



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE December 14, 2005

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Auditor of State David A. Vaudt today released an audit report on Indian Hills Community College in Ottumwa, Iowa.

The College's primary government operating revenues totaled \$28,497,867 for the year ended June 30, 2005, including \$7,706,115 from tuition and fees, \$9,095,078 from the federal government and \$6,565,815 from auxiliary enterprises.

Operating expenses for the year totaled \$42,196,406, and included \$23,079,843 for salaries and benefits, \$6,820,594 for services and \$1,966,887 for materials and supplies.

The College reported an operating loss of \$13,698,539. In general, a public college, such as Indian Hills Community College, will report an operating loss as the financial reporting model classifies state appropriations and property tax as non-operating revenues. Non-operating revenues totaled \$16,290,182, and included \$12,292,751 from state appropriations, \$2,875,524 from local tax and \$617,922 from gifts from the Indian Hills Community College Foundation. Non-operating expenses totaled \$830,341, and included \$757,648 from interest on indebtedness. The College ended the year with an increase in net assets of \$1,761,302.

A copy of the audit report is available for review in the Board Secretary's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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INDIAN HILLS COMMUNITY COLLEGE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

Table of Contents

| | | <u>Page</u> |
|---|-----------------|-------------|
| Officials | | 3 |
| Independent Auditor’s Report | | 5-6 |
| Management’s Discussion and Analysis | | 8-13 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Statement of Net Assets | A | 16-17 |
| Statement of Revenues, Expenses and Changes in Net Assets | B | 18-19 |
| Statement of Cash Flows | C | 20-21 |
| Component Unit Financial Statements: | | |
| Statement of Net Assets | D | 22 |
| Statement of Revenues, Expenses and Changes in Net Assets | E | 23 |
| Notes to Financial Statements | | 24-34 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Expenditures – Budget and Actual | | 36 |
| Note to Required Supplementary Information – Budgetary Reporting | | 37 |
| Other Supplementary Information: | <u>Schedule</u> | |
| Balance Sheet – All Funds | 1 | 40-43 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – All Funds | 2 | 44-47 |
| Unrestricted Fund: | | |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Education and Support | 3 | 48-49 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Auxiliary Enterprises | 4 | 51 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Restricted Fund | 5 | 52-53 |
| Schedule of Changes in Deposits Held in Custody for Others | 6 | 55 |
| Schedule of Credit and Contact Hours | 7 | 56 |
| Schedule of Tax and Intergovernmental Revenues | 8 | 57 |
| Schedule of Current Fund Revenues by Source and Expenditures by Function | 9 | 58 |
| Schedule of Expenditures of Federal Awards | 10 | 59-60 |
| 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 <u>Government Auditing Standards</u> | | 61-62 |
| Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 | | 63-64 |
| Schedule of Findings and Questioned Costs | | 65-67 |
| Staff | | 68 |

Indian Hills Community College

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---|----------------|---------------------|
| Board of Directors (Before September 2004 Election) | | |
| Jim Dorothy | President | 2005 |
| Robert L. Pitsch | Vice President | 2006 |
| Dr. Donald Berg | Member | 2005 |
| H. Roy Lamansky | Member | 2005 |
| Tom Keck | Member | 2006 |
| Richard C. Sharp | Member | 2006 |
| Sharon Kline | Member | 2007 |
| Kevin M. Kness | Member | 2007 |
| John Pothoven | Member | 2007 |

Board of Directors (After September 2004 Election)

| | | |
|------------------|----------------|------|
| Dr. Donald Berg | President | 2008 |
| Robert L. Pitsch | Vice President | 2006 |
| Tom Keck | Member | 2006 |
| Richard C. Sharp | Member | 2006 |
| Sharon Kline | Member | 2007 |
| Kevin M. Kness | Member | 2007 |
| John Pothoven | Member | 2007 |
| Jim Dorothy | Member | 2008 |
| H. Roy Lamansky | Member | 2008 |

Community College

| | |
|---------------------|--|
| Dr. Jim Lindenmayer | President |
| Keith Sasseen | Executive Vice President, Finance and Records and Board Treasurer |
| Susan Pixley | Executive Director, Finance and Records and Controller |
| Anne Leathers | College Accountant |
| Jo Altheide | Grants Accountant |

Indian Hills Community College



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Independent Auditor's Report

To the Board of Directors of
Indian Hills Community College:

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

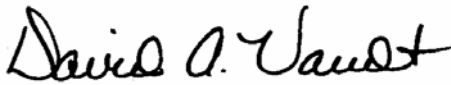
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units were not audited in accordance with Government Auditing Standards. 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 our audit and the reports of the other auditors provide a reasonable basis for our opinions.

