 48,633,451</b>	<b>\$ 42,054,641</b>

# Hawkeye Community College

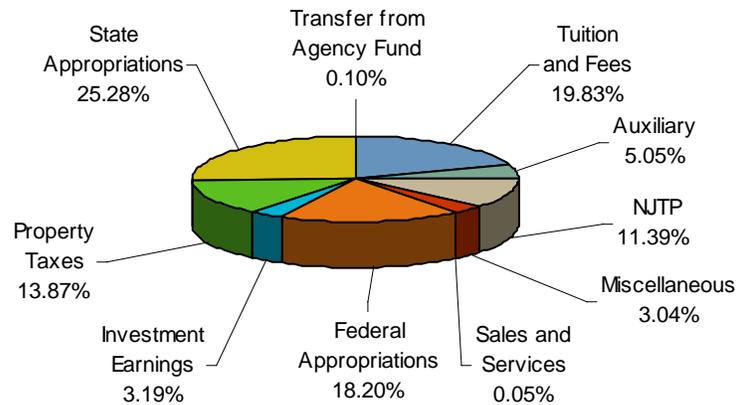
## Management's Discussion and Analysis Year Ended June 30, 2006

---

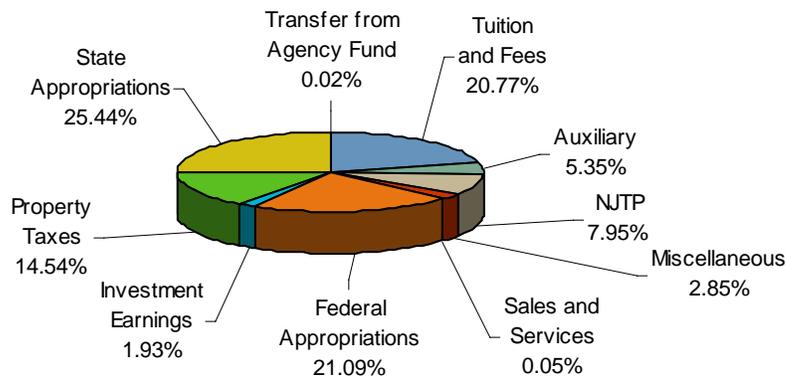
In general, a public college, such as Hawkeye Community College, will report an operating loss since financial reporting model classifies state appropriations and property taxes as nonoperating revenues. Operating revenues are received for providing goods and services to the various students, customers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

The statement of revenues, expenses and changes in net assets reflects a positive year for both 2006 and 2005, with an increase in the net assets of \$6,578,810 and \$3,524,109, respectively, at the end of the fiscal year.

### 2006



### 2005



## Hawkeye Community College

### Management's Discussion and Analysis Year Ended June 30, 2006

---

In fiscal year 2006, the major fluctuations in revenues were a result of the following changes:

- Tuition and fees increased \$760,084 for 2005 due to the rising enrollment and the tuition rate increased from \$93/credit hour to \$98/credit hour in 2006 for resident tuition.
- Iowa Industrial New Jobs Program revenues increased \$1,003,689 mainly due to the collection of withholding from a major corporation and the increase of withholding from the 28 new jobs certificates which were issued in 2005.

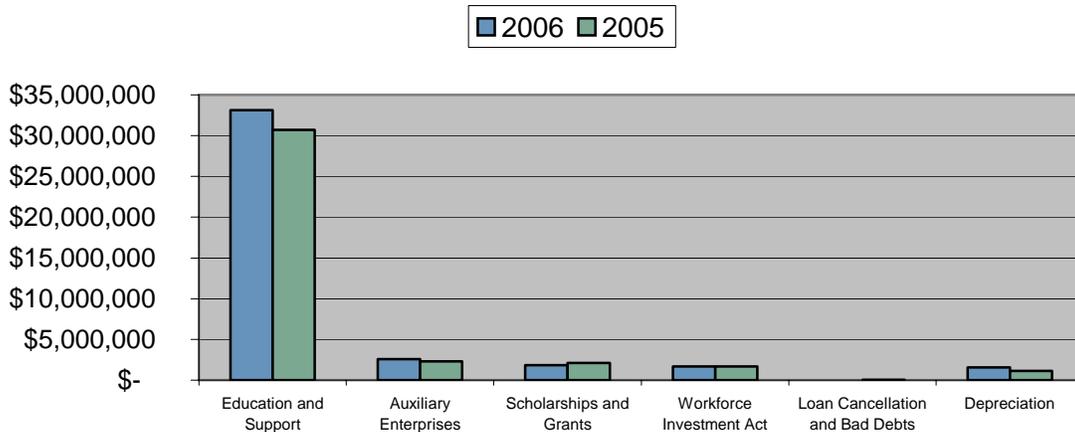
In fiscal year 2005, the major fluctuations in revenues were a result of the following changes:

- Tuition and fees increased \$641,884 from 2004 due to rising enrollment and tuition rate increased from \$87/credit hour in 2004 to \$93/credit hour in 2005 for resident tuition.
- Iowa Industrial New Jobs Training Program revenues increased \$1,200,197 due to 28 new certificates issued this year as compared to 11 from fiscal year 2004.

#### Operating Expenses

	Year Ended June 30,	
	2006	2005
Education and support:		
Liberal arts and sciences	\$ 5,057,359	\$ 5,292,260
Vocational technical	7,699,195	7,399,237
Adult education	3,106,555	3,095,073
Cooperative services	3,592,712	2,889,926
General administration	2,387,875	1,627,592
Student services	2,114,127	1,891,325
Learning resources	707,466	873,833
Physical plant	3,608,232	3,107,385
General institution	4,846,020	4,519,376
Auxiliary enterprises	2,591,077	2,303,069
Scholarships and grants	1,825,381	2,098,252
Workforce Investment Act	1,688,297	1,683,680
Loan cancellations and bad debts	-	51,769
Depreciation	1,556,827	1,129,346
<b>Total operating expenses</b>	<b>\$ 40,781,123</b>	<b>\$ 37,962,123</b>

## Total Operating Expenses



In fiscal year 2006, the major fluctuations in operating expenses were a result of the following changes:

- Cooperative expenditures increased \$702,786 primarily due to additional training dollars available for the issuance of additional New Jobs Training certificates.
- Physical Plant expenditures increased \$500,847 due to the increase of construction projects from 2005 including the remodel of Grundy Hall.
- Depreciation expense increased \$427,481 due to the additional depreciation of the addition of Black Hawk Hall and the improvements of the parking lots.

In fiscal year 2005, the major fluctuations in operating expenses were a result of the following factors:

- Cooperative services increased \$1,066,465, primarily due to 28 new New Jobs Training certificates issued in 2005 as compared to 11 for 2004.
- General institution decreased \$1,614,490, primarily due to a decrease in the number of employees electing early retirement.
- Student services increased \$470,631, primarily due to number of students served as well as focus on support programs.
- Adult education increased \$400,095, primarily due to an increase in enrollment for adult education classes.

## Hawkeye Community College

### Management's Discussion and Analysis Year Ended June 30, 2006

Statement of Cash Flows: The statement of cash flows is an important tool in helping the users to assess the College's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. The statement of cash flows presents information related to cash inflows and outflows, summarized by operating, noncapital financing, capital financing and investing activities.

Cash Flows	Year Ended June 30,	
	2006	2005
Cash provided by (used in):		
Operating activities	\$ (14,329,317)	\$ (13,971,908)
Noncapital financing activities	19,511,986	18,508,646
Capital and related financing activities	(6,286,882)	(8,205,391)
Investing activities	703,123	(854,076)
<b>Net (decrease) in cash</b>	<b>(401,090)</b>	<b>(4,522,729)</b>
Cash:		
Beginning	7,108,312	11,631,041
Ending	<u>\$ 6,707,222</u>	<u>\$ 7,108,312</u>

Cash used for operating activities includes tuition, fees, grants and contracts, net of payments to employees and to suppliers. Cash provided by noncapital financing activities includes state appropriations and local property taxes received by the College. Cash used by capital and related financing activities represents the proceeds from debt, the principal and interest payments on debt and the purchase of capital assets. Cash provided by investing activities includes investment income earned.

### Capital Assets

As of June 30, 2006, the College has \$26,907,866 invested in capital assets, which was net of accumulated depreciation of \$18,958,310. As of June 30, 2005, the College has \$24,460,862 invested in capital assets, which was net of accumulated depreciation of \$17,892,487. Depreciation charges totaled \$1,556,827 for fiscal year 2006 and \$1,129,346 for fiscal year 2005. Details of the capital assets are shown below.

Capital Assets	June 30,	
	2006	2005
Land	\$ 379,179	\$ 379,179
Buildings	32,064,780	26,882,181
Other structures and improvements	4,770,755	3,310,894
Furniture and equipment	7,883,978	7,006,035
Construction in progress	767,484	4,775,060
<b>Total</b>	<b>\$ 45,866,176</b>	<b>\$ 42,353,349</b>

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

## Hawkeye Community College

### Management's Discussion and Analysis Year Ended June 30, 2006

---

Planned capital expenditures for the fiscal year ended June 30, 2006 and beyond includes the continued expansion of Black Hawk Hall to add more classrooms and office space. Infrastructure improvements include renovation of heating and cooling systems and some road improvements on campus.

#### Debt

As of June 30, 2006, the College had \$16,703,759 in debt outstanding, excluding compensated absences of \$556,905 and early retirement of \$1,895,492, a decrease of \$1,604,278 from 2005, primarily due to normal debt payments. As of June 30, 2005, the College had \$18,308,037 in debt outstanding, excluding compensated absences of \$516,809, a decrease of \$909,197 from 2004, primarily due to normal debt payments. The table below summarizes these amounts by type.

Outstanding Debt	June 30,	
	2006	2005
Certificates payable	\$ 14,463,250	\$ 13,886,610
General obligation bonds	2,240,509	4,421,427
	<u>\$ 16,703,759</u>	<u>\$ 18,308,037</u>

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

#### Economic Factors

Hawkeye Community College continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for College officials. Some of the realities that may potentially become challenges for the College to meet are:

- Expenses continue to increase. As the number of students increase, the costs of serving them continue to increase.
- Facilities at the College require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes quickly outdated presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The College anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the College's ability to react to unknown issues.

Hawkeye Community College

Management's Discussion and Analysis  
Year Ended June 30, 2006

---

**Contacting the College's Financial Management**

This financial report is designed to provide our customers, taxpayers in the community college, 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 Hawkeye Community College, 1501 E. Orange Road, P.O. Box 8015, Waterloo, Iowa 50704-8015.

# Hawkeye Community College

## Statement of Net Assets

June 30, 2006

Assets	Primary Institution	Component Unit - Foundation
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 6,707,222	\$ 276,660
Investments	30,454,661	2,003,720
Receivables:		
Property taxes	7,510,982	-
Accounts, including amounts due from other governments of \$1,494,155	2,785,997	9,853
Notes	215,583	101,181
Prepaid expenses	259,318	-
Inventories	211,013	-
Other	-	13,373
<b>Total current assets</b>	<b>48,144,776</b>	<b>2,404,787</b>
<b>Noncurrent Assets:</b>		
Endowment and scholarship investments	-	838,997
Due from Iowa Industrial New Jobs Training Program	3,615,389	-
Other	-	12,009
Capital assets:		
Nondepreciable:		
Land	379,179	375,841
Construction in progress	767,484	-
Depreciable:		
Buildings	32,064,780	-
Other structures and improvements	4,770,755	-
Furniture and equipment	7,883,978	-
Accumulated depreciation	(18,958,310)	-
<b>Total noncurrent assets</b>	<b>30,523,255</b>	<b>1,226,847</b>
<b>Total assets</b>	<b>\$ 78,668,031</b>	<b>\$ 3,631,634</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 399,947	\$ 1,036
Salaries and benefits payable	1,398,599	26
Accrued interest payable	68,650	390
Deferred revenue	8,511,816	-
Compensated absences	556,905	-
Assets held in custody for others	499,412	-
Early retirement	543,451	-
Certificates payable	2,435,000	-
General obligation school bonds	1,095,000	-
Notes payable	-	11,878
<b>Total current liabilities</b>	<b>15,508,780</b>	<b>13,330</b>
<b>Noncurrent Liabilities:</b>		
Early retirement	1,352,041	-
Certificates payable	12,028,250	-
General obligation school bonds	1,145,509	-
Notes payable	-	75,651
<b>Total noncurrent liabilities</b>	<b>14,525,800</b>	<b>75,651</b>
<b>Total liabilities</b>	<b>30,034,580</b>	<b>88,981</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	24,667,357	-
Restricted for:		
Scholarships, departmental programs and loans	15,130,167	2,155,793
Endowments	-	847,924
Unrestricted	8,835,927	538,936
<b>Total net assets</b>	<b>48,633,451</b>	<b>3,542,653</b>
<b>Total liabilities and net assets</b>	<b>\$ 78,668,031</b>	<b>\$ 3,631,634</b>

See Notes to Basic Financial Statements.

## Hawkeye Community College

### Statement of Revenues, Expenses and Changes in Net Assets Year Ended June 30, 2006

	Primary Institution	Component Unit - Foundation
Revenues:		
Operating revenues:		
Tuition and fees, net of scholarship allowances of \$3,707,769	\$ 9,412,882	\$ -
Federal appropriations	8,640,955	-
Iowa Industrial New Jobs Training Program	5,405,079	-
Auxiliary enterprises revenue, net of scholarship allowances of \$255,309	2,399,139	-
Sales and services	23,377	-
Contributions	-	752,325
Special events and grants	-	66,949
Miscellaneous, primarily company program contributions	1,441,394	50,360
<b>Total operating revenues</b>	<b>27,322,826</b>	<b>869,634</b>
Expenses:		
Operating expenses:		
Education and support:		
Liberal arts and sciences	5,057,359	-
Vocational technical	7,699,195	-
Adult education	3,106,555	-
Cooperative services	3,592,712	-
General administration	2,387,875	-
Student services	2,114,127	-
Learning resources	707,466	-
Physical plant	3,608,232	-
General institution	4,846,020	-
Auxiliary enterprises	2,591,077	-
Scholarships and grants	1,825,381	118,745
Workforce Investment Act	1,688,297	-
Loan cancellations and bad debts	-	234,211
Administrative and collection costs	-	139,192
Depreciation expense	1,556,827	2,148
Other	-	2,060
<b>Total operating expenses</b>	<b>40,781,123</b>	<b>496,356</b>
<b>Operating income (loss)</b>	<b>(13,458,297)</b>	<b>373,278</b>
Nonoperating revenues (expenses):		
State appropriations	12,001,695	-
Property taxes	6,584,025	-
Investment earnings	1,512,019	80,089
Interest on indebtedness	(66,625)	-
Loss on disposal of plant assets	(39,799)	-
Transfers from agency fund	45,792	-
<b>Net nonoperating revenues</b>	<b>20,037,107</b>	<b>80,089</b>
<b>Increase in net assets</b>	<b>6,578,810</b>	<b>453,367</b>
Net assets:		
Beginning	42,054,641	3,089,286
Ending	<b>\$ 48,633,451</b>	<b>\$ 3,542,653</b>

See Notes to Basic Financial Statements.

Hawkeye Community College

Statement of Cash Flows  
Year Ended June 30, 2006

	Primary Institution	Component Unit - Foundation
Cash Flows from Operating Activities:		
Cash received from tuition and fees	\$ 9,626,875	\$ -
Cash received from federal appropriations	8,782,236	-
Cash received from the Iowa Industrial New Jobs Training Program	3,203,686	-
Cash received for auxiliary	2,399,139	-
Payments to employees for salaries and benefits	(23,025,195)	-
Payments to suppliers for goods and services	(14,955,448)	(374,667)
Cash paid for scholarships	(1,825,381)	(118,745)
Other receipts	1,464,771	1,172,122
<b>Net cash provided by (used in) operating activities</b>	<b>(14,329,317)</b>	<b>678,710</b>
Cash Flows from Noncapital Financing Activities:		
State appropriations	12,001,695	-
Property taxes	6,617,492	-
Proceeds from certificates payable	2,665,600	-
Payments on certificates payable	(2,088,960)	-
Proceeds from Agency Fund transfers	45,792	-
Miscellaneous Agency Fund receipts	2,594,664	-
Miscellaneous Agency Fund disbursements	(2,324,297)	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>19,511,986</b>	<b>-</b>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of capital assets	(4,043,630)	-
Proceeds on disposal of capital assets	-	9,770
Principal paid on bonds payable and other long-term debt	(2,180,918)	(109,649)
Interest paid on indebtedness, net of capitalized interest of \$26,400	(62,334)	-
<b>Net cash (used in) capital and related financing activities</b>	<b>(6,286,882)</b>	<b>(99,879)</b>
Cash Flows from Investing Activities:		
Increase in life insurance cash value	-	(1,427)
Interest on investments	1,512,019	77,603
Proceeds from investments	-	423,778
Purchase of investments	(808,896)	(1,066,311)
<b>Net cash provided by (used in) investing activities</b>	<b>703,123</b>	<b>(566,357)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(401,090)</b>	<b>12,474</b>
Cash and cash equivalents:		
Beginning	7,108,312	264,186
Ending	<b>\$ 6,707,222</b>	<b>\$ 276,660</b>

(Continued)

Hawkeye Community College

Statement of Cash Flows (Continued)

Year Ended June 30, 2006

	Primary Institution	Component Unit - Foundation
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by (Used In) Operating Activities:		
Operating income (loss)	\$ (13,458,297)	\$ 373,278
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,556,827	2,148
Changes in assets and liabilities:		
Other receivables	213,993	302,488
Prepaid expenses	(56,454)	-
Inventories	9,855	-
Due from Iowa Industrial New Jobs Training Program	(2,201,393)	-
Accounts payable	(639,837)	796
Salaries and benefits payable	(35,332)	-
Decrease in early retirement payable	99,944	-
Deferred revenue	141,281	-
Compensated absences	40,096	-
<b>Total adjustments</b>	<b>(871,020)</b>	<b>305,432</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (14,329,317)</b>	<b>\$ 678,710</b>

See Notes to Basic Financial Statements.

## Hawkeye Community College

### Notes to Basic Financial Statements

---

#### Note 1. Reporting Entity and Significant Accounting Policies

##### Reporting entity:

Hawkeye Community College is a publicly-supported post-secondary two-year institution established and operated by Merged Area VII under the provisions of Chapter 260C of the Code of Iowa.

In fulfilling the responsibilities assigned to it by law, Hawkeye Community College offers a comprehensive educational program and support services to serve local and state needs. The College offers arts and science courses, career education, adult education, and cooperative programs as its curriculum. In addition, the College acts as an agency for the State of Iowa in connection with the Workforce Investment Act. Hawkeye Community College maintains a campus and has its administrative offices in Waterloo, Iowa. Hawkeye Community College is governed by a Board of Trustees whose members are elected from each trustee district within Merged Area VII.