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

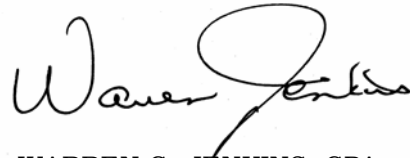
In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2005 on our consideration of Indian Hills Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 36 through 37, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Indian Hills Community College's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 10, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 30, 2005

Indian Hills Community College

MANAGEMENT'S DISCUSSION AND ANALYSIS

Indian Hills Community College provides this Management's Discussion and Analysis of the College's financial statements for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the financial statements that follow.

2005 FINANCIAL HIGHLIGHTS

- Operating revenues increased 5% due primarily to an increase in Iowa Industrial New Jobs Training Programs.
- The early retirement plan offered in fiscal year 2004 produced the desired savings allowing the College to hold labor intensive operating expenses within a 2.4% increase for fiscal 2005.
- Net assets of the overall college operation increased by \$1.76 million.

USING THIS ANNUAL REPORT

This discussion and analysis are intended to serve as an introduction to Indian Hills Community College's basic financial statements and provide an analytical overview of the College's financial activities. The annual report consists of a series of financial statements, as follows: The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements provide information about the activities of the College as a whole and present an overall view of the College's finances. The Notes to Financial Statements provide a narrative of accounting policies and further explanation essential to understanding the data provided in the statements. Required Supplementary Information further explains and supports the financial statements with a comparison of the College's budget for the year. Other supplementary information provides detailed information about the individual funds and the Schedule of Expenditures of Federal Awards that provides details of various programs benefiting the College.

REPORTING THE COLLEGE'S FINANCIAL ACTIVITIES

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the College as a whole as of the end of the fiscal year. This point-in-time statement distinguishes current and non-current assets and identifies the categories and amounts of current and non-current liabilities. The statement presents the available assets that can be used to satisfy liabilities owed to outside vendors and creditors.

| | Net Assets | |
|---|---------------|------------|
| | June 30, | |
| | 2005 | 2004 |
| Current and other assets | \$ 31,923,394 | 30,084,250 |
| Capital assets, net of accumulated depreciation | 35,719,772 | 35,391,580 |
| Total assets | 67,643,166 | 65,475,830 |
| Current liabilities | 9,272,799 | 8,864,317 |
| Noncurrent liabilities | 12,930,000 | 12,932,448 |
| Total liabilities | 22,202,799 | 21,796,765 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 31,824,772 | 31,311,580 |
| Restricted | 861,408 | 1,183,602 |
| Unrestricted | 12,754,187 | 11,183,883 |
| Total net assets | \$ 45,440,367 | 43,679,065 |

The largest portion of the College's net assets (70%) is in the category of 'Invested in Capital Assets' (land, buildings and equipment), less the related debt. The restricted portion of net assets represents resources subject to external restrictions. The remaining net assets are unrestricted and may be used to meet the College's operating obligations as they become due.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented in 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 College's revenues earned and expenses incurred, classified by operating and non-operating, and any other revenues, expenses, gains and losses incurred during the fiscal year just ended.