Accounting principles generally accepted in the United States of America require that the financial reporting entity include: (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Hawkeye Community College is a municipal corporation governed by a Board of Trustees, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. The Community College has the statutory authority to adopt its own budget, to levy taxes, and to issue bonded debt without the approval of another government. It has the right to sue and be sued, and has the right to buy, sell, lease or mortgage property in its own name. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include: (1) the Board of Trustees of the Community College appointing a voting majority of an organization's governing body, (2) the ability of the Community College to impose its will on any organization, or (3) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Community College. Hawkeye Community College has included the Hawkeye Community College Technical Foundation, Inc. as a component unit in their basic financial statements due to the nature of its relationships with the Community College.

The Foundation is an Iowa non-profit corporation, which is governed by a Board of Trustees, the majority of which are appointed by the Board of Trustees of the Community College. The Foundation's purpose is to support the Community College through donations to provide scholarships to students, and for the enhancement and extension of facilities, equipment and services. The Foundation operates on a June 30 fiscal year-end. The financial statements of the Hawkeye Community College Technical Foundation, Inc. can be obtained from: Business Services, Hawkeye Community College, 1501 E. Orange Road, P.O. Box 8015, Waterloo, Iowa 50704-8015.

## Hawkeye Community College

### Notes to Basic Financial Statements

---

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

##### Significant accounting policies:

Financial statement presentation: The basic financial statements (i.e., the statements of net assets, revenues, expenses and changes in net assets, and cash flows) report information on all of the activities of the College. For the most part, the effect of interfund activity has been removed from these statements.

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. 35. Accordingly, the basic financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are 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 following accounting policies are followed:

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

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

Investments: Investments are stated at their fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The Community College and the Foundation invest in money markets and mutual funds which are SEC registered. The fair value of the position in the external investment pool is the same as the value of the pool shares.

Property taxes receivable: Property taxes receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the Board of Trustees to the appropriate County Auditors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property taxes receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Trustees is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property taxes receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Hawkeye Community College

Notes to Basic Financial Statements

---

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

Accounts receivable: Accounts receivable consist of amounts due from state and federal agencies (grants) and students (tuition, fees and loans). Student receivable amounts are recorded at original invoice cost less an estimate for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to aging of accounts. Student receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Due from Iowa Industrial New Jobs Training Program (NJTP): This receivable represents the total 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 NJTP project expenditures incurred through June 30, 2006, plus interest incurred on NJTP certificates, less reimbursements received to date.

Inventories: Inventories are stated at the lower of cost or market (first-in, first-out) method. As of June 30, 2006 inventories are as follows:

Merchandise held for resale	\$ 83,852
Farm operations	127,161
	<u>\$ 211,013</u>

Capital assets: Capital assets, which include land, construction in process, buildings, other structures and improvements, and 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. Interest costs of \$26,400 were capitalized during the year.

Capital assets are defined by the College as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of one year.

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

	<u>Years</u>
Buildings and other structures and improvements	25 - 50
Furniture and equipment	3 - 10

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

## Hawkeye Community College

### Notes to Basic Financial Statements

---

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

Salaries and benefits payable: Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Expenditures for employees who have elected and been approved for early retirement are recorded as an early retirement liability.

Deferred revenue: Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets have not been spent for their intended purpose restriction. Deferred revenue consists primarily of the succeeding year property taxes receivable and summer tuition.

Compensated absences: College employees accumulate a limited amount of earned but unused vacation for subsequent use. Earned, but unused vacation is paid to the employee upon termination, death or retirement. Amounts representing the cost of compensated absences are recorded as compensated absences. These liabilities have been computed based on rates of pay in effect at June 30, 2006.

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

Net assets: Net assets are classified according to restrictions or availability of assets for satisfaction of College obligations. Invested in capital assets, net of related debt represents the net value of capital assets less the debt incurred to acquire or construct the assets. Restricted net assets represent the amounts segregated for specific purposes as allowed by the Code of Iowa, bond covenants, donors or outside agencies. All remaining net assets are unrestricted for legal purposes, but may be designated for specific purposes. The College first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Auxiliary enterprises revenues and expenses: Auxiliary enterprises revenues and expenses primarily represent revenues generated and expenses associated with career and adult education, farm operations and food service.

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

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

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

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

# Hawkeye Community College

## Notes to Basic Financial Statements

---

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

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

### Note 2. Deposits and Investments and Accounting Change

Interest rate risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the College's investment policy limits operating funds portfolio to maturities of less than 397 days. However, the Treasurer may invest funds of the College that are not identified as operating funds in investments with maturities greater than 397 days.

As of June 30, 2006, the College had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Money market mutual fund	\$ 26,956,637	\$ 26,956,637	\$ -	\$ -	\$ -
U.S. government securities	3,498,024	746,406	2,751,618	-	-
	<u>\$ 30,454,661</u>	<u>\$ 27,703,043</u>	<u>\$ 2,751,618</u>	<u>\$ -</u>	<u>\$ -</u>

Credit risk: 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 Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts. However, the College's investment policy additionally limits investments in commercial paper to obligations that mature within 270 days and that is rated within the two highest classifications, as established by at least one of the standard rating services, with no more than five percent at the time of purchase placed in the second highest classification. At the time of purchase not more than ten percent of the investment portfolio can be in these investments and no more than five percent of the investment portfolio can be invested in the securities of a single issuer.

## Hawkeye Community College

### Notes to Basic Financial Statements

#### Note 2. Deposits and Investments and Accounting Change (Continued)

As of June 30, 2006, the College's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's Investor Service
<b>Money market mutual fund</b> , Goldman Sachs Trust Financial Square Treasury Obligation Fund	Not Rated	Not Rated
<b>U.S. government securities:</b>		
US Treasury Note, 3.5%, 11/15/06	AAA	Aaa
Federal Home Loan Mortgage Corp, 4.25%, 11/21/06	AAA	Aaa
US Treasury Note, 3.25%, 08/15/07	AAA	Aaa
Federal National Mortgage Assn, 3.25%, 11/15/07	AAA	Aaa
US Treasury Note, 3%, 11/15/07	AAA	Aaa
Federal Home Loan Mortgage, 2.75%, 03/15/08	AAA	Aaa
Federal Farm Credit Bank, 3.05%, 04/15/08	AAA	Aaa
Federal National Mortgage Assn, 3.25%, 08/15/08	AAA	Aaa
Federal Farm Credit Bank, 4.25%, 02/11/09	AAA	Aaa
Federal Home Loan Mortgage, 3.75%, 03/03/09	AAA	Aaa
US Treasury Note, 3.875%, 05/15/09	AAA	Aaa
Federal National Mortgage Assn, 4.25%, 08/15/10	AAA	Aaa
Federal Home Loan Mortgage, 4.75%, 01/18/11	AAA	Aaa

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

The College does not have investments in any one issuer that represents more than 5% of their total investments.

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

Hawkeye Community College

Notes to Basic Financial Statements

**Note 2. Deposits and Investments and Accounting Change (Continued)**

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

As of June 30, 2006, \$3,498,024 of the College's investments was Category 2 as the investments were held by the financial institutions trust department in the College's name. The College's investments in money market mutual funds were not subject to risk categorization.

Excluded from cash and investment amounts, disclosed above, are cash and investments of \$3,119,377 which belong to the component unit of the College. Investments of the component unit consist principally of common stock, corporate bonds, U.S. government obligations and mutual funds. Disclosures for interest rate risk, credit risk, concentration of credit risk and custodial credit risk for the component unit are not available.

**Note 3. Capital Assets**

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

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 379,179	\$ -	\$ -	\$ 379,179
Construction in process	4,775,060	748,206	4,755,782	767,484
<b>Total capital assets not being depreciated</b>	<b>5,154,239</b>	<b>748,206</b>	<b>4,755,782</b>	<b>1,146,663</b>
Capital assets being depreciated:				
Buildings	26,882,181	5,182,599	-	32,064,780
Other structures and improvements	3,310,894	1,459,861	-	4,770,755
Furniture and equipment	7,006,035	1,408,746	530,803	7,883,978
<b>Total capital assets being depreciated</b>	<b>37,199,110</b>	<b>8,051,206</b>	<b>530,803</b>	<b>44,719,513</b>
Less accumulated depreciation for:				
Buildings	10,920,068	632,208	-	11,552,276
Other structures and improvements	2,783,030	87,952	-	2,870,982
Furniture and equipment	4,189,389	836,667	491,004	4,535,052
<b>Total accumulated depreciation</b>	<b>17,892,487</b>	<b>1,556,827</b>	<b>491,004</b>	<b>18,958,310</b>
<b>Total capital assets being depreciated, net</b>	<b>19,306,623</b>	<b>6,494,379</b>	<b>39,799</b>	<b>25,761,203</b>
<b>Total capital assets, net</b>	<b>\$ 24,460,862</b>	<b>\$ 7,242,585</b>	<b>\$ 4,795,581</b>	<b>\$ 26,907,866</b>

Hawkeye Community College

Notes to Basic Financial Statements

**Note 3. Capital Assets (Continued)**

Capital assets activity for the College's Foundation, a component unit, for the year ended June 30, 2006 is as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated, land	\$ 375,841	\$ -	\$ -	\$ 375,841
Capital assets being depreciated, furniture and equipment	201,352	-	201,352	-
	577,193	-	201,352	375,841
Less accumulated depreciation	189,434	2,148	191,582	-
<b>Total capital assets</b>	<b>\$ 387,759</b>	<b>\$ (2,148)</b>	<b>\$ 9,770</b>	<b>\$ 375,841</b>

**Note 4. Noncurrent Liabilities**

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

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Amount Due Within One Year
Certificates payable	\$ 13,886,610	\$ 2,665,600	\$ 2,088,960	\$ 14,463,250	\$ 2,435,000
General obligation school bonds	4,421,427	-	2,180,918	2,240,509	1,095,000
Compensated absences	516,809	556,905	516,809	556,905	556,905
Early retirement	1,795,548	668,700	568,756	1,895,492	543,451
<b>Total long-term debt</b>	<b>\$ 20,620,394</b>	<b>\$ 3,891,205</b>	<b>\$ 5,355,443</b>	<b>\$ 19,156,156</b>	<b>\$ 4,630,356</b>

Compensated absences are generally liquidated with unrestricted funds. Early retirement is generally liquidated through property tax levies.

**Certificates payable:**

In accordance with agreements dated between June 30, 1996 and June 30, 2006, the College issued certificates with a June 30, 2006 outstanding balance of \$14,700,000 and with interest rates ranging from 3.25% to 7.80% per annum. These certificates were issued to finance the development and training costs incurred relative to implementing the Iowa Industrial New Jobs Training Program (NJTP). NJTP's purpose is to provide tax-aided training for employees of industries which are new to or are expanding their operations within the State of Iowa. Interest on the certificates is payable semiannually, while the principal matures annually. The certificates are to be retired from the proceeds of withholding taxes remitted by the State of Iowa, incremental property taxes, budgeted reserves, and in the case of default, from standby property taxes collected.

Hawkeye Community College

Notes to Basic Financial Statements

**Note 4. Noncurrent Liabilities (Continued)**

The future debt service requirements on these certificates are as follows:

	Principal	Interest	Total
Year ending June 30:			
2007	\$ 2,435,000	\$ 843,050	\$ 3,278,050
2008	2,315,000	712,092	3,027,092
2009	1,950,000	581,277	2,531,277
2010	1,880,000	467,430	2,347,430
2011	1,790,000	357,892	2,147,892
2012-2015	4,330,000	647,309	4,977,309
	14,700,000	3,609,050	18,309,050
Less unamortized discount	(236,750)	-	(236,750)
	<u>\$ 14,463,250</u>	<u>\$ 3,609,050</u>	<u>\$ 18,072,300</u>

**General obligation school bonds:**

The College issued general obligation school bonds with a June 30, 2006 balance of \$2,240,509, including premium of \$30,509 at a rate of 2.25%. Interest is accrued semiannually with principal and interest payments due annually in two amounts through 2008. These notes were issued primarily to finance the construction of the 2004 addition to Black Hawk Hall.

Future maturities and interest of the notes and bonds payable as of June 30, 2006 are as follows:

	Principal	Interest	Total
Year ending June 30:			
2007	\$ 1,095,000	\$ 49,725	\$ 1,144,725
2008	1,115,000	25,087	1,140,087
	2,210,000	74,812	2,284,812
Plus unamortized premium	30,509	-	30,509
	<u>\$ 2,240,509</u>	<u>\$ 74,812</u>	<u>\$ 2,315,321</u>

Hawkeye Community College

Notes to Basic Financial Statements

**Note 4. Noncurrent Liabilities (Continued)**

For the component unit, long-term debt consists of the following:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Amount Due Within One Year
Regions Bank, note payable, interest rate of 5.35%, secured by farm land, payments of \$8,202, due semi-annually on May 1 and November 1, final payment due November 1, 2009.	\$ 197,178	\$ -	\$ 109,649	\$ 87,529	\$ 11,878

Future principal payments are due on long-term debt as follows:

Year ending June 30:	
2007	\$ 11,878
2008	12,522
2009	13,201
2010	49,928
	<u>\$ 87,529</u>

**Note 5. Retirement System**

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

Plan members are required to contribute 3.70% of their annual covered salary and the College is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The College's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$463,111, \$438,375 and \$423,803, respectively, equal to the required contributions for each year.

## Hawkeye Community College

### Notes to Basic Financial Statements

---

#### **Note 6. Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF)**

Hawkeye Community College contributes to the TIAA-CREF retirement program which is a defined contribution plan. TIAA administers the retirement plan for the College. The defined contribution retirement plan provides individual annuities for each plan participant. As required by the Code of Iowa, all eligible College employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA-CREF, and in accordance with the Code of Iowa, each employee is required to contribute 3.70% and the College is required to contribute 5.75%. The College's contributions to TIAA-CREF for the years ended June 30, 2006 and 2005 were \$467,342 and \$441,834, respectively.

#### **Note 7. Operating Leases**

The College has leased various facilities within the area to house different divisions of the College. These leases have been classified as operating leases and, accordingly, all rents are expensed as incurred. These leases expire between 2007 and 2011 and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance on the properties.

The following is a schedule, by year, of the future minimum rentals due under these operating leases:

Year ending June 30:		
2007	\$	188,686
2008		81,067
2009		75,159
2010		50,580
2011		8,667
		<u>404,159</u>
	\$	<u>404,159</u>

Rents for the year ended June 30, 2006 for all operating leases totaled \$246,765.

#### **Note 8. Risk Management Program**

Hawkeye Community 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. Settled claims from these risks have not exceeded commercial insurance in any of the past three years.

## Hawkeye Community College

### Notes to Basic Financial Statements

---

#### **Note 9. Early Retirement**

The College had an early retirement plan which expired during the year ended June 30, 2006. Full-time and certain regular part-time staff, who are 55 or older and who have at least 10 years of continuous service with the College, are eligible to receive early retirement remuneration. Retirement is to begin at the earlier of the end of the employee's contract or when a suitable replacement is found, if so requested. A staff member who accepts early retirement has three options to choose from as to when the cash benefits will be received. In addition, the College will continue to contribute monthly amounts toward the employee's health insurance premiums. There were 16 employees who elected early retirement during the year ended June 30, 2006. The College's payments for the years ended June 30, 2006 and 2005 were \$588,648 and \$739,167, respectively. The liability for early retirement as of June 30, 2006 was \$1,895,492 and will be paid over the next eight years. The liability was calculated using the College's share of health premiums to estimate costs and was discounted at 8.25%.

#### **Note 10. New Jobs Training Programs**

The College administers the Iowa Industrial New Jobs Training Program (NJTP) in Area VII 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 taxes, budgeted reserves, and in the case of default, from standby property taxes. The College is currently administering 101 projects receiving project funding or in the repayment stage. In cases where projects exceed the budgeted amounts, the College intends to obtain additional withholding revenue from the companies.

#### **Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements**

For the year ended June 30, 2006, the College implemented the following Governmental Accounting Standards:

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB 35. This Statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation.

Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (early retirement incentives) when the offer is accepted and the amount can be estimated. A liability for involuntary termination benefits (severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees and the amount can be estimated.

The implementation of these Statements had no effect on the College in the current year.

## Hawkeye Community College

### Notes to Basic Financial Statements

---

#### **Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)**

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

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

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

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued September 2006, will be effective for the College beginning with its year ending June 30, 2008. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the College beginning with its year ending June 30, 2009. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the government to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are required.

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

#### **Note 12. Authorized Unissued Bonds and Commitments**

On June 10, 2003, voters approved a bond referendum for Hawkeye Community College up to a maximum of \$25,000,000. The proceeds will be used to improve or expand current campus facilities. As of June 30, 2006, \$6,500,000 of these bonds have been issued. Subsequent to year-end, the College issued an additional \$6,100,000 of bonds.

As of June 30, 2006, the College has construction commitments of approximately \$1,937,500 to complete a building, parking lot, and storm sewer remodel and reconstruction.

Hawkeye Community College

Required Supplementary Information, Budgetary Comparison Schedule of Expenditures  
Budget and Actual  
Year Ended June 30, 2006

Funds/Levy	Original Budget	Final Budget	Actual	Variance Between Actual and Final Budget
Unrestricted	\$ 27,038,031	\$ 27,038,031	\$ 26,946,784	\$ 91,247
Restricted	\$ 13,934,210	\$ 13,934,210	\$ 4,804,844	\$ 9,129,366
Unemployment	48,008	48,008	28,640	19,368
Insurance	434,605	434,605	321,568	113,037
Early retirement	1,180,558	1,180,558	668,700	511,858
Equipment replacement	829,350	829,350	359,648	469,702
<b>Total restricted</b>	<u>\$ 16,426,731</u>	<u>\$ 16,426,731</u>	<u>\$ 6,183,400</u>	<u>\$ 10,243,331</u>
Plant, bonds, and interest	<u>\$ 16,638,937</u>	<u>\$ 16,638,937</u>	<u>\$ 3,921,917</u>	<u>\$ 12,717,020</u>

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

Budgets are not required to be adopted for the Auxiliary Enterprises subgroup, Workforce Investment Act accounts, Iowa Code 260F Jobs Training, scholarships and grants account, Loan Funds, and Agency Funds.

The plant, bonds and interest fund budget was amended to allow for construction costs from bond proceeds.