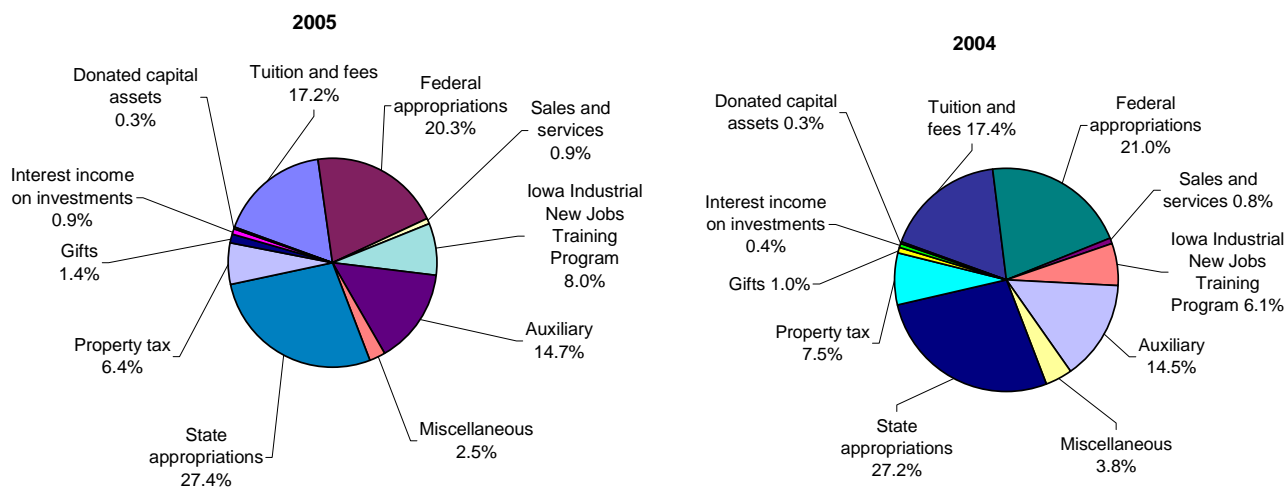
Generally, a public, state supported college such as Indian Hills will report an operating loss as the financial reporting model required by GASB 34/35 classifies state appropriations and property taxes as non-operating revenues. Operating revenue is defined to include only revenues received for providing 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 (perform the mission of the College) in return for the operating revenues. Non-operating 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.

Changes in Net Assets

| | Year ended June 30, | |
|---|----------------------|---------------------|
| | 2005 | 2004 |
| Operating revenues: | | |
| Tuition and fees | \$ 7,706,115 | 7,399,001 |
| Federal appropriations | 9,095,078 | 8,925,246 |
| Sales and services | 398,188 | 345,413 |
| Iowa Industrial New Jobs Training Program | 3,586,833 | 2,605,028 |
| Auxiliary | 6,565,815 | 6,193,480 |
| Miscellaneous | 1,145,838 | 1,605,778 |
| Total operating revenues | <u>28,497,867</u> | <u>27,073,946</u> |
| Total operating expenses | <u>42,196,406</u> | <u>41,197,340</u> |
| Operating loss | <u>(13,698,539)</u> | <u>(14,123,394)</u> |
| Non-operating revenues (expenses): | | |
| State appropriations | 12,292,751 | 11,593,825 |
| Property tax | 2,875,524 | 3,179,361 |
| Gifts | 617,922 | 431,377 |
| Interest income on investments | 391,842 | 155,228 |
| Donated capital assets | 112,143 | 111,150 |
| Loss on sale of capital assets | (72,693) | (189,841) |
| Interest expense | (757,648) | (843,239) |
| Net non-operating revenues | <u>15,459,841</u> | <u>14,437,861</u> |
| Increase in net assets | 1,761,302 | 314,467 |
| Net assets beginning of year | <u>43,679,065</u> | <u>43,364,598</u> |
| Net assets end of year | <u>\$ 45,440,367</u> | <u>43,679,065</u> |

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets.

Total Revenues by Source



In fiscal year 2005, operating revenues totaled nearly \$28.5 million and net non-operating revenues totaled \$15.4 million. Observations regarding the changes in operating and non-operating revenues follow:

- Total operating revenues grew by 5% while the increase in operating expenses was held to 2.4%. The change in net non-operating revenues registered a 7% increase due primarily to an increase in State appropriations and a decrease in non-operating expenses. The combined effect increased the College's net assets by \$1.7 million, a 4% growth over the previous fiscal year.
- Iowa Industrial New Jobs Training Program revenues showed an increase of 38% over the previous fiscal year. This revenue category routinely fluctuates in relation to the number and timing of new projects.
- The auxiliary revenue increase is attributable to the sale of two houses in the building trades program.
- State appropriations improved nearly \$700,000 from FY 2004 funding levels. The increase resulted from a 2.65% increase in state general aid and funding received for the Accelerated Career Education/Physical Infrastructure Assistance Program to support the Rural Health Education Project.
- Interest on investments rebounded with improved interest rates.