# Hawkeye Community College

## Balance Sheet

June 30, 2006

	Current Funds	
	Unrestricted	Restricted
<b>Assets</b>		
Cash and investments	\$ 11,600,982	\$ 22,618,163
Receivables:		
Property taxes	2,054,401	1,887,026
Accounts	1,710,264	871,874
Notes	215,583	-
Prepaid expenses	259,318	-
Inventories	211,013	-
Due from other funds	7,877,449	5,355,653
Due from Iowa Industrial New Jobs Training Program	-	3,615,389
Capital assets:		
Land	-	-
Buildings	-	-
Other structures and improvements	-	-
Furniture and equipment	-	-
Construction in progress	-	-
Accumulated depreciation	-	-
<b>Total assets</b>	<b>\$ 23,929,010</b>	<b>\$ 34,348,105</b>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Accounts payable	\$ 399,948	\$ -
Salaries and benefits payable	1,398,599	1,895,492
Accrued interest payable	-	68,650
Deferred revenue	2,684,193	2,302,182
Compensated absences	556,905	-
Assets held in custody for others	-	-
Due to other funds	12,487,185	488,364
Certificates payable	-	14,463,250
General obligation school bonds	-	-
<b>Total liabilities</b>	<b>17,526,830</b>	<b>19,217,938</b>
Fund Balances:		
Invested in capital assets, net of related debt	-	-
Restricted for student loans and scholarships	-	15,130,167
Unrestricted	6,402,180	-
<b>Total fund balances</b>	<b>6,402,180</b>	<b>15,130,167</b>
<b>Total liabilities and fund balances</b>	<b>\$ 23,929,010</b>	<b>\$ 34,348,105</b>

See Note to Supplementary Information.

Plant Funds	Agency Funds	Adjustments	Total
\$ 2,942,738	\$ -	\$ -	\$ 37,161,883
3,569,555	-	-	7,510,982
203,859	-	-	2,785,997
-	-	-	215,583
-	-	-	259,318
-	-	-	211,013
799,828	499,418	(14,532,348)	-
-	-	-	3,615,389
379,179	-	-	379,179
32,064,780	-	-	32,064,780
4,770,755	-	-	4,770,755
7,883,978	-	-	7,883,978
767,484	-	-	767,484
-	-	(18,958,310)	(18,958,310)
<u>\$ 53,382,156</u>	<u>\$ 499,418</u>	<u>\$ (33,490,658)</u>	<u>\$ 78,668,031</u>

\$ -	\$ (1)	\$ -	\$ 399,947
-	-	-	3,294,091
-	-	-	68,650
3,525,441	-	-	8,511,816
-	-	-	556,905
-	499,412	-	499,412
1,556,792	7	(14,532,348)	-
-	-	-	14,463,250
2,240,509	-	-	2,240,509
<u>7,322,742</u>	<u>499,418</u>	<u>(14,532,348)</u>	<u>30,034,580</u>

43,625,667	-	(18,958,310)	24,667,357
-	-	-	15,130,167
2,433,747	-	-	8,835,927
<u>46,059,414</u>	<u>-</u>	<u>(18,958,310)</u>	<u>48,633,451</u>
<u>\$ 53,382,156</u>	<u>\$ 499,418</u>	<u>\$ (33,490,658)</u>	<u>\$ 78,668,031</u>

# Hawkeye Community College

## Schedule of Revenues, Expenditures and Changes in Fund Balances Year Ended June 30, 2006

	Current Funds	
	Unrestricted	Restricted
<b>Revenues:</b>		
General:		
Tuition and fees	\$ 13,120,651	\$ -
Property taxes	1,229,104	1,870,768
State appropriations	10,728,938	921,332
Federal appropriations	866,773	7,774,182
Sales and services	23,377	-
Investment earnings	527,069	868,347
Interest on student loans	-	-
Iowa Industrial New Jobs Training Program	-	5,405,079
Increase in plant investment due to plant expenditures	-	-
Increase in plant investment due to retirement of debt	-	-
Miscellaneous, primarily company program contributions	607,658	831,236
	<u>27,103,570</u>	<u>17,670,944</u>
Auxiliary enterprises:		
Tuition and fees	903,458	-
Sales and services	1,507,993	-
Miscellaneous	242,997	-
	<u>2,654,448</u>	<u>-</u>
<b>Total revenues</b>	<u>29,758,018</u>	<u>17,670,944</u>
<b>Expenditures:</b>		
Education and support:		
Liberal arts and sciences	5,055,212	2,147
Vocational technical	7,355,722	689,936
Adult education	2,611,489	495,066
Cooperative services	-	3,592,712
General administration	2,365,011	22,864
Student services	1,838,393	275,734
Learning resources	692,123	85,033
Physical plant	2,815,695	321,568
General institution	4,213,139	698,340
Workforce Investment Act	-	1,688,297
Depreciation expense	-	-
	<u>26,946,784</u>	<u>7,871,697</u>
Auxiliary enterprises	2,718,167	-
Scholarships and grants	-	5,788,459
Loan cancellations and bad debts	-	-
Plant asset acquisitions	-	-
Interest on indebtedness	-	-
	<u>2,718,167</u>	<u>5,788,459</u>
<b>Total expenditures</b>	<u>29,664,951</u>	<u>13,660,156</u>
Transfers among funds	1,525,446	(1,530,260)
<b>Excess of revenues over expenditures</b>	<u>\$ 1,618,513</u>	<u>\$ 2,480,528</u>

Plant Fund	Adjustments	Total
\$ -	\$ (3,707,769)	\$ 9,412,882
3,484,153	-	6,584,025
351,425	-	12,001,695
-	-	8,640,955
-	-	23,377
116,603	-	1,512,019
-	-	-
-	-	5,405,079
4,043,631	(4,043,631)	-
2,165,000	(2,165,000)	-
2,500	-	1,441,394
<u>10,163,312</u>	<u>(9,916,400)</u>	<u>45,021,426</u>
-	(255,309)	648,149
-	-	1,507,993
-	-	242,997
-	(255,309)	2,399,139
<u>10,163,312</u>	<u>(10,171,709)</u>	<u>47,420,565</u>
-	-	5,057,359
-	(346,463)	7,699,195
-	-	3,106,555
-	-	3,592,712
-	-	2,387,875
-	-	2,114,127
-	(69,690)	707,466
470,969	-	3,608,232
-	(65,459)	4,846,020
-	-	1,688,297
-	1,556,827	1,556,827
<u>470,969</u>	<u>1,075,215</u>	<u>36,364,665</u>
-	(127,090)	2,591,077
-	(3,963,078)	1,825,381
-	-	-
3,357,923	(3,357,923)	-
93,025	(26,400)	66,625
<u>3,450,948</u>	<u>(7,474,491)</u>	<u>4,483,083</u>
<u>3,921,917</u>	<u>(6,399,276)</u>	<u>40,847,748</u>
-	50,606	45,792
<u>\$ 6,241,395</u>	<u>\$ (3,721,827)</u>	<u>\$ 6,618,609</u>

(Continued)

Hawkeye Community College

Schedule of Revenues, Expenditures and Changes in Fund Balances (Continued)  
 Year Ended June 30, 2006

	Current Funds	
	Unrestricted	Restricted
Other additions (deductions):		
Retirement of indebtedness	\$ -	\$ -
Loss on disposal of plant assets	-	-
Disposal of plant assets	-	-
<b>Total other additions (deductions)</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>1,618,513</b>	<b>2,480,528</b>
Fund balances:		
Beginning	4,783,667	12,649,639
Ending	<b>\$ 6,402,180</b>	<b>\$ 15,130,167</b>

See Note to Supplementary Information.

Plant Fund	Adjustments	Total
\$ (2,165,000)	\$ 2,165,000	\$ -
-	(39,799)	(39,799)
(530,803)	530,803	-
<u>(2,695,803)</u>	<u>2,656,004</u>	<u>(39,799)</u>
3,545,592	(1,065,823)	6,578,810
42,513,822	(17,892,487)	42,054,641
<u>\$ 46,059,414</u>	<u>\$ (18,958,310)</u>	<u>\$ 48,633,451</u>

Hawkeye Community College

Schedule of Revenues, Expenditures and Changes in Fund Balances -  
 Unrestricted Current Funds  
 Education and Support  
 Year Ended June 30, 2006

	Education			
	Liberal Arts and Sciences	Vocational Technical	Adult Education	Student Loans
<b>Revenues:</b>				
Tuition and fees	\$ 3,606,768	\$ 8,194,406	\$ 893,442	\$ -
Property taxes	-	-	-	-
State appropriations	-	70,070	5,421	-
Federal appropriations	-	288,968	344,576	-
Sales and services	-	-	2,200	-
Investment earnings	-	-	-	-
Interest on student loans	-	-	-	-
Miscellaneous	2,640	328,796	25,258	-
	<u>3,609,408</u>	<u>8,882,240</u>	<u>1,270,897</u>	<u>-</u>
Allocation of support services revenues	4,538,037	6,532,890	2,270,098	-
<b>Total revenues</b>	<u>8,147,445</u>	<u>15,415,130</u>	<u>3,540,995</u>	<u>-</u>
<b>Expenditures:</b>				
Salaries and benefits	4,811,201	6,552,392	2,190,201	-
Services	99,215	216,973	282,613	-
Materials and supplies	57,657	376,693	125,981	-
Travel	54,316	21,610	12,694	-
Expended for plant assets	-	188,054	-	-
Miscellaneous	32,823	-	-	-
	<u>5,055,212</u>	<u>7,355,722</u>	<u>2,611,489</u>	<u>-</u>
Allocation of support services expenditures	4,056,149	5,839,172	2,029,040	-
<b>Total expenditures</b>	<u>9,111,361</u>	<u>13,194,894</u>	<u>4,640,529</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$ (963,916)</u>	<u>\$ 2,220,236</u>	<u>\$ (1,099,534)</u>	<u>\$ -</u>

Transfers among funds

Fund balances:

Beginning

Ending

See Note to Supplementary Information.

Support					
General Admini- stration	Student Services	Learning Resources	Physical Plant	General Institution	Total
\$ -	\$ 426,129	\$ -	\$ -	\$ (94)	\$ 13,120,651
1,229,104	-	-	-	-	1,229,104
-	-	1,208	-	10,652,239	10,728,938
32,361	-	-	-	200,868	866,773
21,177	-	-	-	-	23,377
486,502	-	-	-	40,567	527,069
-	-	-	-	-	-
52,480	40,231	373	4,687	153,193	607,658
1,821,624	466,360	1,581	4,687	11,046,773	27,103,570
(1,821,624)	(466,360)	(1,581)	(4,687)	(11,046,773)	-
-	-	-	-	-	27,103,570
1,017,422	1,612,854	461,060	1,180,678	2,496,075	20,321,883
171,836	138,158	51,909	1,190,577	811,910	2,963,191
48,793	79,394	177,405	443,282	802,374	2,111,579
56,160	7,986	1,746	1,158	36,321	191,991
-	-	-	-	65,459	253,513
1,070,800	1	3	-	1,000	1,104,627
2,365,011	1,838,393	692,123	2,815,695	4,213,139	26,946,784
(2,365,011)	(1,838,393)	(692,123)	(2,815,695)	(4,213,139)	-
-	-	-	-	-	26,946,784
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 156,786
					1,266,023
					2,432,314
					<u>\$ 3,855,123</u>

Hawkeye Community College

Schedule of Revenues, Expenditures and Changes in Fund Balances -  
 Unrestricted Current Funds  
 Auxiliary Enterprises  
 Year Ended June 30, 2006

	Career Education	Adult Education
Revenues:		
Tuition and fees	\$ (269)	\$ 384,519
Sales and services	1,211,776	569
Miscellaneous	1,089	30,449
<b>Total revenues</b>	<u>1,212,596</u>	<u>415,537</u>
Expenditures:		
Salaries and benefits	40,230	30,709
Services	70,994	5,904
Materials and supplies	744,471	203,405
Cost of goods sold	214,376	-
Travel	4,761	9,053
Expended for plant assets	2,530	-
Miscellaneous	117	-
<b>Total expenditures</b>	<u>1,077,479</u>	<u>249,071</u>
Transfers among funds	-	-
<b>Excess (deficiency) of revenues over expenditures</b>	<u>135,117</u>	<u>166,466</u>
Fund balances:		
Beginning	895,711	476,666
Ending	<u>\$ 1,030,828</u>	<u>\$ 643,132</u>

See Note to Supplementary Information.

Farm Operations	Food Service	Other	Total
\$ -	\$ -	\$ 519,208	\$ 903,458
187,135	5,888	102,625	1,507,993
-	-	211,459	242,997
187,135	5,888	833,292	2,654,448
8,535	-	249,863	329,337
8,974	1,245	114,812	201,929
223,024	11,912	643,960	1,826,772
-	-	-	214,376
253	-	32	14,099
1,083	-	123,477	127,090
530	-	3,917	4,564
242,399	13,157	1,136,061	2,718,167
-	-	259,423	259,423
(55,264)	(7,269)	(43,346)	195,704
27,220	117,929	833,827	2,351,353
\$ (28,044)	\$ 110,660	\$ 790,481	\$ 2,547,057

Hawkeye Community College

Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits) -  
 Restricted Current Funds  
 Year Ended June 30, 2006

	Scholarships and Grants	Early Retirement	Equipment Replacement	Insurance	Unemployment Compensation
Revenues:					
Property taxes	\$ -	\$ 1,183,940	\$ 182,087	\$ 492,304	\$ 12,437
State appropriations	354,340	-	-	-	-
Federal appropriations	5,358,266	-	-	-	-
Investment earnings	-	53,440	4,796	9,712	1,644
Iowa Industrial New Jobs Training Program	-	-	-	-	-
Miscellaneous, primarily company program contributions	216,378	(445)	(40)	24,028	(67,067)
<b>Total revenues</b>	<b>5,928,984</b>	<b>1,236,935</b>	<b>186,843</b>	<b>526,044</b>	<b>(52,986)</b>
Expenditures:					
Salaries and benefits	6,600	668,700	-	56,419	28,640
Services	-	-	-	265,149	-
Materials and supplies	-	-	201,239	-	-
Travel	-	-	-	-	-
Expended for plant assets	-	-	158,409	-	-
Interest on indebtedness	-	-	-	-	-
Federal Pell Grant Program	4,888,647	-	-	-	-
Supplemental Educational Opportunity Grant (SEOG)	165,640	-	-	-	-
Other scholarships	727,572	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total expenditures</b>	<b>5,788,459</b>	<b>668,700</b>	<b>359,648</b>	<b>321,568</b>	<b>28,640</b>
Transfers among funds	265,288	-	-	-	-
<b>Excess (deficiency) of revenues over expenditures</b>	<b>405,813</b>	<b>568,235</b>	<b>(172,805)</b>	<b>204,476</b>	<b>(81,626)</b>
Fund balances (deficits):					
Beginning	(272,798)	2,369,651	481,632	(71,282)	144,534
Ending	\$ 133,015	\$ 2,937,886	\$ 308,827	\$ 133,194	\$ 62,908

See Note to Supplementary Information.

Cash Reserve	Workforce Act and Other JTPA Programs	Iowa Industrial New Jobs Training Program	Economic Development	Contracted Training	Miscellaneous	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,870,768
-	-	-	561,384	-	5,608	921,332
-	1,669,945	-	-	-	745,971	7,774,182
-	-	8,099	790,656	-	-	868,347
-	-	4,898,182	-	242,611	264,286	5,405,079
-	23,378	4,527	492,211	-	138,266	831,236
-	1,693,323	4,910,808	1,844,251	242,611	1,154,131	17,670,944
-	1,051,243	-	305,622	-	361,459	2,478,683
-	444,504	1,417,382	458,824	(10,392)	633,077	3,208,544
-	109,174	41,375	22,856	-	125,851	500,495
-	79,452	-	11,051	-	9,583	100,086
-	-	-	-	-	69,690	228,099
-	-	812,621	-	-	-	812,621
-	-	-	-	-	-	4,888,647
-	-	-	-	-	-	165,640
-	-	-	-	-	-	727,572
-	3,924	522,981	22,864	-	-	549,769
-	1,688,297	2,794,359	821,217	(10,392)	1,199,660	13,660,156
-	-	-	-	-	(1,795,548)	(1,530,260)
-	5,026	2,116,449	1,023,034	253,003	(1,841,077)	2,480,528
366,380	(15,059)	241,260	7,534,868	1,204,241	666,212	12,649,639
\$ 366,380	\$ (10,033)	\$ 2,357,709	\$ 8,557,902	\$ 1,457,244	\$ (1,174,865)	\$ 15,130,167

Hawkeye Community College

Schedule of Changes in Assets Held in Custody for Others -  
 Agency Funds  
 Year Ended June 30, 2006

	Student Organizations	Miscellaneous	Total
<b>Additions:</b>			
State appropriations	\$ -	\$ 92,773	\$ 92,773
Tuition and fees	223,406	-	223,406
Sales and services	39,194	2,223,916	2,263,110
Miscellaneous	13,296	2,079	15,375
	<u>275,896</u>	<u>2,318,768</u>	<u>2,594,664</u>
<b>Deductions:</b>			
Salaries and benefits	39,296	247,121	286,417
Services	183,553	129,526	313,079
Materials and supplies	79,330	1,574,149	1,653,479
Travel	1,778	23,752	25,530
Transfer among funds	-	45,792	45,792
	<u>303,957</u>	<u>2,020,340</u>	<u>2,324,297</u>
<b>Net increase (decrease)</b>	<b>(28,061)</b>	<b>298,428</b>	<b>270,367</b>
<b>Assets held in custody for others:</b>			
Beginning	64,206	164,839	229,045
Ending	<u>\$ 36,145</u>	<u>\$ 463,267</u>	<u>\$ 499,412</u>

See Note to Supplementary Information.

## Hawkeye Community College

### Note to Supplementary Information

---

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

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

The College utilizes the following fund groups:

#### **Current funds:**

These funds are utilized to account for those economic resources that are expendable for the purpose of performing the primary and supporting missions of the College. These include the following unrestricted and restricted subfunds:

Unrestricted: The Education and Support subgroup of the Unrestricted Current Funds accounts for the general operations of the College. All property taxes and other revenues that are not allocated by law or contractual agreement to some other fund, are accounted for in this subgroup. From this subgroup are paid the general operating costs, the fixed charges, and the acquisition of plant assets that are not paid from other funds.

The Auxiliary Enterprises subgroup accounts for activities which are intended to provide non-instructional services for sales to students, staff, and/or institutional departments, and which are supplemental to the educational and general objectives of the College. In addition, they account for activities which provide instructional and laboratory experiences for students and which incidentally create goods and services that may be sold to students, faculty, staff and the general public.

## Hawkeye Community College

### Note to Supplementary Information

---

Restricted: The Restricted Current Funds are 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.

The Scholarships and Grants subgroup accounts for resources available for awards to students which are not in payment of services rendered to the College and which will not require repayment to the College.

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

#### Plant Funds:

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

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

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

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

#### Agency Funds:

The Agency Funds are used to account for assets held by the College in a custodial capacity or as an agent for others. Transactions of Agency Funds do not affect the schedule of revenues, expenditures and changes in fund balances.

Hawkeye Community College

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	57,482	-	57,482	869,984	-	869,984
Vocational education	63,477	-	63,477	1,252,416	-	1,252,416
Adult/continuing education	-	-	-	362,594	72,605 *	435,199
Cooperative programs/services	-	-	-	-	-	-
Related services and activities	-	-	-	-	24,720	24,720
	<u>120,959</u>	<u>-</u>	<u>120,959</u>	<u>2,484,994</u>	<u>97,325</u>	<u>2,582,319</u>

\* Includes 240 hour adjustment of 99 hours.