Operating Expenses

| | Year ended June 30, | |
|-------------------------------------|----------------------|-------------------|
| | 2005 | 2004 |
| Education and support: | | |
| Liberal arts and sciences | \$ 3,840,659 | 3,835,129 |
| Vocational technical | 8,824,319 | 8,278,259 |
| Adult education | 2,482,312 | 2,854,038 |
| Cooperative services | 2,484,670 | 1,773,101 |
| Administration | 1,564,374 | 1,524,255 |
| Student services | 3,017,213 | 3,125,826 |
| Learning resources | 937,480 | 925,271 |
| Physical plant | 3,263,468 | 3,046,184 |
| General institution | 2,985,839 | 3,915,154 |
| Auxiliary enterprises | 6,340,030 | 5,685,781 |
| Scholarships and grants | 3,324,760 | 2,943,443 |
| Workforce Investment Act | 1,188,327 | 1,399,255 |
| Loan cancellations and bad debts | - | 45,542 |
| Administrative and collection costs | 473,830 | 425,461 |
| Depreciation | 1,469,125 | 1,420,641 |
| Total | <u>\$ 42,196,406</u> | <u>41,197,340</u> |

The following factors address some causes of increased expenses:

- The fiscal 2004 early retirement offering allowed a reduction in the number of full-time employees and the replacement of necessary positions at a reduced expense. The net effect after FY 2005 pay increases was a managed 1.19% growth in college-wide salary and fringe benefit expenses. The payroll savings is reflected over all education and support functions shown above.
- As Iowa Industrial New Jobs revenue increased, there was a corresponding increase in the cooperative services expense category related to Iowa Code Chapter 260E project training reimbursements. This program issues debt to cashflow the reimbursement of training costs for new job creation. The debt is paid off over a ten-year period by diversion of Iowa income tax withholding.
- Expenditure categories were carefully budgeted and monitored to maintain an excess of revenue over expenditures.

Statement of Cash Flows

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

Cash Flows

| | Year ended June 30, | |
|---|---------------------|--------------|
| | 2005 | 2004 |
| Cash provided (used) by: | | |
| Operating activities | \$ (13,333,727) | (12,192,354) |
| Non-capital financing activities | 15,706,143 | 14,607,454 |
| Capital and related financing activities | (2,152,987) | (5,027,411) |
| Investing activities | (3,212,728) | 7,390,404 |
| Net increase (decrease) in cash | (2,993,299) | 4,778,093 |
| Cash and cash equivalents beginning of the year | 12,974,113 | 8,197,020 |
| Cash and cash equivalents end of the year | \$ 9,980,814 | 12,975,113 |

Cash provided by operating activities includes revenues from tuition and fees, grants, contracts and auxiliary enterprise receipts. Cash used by operating activities includes payments for salaries and benefits, goods and services, scholarships and auxiliary enterprise payments. Cash provided by non-capital financing activities includes state appropriations, local property tax, the receipt and disbursement of federal direct loan program proceeds and issuance of debt for the New Jobs Training Programs. Cash used for capital and related financing activities represents the principal and interest payments on debt and the purchase of capital assets. Cash used for investing activities includes interest income earned and proceeds from investments, net of investments purchased.

CAPITAL ASSETS

At June 30, 2005, the College had \$35.7 million invested in capital assets, net of accumulated depreciation of approximately \$17.4 million. Depreciation charges totaled \$1,469,125 for the 2005 fiscal year. A summary breakdown of capital assets, net of accumulated depreciation, is shown below.