Hawkeye Community College

Comparison of Taxes and Intergovernmental Revenues

	Year Ended June 30,			
	2006	2005	2004	2003
Local (property taxes)	\$ 6,584,025	\$ 6,056,036	\$ 4,441,456	\$ 4,637,770
State	12,001,695	10,597,041	11,151,485	11,157,848
Federal	8,640,955	8,785,557	9,215,730	8,539,549
<b>Total</b>	<b>\$ 27,226,675</b>	<b>\$ 25,438,634</b>	<b>\$ 24,808,671</b>	<b>\$ 24,335,167</b>

Hawkeye Community College

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/Program Name	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	New Loans
<b>U.S. Department of Education:</b>				
Direct Programs:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants (SEOG)	84.007	N/A	\$ 165,640	\$ -
Federal Work-Study Program (FWS)	84.033	N/A	200,868	-
Federal Work-Study Program (FWS) - administrative allowance	84.033	N/A	17,981	-
Federal Pell Grant Program	84.063	N/A	4,888,647	-
Federal Direct Loan	84.268	N/A	-	11,780,697
<b>Total Student Financial Assistance Cluster</b>			<b>5,273,136</b>	<b>11,780,697</b>
Passed through Iowa Department of Education:				
Vocational Education - Basic Grants to States	84.048	N/A	287,217	-
TRIO - Student Support Services	84.042	N/A	265,418	-
Adult Education - State Grant Program	84.002	N/A	330,033	-
Tech-Prep Education	84.243	N/A	70,070	-
			952,738	-
<b>Total U.S. Department of Education</b>			<b>6,225,874</b>	<b>11,780,697</b>
<b>U.S. Department of Labor:</b>				
Passed through Iowa Department of Workforce Development:				
Workforce Investment Act Cluster:				
Adult Program	17.258	1-W-07-FR-0	288,846	-
Youth Activities	17.259	1-W-07-FR-0	371,909	-
Dislocated Workers	17.260	1-W-07-FR-0	278,105	-
<b>Total Workforce Investment Act Cluster</b>			<b>938,860</b>	<b>-</b>
Employment Services Cluster:				
Employment Service	17.207	1-W-07-FR-0	28,822	-
Disabled Veteran's Outreach Program	17.801	1-W-07-FR-0	6,398	-
Local Veteran's Employment Representative Program	17.804	1-W-07-FR-0	3,131	-
<b>Total Employment Services Cluster</b>			<b>38,351</b>	<b>-</b>
Other Grants:				
Unemployment insurance	17.225	1-W-07-FR-0	17,401	-
Trade Adjustment Assistance Workers Navigator	17.245	1-W-07-FR-0	1,325	-
Navigator	17.266	1-W-07-FR-0	10,146	-
New Iowans Center	17.261	1-W-07-FR-0	184	-
			29,056	-
<b>Total U.S. Department of Labor</b>			<b>\$ 1,006,267</b>	<b>\$ -</b>

(Continued)

Hawkeye Community College

Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/Program Name	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	New Loans
<b>U.S. Department of Health and Human Services,</b> Passed through the Iowa Workforce Development, Temporary Assistance for Needy Families	93.558	1-W-07-FR-0	\$ 656,580	\$ -
<b>Federal Mediation and Conciliation Services,</b> Passed through the Iowa Workforce Development, Labor Management Cooperation	34.002	1-W-07-FR-0	1,456	-
<b>Corporation for National and Community Service,</b> Direct, Senior Companion Program	94.016	N/A	363,935	-
<b>U.S. Department of Commerce,</b> Direct, Public Telecommunications Facilities	11.550	N/A	85,032	-
<b>U.S. Department of Agriculture:</b> Passed through the Iowa Department of Nutrition, Child Nutrition CACFP	10.558	N/A	6,623	-
Passed through the Iowa Workforce Development, State Administrative Matching Grants for Food Stamp Program	10.561	1-W-07-FR-0	5,375	-
			11,998	-
<b>Total federal awards expended</b>			<b>\$ 8,351,142</b>	<b>\$ 11,780,697</b>
				<b>\$ 20,131,839</b>

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes only the federal grant activity of Hawkeye Community College. The schedule which is presented on the accrual basis of accounting, includes no consideration of the activity of the component unit of the College. 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.

**Note 2. Significant Accounting Policies**

Revenue from federal awards is recognized when the College has done everything necessary to establish its right to revenue. Expenditures of federal awards are recognized in the accounting period when the liability is incurred.

Hawkeye Community College

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2006

Comment	Corrective Action
<u>Reportable conditions:</u>	
05-II-A: The College did not post entries and reconcile beginning fund balance.	<u>Uncorrected</u> . See current year finding at 06-II-A.
<u>Statutory reporting:</u>	
IV-K-05: The College did not comply with Chapter 260C.14(12) of the Code of Iowa.	<u>Uncorrected</u> . See current year finding at IV-K-06.

# McGladrey & Pullen

Certified Public Accountants

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

To the Board of Trustees  
Hawkeye Community College  
Waterloo, Iowa

We have audited the financial statements of Hawkeye Community College (College) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 1, 2006. The discretely presented component unit was audited by other auditors and was not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit. We conducted our audit of the College 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 Hawkeye 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. A reportable condition involves a matter coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hawkeye Community College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-II-A and 06-II-B.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

## Compliance and Other Matters

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

We also noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs. Comments involving statutory and other legal matters about the College's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the basic financial statements of the 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.

We also noted certain matters that we reported to management of the College in a separate letter dated December 1, 2006.

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

*McGladrey & Pullen, LLP*

Davenport, Iowa  
December 1, 2006

# McGladrey & Pullen

Certified Public Accountants

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

To the Board of Trustees  
Hawkeye Community College  
Waterloo, Iowa

### Scope of this Report

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

### Compliance

We have audited the compliance of Hawkeye Community College (College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that are applicable to each of its major federal programs for the year ended June 30, 2006. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the College's compliance with those requirements.

As described in items 06-III-A, 06-III-B, 06-III-C and 06-III-D in the accompanying schedule of findings and questioned costs, Hawkeye Community College did not comply with requirements regarding special tests and provisions and cash management that are applicable to the following:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants (SEOG)	84.007
Federal Work-Study Program (FWS)	84.033
Federal Pell Grant Program	84.063
Federal Direct Loan	84.268

Compliance with such requirements is necessary, in our opinion, for Hawkeye Community College to comply with requirements applicable to these programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Hawkeye Community College did not comply in all material respects, with the requirements referred to above that are applicable to Federal Supplemental Educational Opportunity Grants, Federal Work-Study Program, Federal Pell Grant Program and Federal Direct Loan for the year ended June 30, 2006.

### **Internal Control Over Compliance**

The management of Hawkeye 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 the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

*McGladrey & Pullen, LLP*

Davenport, Iowa  
December 1, 2006

Hawkeye Community College

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

---

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- ◆ Material weakness(es) identified?  Yes  No
- ◆ Reportable condition(s) identified that are not considered to be material weakness(es)?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

- ◆ Material weakness(es) identified?  Yes  No
- ◆ Reportable condition(s) identified that are not considered to be material weakness(es)?  Yes  None Reported

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

- ◆ 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:

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants (SEOG)	84.007
Federal Work-Study Program (FWS)	84.033
Federal Pell Grant Program	84.063
Federal Direct Loan	84.268

Hawkeye Community College

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

---

Dollar threshold used to distinguish between  
type A and type B programs

\$603,955

Auditee qualified as low-risk auditee?

Yes

No

II. Findings Relating to the Basic Financial Statements

A. Reportable Conditions in Internal Control

06-II-A

Finding: The College does not reconcile accounts or post journal entries on a timely basis. As a result interim financial information is not accurate. Specific examples are as follows:

- The prior year journal entries for the audit year ended June 30, 2005 were not posted to the general ledger until closing of the fiscal 2006 year.
- Reconciliation of amounts due from federal Title IV funds is not done on a timely basis. In fiscal 2006 significant dollars were drawn down for direct loans and other federal award programs that were awarded to students in fiscal 2004.
- Correction of account mispostings is typically not done until fiscal year end close balances.
- Certain transfers are posted directly to fund balances versus utilization of transfer accounts. Fund balances did not reconcile to audited financial statements as not all adjustments had been posted.

Condition/Criteria: The College does not have a formal, organized, month-end closing process that provides for timely reconciliation of certain account balances. In many instances reconciliation of accounts or review of the account reconciliation requires input from the Director of Accounting. These reviews are not completed on a timely basis.

Effect: Transaction errors could occur and not be detected in a timely manner.

Recommendation: We recommend the College reconcile and post all adjustments on a timely basis. In addition, we recommend the College develop a month and year-end closing process to ensure timely and accurate financial reporting. Transactions affecting different funds should be recorded utilizing due to/from or transfer accounts versus posting the adjustment directly to fund balances.

Response and corrective action plan: The College will develop formal month and year-end closing process and reevaluate the duties of individuals within the accounting department to address these issues.

**06-II-B**

Finding: The Financial Aid Director is responsible for determining financial aid awards, applying financial aid to students' accounts and drawing down grant funds from the Department of Education.

Condition: One person has the ability to determine grant awards and also request grant funds from the Department of Education via GAPS. The Financial Aid Director is instructed by the Director of Business Services/Administrative Services on how much funds to draw down, however the Financial Aid Director has access to request funds electronically from the Department of Education. The amounts due from the Department of Education are not reconciled to the general ledger on a timely basis.

Criteria: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect: Transaction errors could occur and not be detected in a timely manner.

Recommendation: We recommend the College separate the duties of awarding grant funds and requesting grant funds. The financial aid department should not have access to draw down funds electronically from the Department of Education since this department has the responsibility for determining grant awards.

Response and corrective action plan: The College will develop a formal month-end reconciliation process for Title IV funds and eliminate access for the Director of Financial Aid to request funds from GAPS.

B. Compliance

None

III. Findings and Questioned Costs for Federal Awards

A. Reportable Conditions in Internal Control

None

B. Compliance

**06-III-A**

U.S. Department of Education  
Student Financial Assistance Cluster,  
Federal Direct Loan (CFDA 84.268)

Federal Award Year: 2006

Finding: The College did not report withdrawn students to the National Student Clearinghouse within 60 days of when the College determined they withdrew.

Condition: The College is not reporting student withdrawals in the proper amount of time.

Hawkeye Community College

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

---

Questioned costs: None

Criteria: Per 34 CFR 682.610 (c)(2), the institution must notify the guaranty agency or lender within 30 days unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days.

Cause: There was a violation of this regulation.

Effect: Lenders do not have accurate information to determine repayment schedules for these students.

Prevalence: Of the 30 students tested, 3 students' withdrawals were not reported to the National Student Clearinghouse within the required time frame.

Recommendation: We recommend that the College review the process used to collect and transmit dates to the National Student Clearinghouse.

Response and corrective action plan: The College will timely report withdrawn students.

**06-III-B**

**U.S. Department of Education  
Student Financial Assistance Cluster,  
Federal Supplemental Educational Opportunity Grants (CFDA 84.007)  
Federal Pell Grant (CFDA 84.063)  
Federal Direct Loan (CFDA 84.268)**

**Federal Award Year: 2006**

Finding: The College is using the incorrect number of completed days when calculating the percentage of payment period or enrollment period completed. The College is also using the incorrect amount of Title IV aid.

Condition: The College is not using the correct days when calculating the percentage of Title IV aid earned or the correct amount of Title IV aid.

Criteria: Per 34 CFR 668.22, the percentage of the period completed is determined by dividing the number of calendar days completed in the payment period or period of enrollment by the total number of calendar days in the payment period or period of enrollment. The institution must include the total amount of Title IV assistance that was disbursed and that could have been disbursed.

Cause: The College disburses awards two times during each semester. The second disbursement was not always taken into consideration in determining the total amounts earned by the student. For students who received failing grades, the College does not have a formal procedure for determining withdrawal date for students not providing notification of withdrawal. The College would either default to the midpoint of the period of enrollment, even if information was available to support a later date, or determine the date of withdrawal from information provided by the student, without verification of the information from other sources within the College.

Hawkeye Community College

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

---

Effect: A large portion of the return of Title IV funds calculations are incorrect.

Questioned costs: The College recalculated all returns of Title IV funds calculations. The results of those calculations are shown below.

	Number of Students	College's Original Calculation	College's Revised Calculation	Difference
Students who withdrew:				
Fall Semester	80	\$ 21,455	\$ 17,821	\$ 3,634
Spring Semester	76	27,660	14,231	13,429
	<u>156</u>	<u>49,115</u>	<u>32,052</u>	<u>17,063</u>
Students who received failing grades unofficial notice of withdrawal:				
Fall Semester	263	139,328	63,308	76,020
Spring Semester	285	153,345	60,098	93,247
	<u>548</u>	<u>292,673</u>	<u>123,406</u>	<u>169,267</u>
	<u>704</u>	<u>\$ 341,788</u>	<u>\$ 155,458</u>	<u>\$ 186,330</u>

Prevalence: Our initial sample of 23 had 8 errors. We believe that based upon the nature of the error it may be prevalent to the entire return of Title IV funds population.

Recommendation: The College should discontinue the two disbursements per semester as the software system utilized by the College is not programmed to accommodate the two disbursements. The College should implement a policy for determining the withdrawal dates for unofficial withdrawals in accordance with 34 CFR 668.22.

Response and corrective action plan: The College will discontinue the two disbursements per semester with the fall 2007 semester. The College will implement a formalized process for determining unofficial withdrawal dates that is in accordance with 34 CFR 668.22.

**06-III-C**

**U.S. Department of Education  
Student Financial Assistance Cluster,  
Federal Direct Loan (CFDA 84.268)**

**Federal Award Year: 2006**

Finding: The College drew down funds in excess of expenditures for the Federal Direct Loan Program. The excess cash was not returned timely.

Condition: The College requested and received funds exceeding approved expenditures per the Common Origination and Disbursement System (COD). The excess cash was not returned or awarded within seven days.

Hawkeye Community College

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

---

Criteria: Per 34 CFR 668.166, the institution is responsible for eliminating its excess cash within seven days by disbursing funds to students for at least the amount of the excess cash balance.

Cause: Excess cash was not returned or disbursed to students within seven days.

Effect: Federal dollars were drawn down inappropriately.

Questioned costs: None.

Prevalence: Of the four students financial aid programs that draw down funds using GAPS, the only material excess cash noted was for the Federal Direct Loan program. This occurred during the spring 2006 semester.

Recommendation: We recommend the College review expenditures to date prior to drawing down funds to ensure an excess cash position does not occur.

Response and corrective action plan: The College will develop a formal month-end reconciliation process for Title IV funds to ensure draw downs do not exceed expenditures.

**06-III-D**

U.S. Department of Education  
Student Financial Assistance Cluster  
Federal Work-Study Program (CFDA 84.033)  
Federal Pell Grant Program (CFDA 84.063)  
Federal Supplemental Educational Opportunity Grants (CFDA 84.007)

Federal Award Year: 2006

Finding: The College did not return Title IV funds within 30 days of the determination that the student withdrew.

Condition: The College is not returning Title IV funds within the proper time frame.

Criteria: Per 34 CFR 668.22, an institution must return the amount of Title IV funds for which it is responsible as soon as possible but no later than 30 days after the date of the institution's determination that the student withdrew.

Cause: The College does not have a system in place to monitor this requirement.

Effect: There was a violation of this regulation.

Question costs: None

Hawkeye Community College

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

---

Prevalence: Of the 23 students tested, for 15 students, a timely return of Title IV funds did not occur.

Recommendation: We recommend that returns of Title IV funds are tracked for all withdrawals.

Response and corrective action plan: The College will develop a formal tracking system for all return of Title IV funds calculations to ensure funds are properly returned within 30 days.

**IV. Other Findings Related to Required Statutory Reporting**

IV-A-06      Official Depositories

Official depositories have been adopted by the Board. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

IV-B-06      Certified Budget

Expenditures during the year ended June 30, 2006 did not exceed the amounts budgeted.

IV-C-06      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.

IV-D-06      Travel Expense

No expenditures of College money for travel expenses of spouses of College officials or employees were noted. No travel advances to College officials or employees were noted.

IV-E-06      Business Transactions

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

IV-F-06      Bond Coverage

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

IV-G-06      Board Minutes

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

IV-H-06      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.

Hawkeye Community College

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2006

IV-I-06      Publication

The College published a statement showing all 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.

IV-J-06      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, except for the following:

	Contact Hours Reported	Total per Supporting Documentation	Difference
Adult Literacy - Community Rehabilitation Activities	14	13	1
Adult Continuing Education - Health and Professions and Related Clinical Services	2	3	(1)

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

Response: The College will investigate discrepancies between course schedule and contact hours and methods for verifying data in the continuing education registration software.

Conclusion: Response accepted.

IV-K-06      Tuition

Finding: The College failed to comply with Chapter 260C.14(12) of the Iowa Code that requires the College to not exceed the lowest tuition rate per semester, or the equivalent, charged by an institution of higher education under the State Board of Regents for a full-time Iowa resident student.

Recommendation: The College should continue to be aware of all applicable statutes of the Iowa Code.

Response and Corrective Action Plan: The College will monitor that the tuition charged to resident students does not exceed the lowest tuition rate per semester charged by an institution of higher education under the State Board of Regents for a full-time Iowa resident student.

Conclusion: Response accepted.

## Hawkeye Community College

### Corrective Action Plan Year Ended June 30, 2006

---

Finding Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
<b>Reportable Conditions in Internal Control:</b>				
06-II-A	The College did not post entries and reconcile beginning fund balance.	See corrective action plan at 06-II-A.	June 2007	Linda Nielson
06-II-B	Segregation of duties in determining student aid awards and requests for grant funding.	See corrective action plan at 06-II-B.	June 2007	Linda Nielson
<b>Compliance Findings and Questioned Costs:</b>				
06-III-A	Untimely notification of withdrawals.	See corrective action plan at 06-III-A.	Fall 2007	Lois Mulbrook
06-III-B	An incorrect number of days and amount of Title IV aid was used when calculating the return of Title IV funds.	See corrective action plan at 06-III-B.	Fall 2007	Lois Mulbrook
06-III-C	Excess cash was not returned or disbursed within seven days.	See corrective action plan at 06-III-C.	June 2007	Lois Mulbrook/ Linda Nielson
06-III-D	Untimely return of Title IV funds.	See corrective action plan at 06-III-D.	June 2007	Lois Mulbrook
<b>Other Findings Related to Required Statutory Reporting:</b>				
IV-J-06	Contact hours reported did not agree to class schedule.	See corrective action plan at IV-J-06.	June 2007	Linda Nielson
IV-K-06	The College did not comply with Chapter 260C.14(12) of the Code of Iowa.	See corrective action plan at IV-K-06.	June 2007	Linda Nielson