Net Capital Assets

| | June 30, | |
|-----------------------------------|---------------|------------|
| | 2005 | 2004 |
| Land | \$ 397,885 | 397,885 |
| Construction in progress | 512,096 | 3,013,445 |
| Capital assets not depreciated | 909,981 | 3,411,330 |
| Buildings | 32,335,319 | 29,466,913 |
| Other structures and improvements | 1,261,123 | 1,268,000 |
| Equipment and vehicles | 1,213,349 | 1,245,337 |
| Total | \$ 35,719,772 | 35,391,580 |

Capital expenditures during the 2004 fiscal year completed renovation of circa 1960 college dormitories to apartment style living and significant remodeling and updating of the St. John Auditorium. At the Airport Campus, WWII buildings no longer feasible for college use were removed. Fiscal 2005 provided finalization of Centerville campus remodeling projects in the student union facility, classrooms and office areas. The College continues to pursue and budget resources to provide an expansion of classroom space for new and existing health occupations programs. The FY 2005 funding of the six-cent instructional equipment levy has allowed necessary equipment upgrades to keep pace with technology and student demand. A five-year replacement schedule is in place to maintain computer technology equipment at required levels. Facility maintenance and roof replacement are also scheduled to meet needs and budgetary constraints. Additional information is provided in Note 4 to the financial statements.

LONG-TERM DEBT

Outstanding debt at June 30, 2005 was \$14,800,000. Current debt consists of certificates issued for Iowa New Jobs Training projects and dormitory revenue bonds. Detailed information is presented in Note 5 to the financial statements.

Outstanding Debt

| | June 30, | |
|----------------------|----------------------|-------------------|
| | 2005 | 2004 |
| Certificates payable | \$ 10,905,000 | 10,390,000 |
| Bonds payable | 3,895,000 | 4,080,000 |
| Total | <u>\$ 14,800,000</u> | <u>14,470,000</u> |

ECONOMIC FACTORS

Indian Hills Community College improved its financial position during the current fiscal year. The economic position of the College remains closely tied to that of the State of Iowa, with the State's overall economy and educational funding and distribution a priority to college officials. Like many state assisted colleges, Indian Hills faces the following potential financial challenges:

- State aid as a percentage of overall operating revenues has trended down to 45% for the most recent two fiscal years. In fiscal year 2000, state aid provided 57% of the operating revenues. Tuition income, from rate increases and/or enrollment growth, must replace the decrease in state aid. Savings accruing from response to an early retirement plan enabled the College to hold the FY 2005 tuition increase to \$4 per credit hour (the lowest increase among the 15 Iowa community colleges).
- Increased tuition is followed by an increased need for financial aid and scholarship opportunities.
- Labor and operational expenses continue to increase, with 50% to 70% increases currently predicted for natural gas.
- College facilities require continual maintenance and upkeep.
- Technology continues to advance rapidly, challenging the College to provide instructional equipment and conduct operations at current technological levels.

The College anticipates fiscal year 2006 to require close monitoring of expenditures, the pursuit of new revenue resources and the budget flexibility to react to unknown issues. Our emphasis continues to fulfill the mission of Indian Hills while maintaining high quality instructional programs and services.

CONTACTING THE COLLEGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, taxpayers in the community college district and our creditors with a general overview of the College's finances and to demonstrate the College's accountability for the resources it is provided. If you have questions about this report or need additional financial information, please contact Indian Hills Community College, 525 Grandview Avenue, Building #1, Ottumwa, Iowa 52501.

Indian Hills Community College

Basic Financial Statements

Exhibit A

Indian Hills Community College

Statement of Net Assets

June 30, 2005

| | Primary Government | Component Units |
|---|-----------------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash and investments: | | |
| Cash and pooled investments | \$ 9,980,814 | 7,676,101 |
| ISJIT investments | 2,651,042 | - |
| Receivables: | | |
| Accounts, net of allowance for uncollectible accounts of \$267,367 | 1,547,244 | 105,441 |
| Mortgages | - | 8,321 |
| Succeeding year property tax | 2,681,000 | - |
| Iowa Industrial New Jobs Training Program | 48,371 | - |
| Due from other governments | 1,631,068 | - |
| Prepaid expense | 45,952 | - |
| Unamortized bond issue expense | 1,680,207 | - |
| Inventories | 765,329 | - |
| Total current assets | <u>21,031,027</u> | <u>7,789,863</u> |
| Noncurrent assets: | | |
| Investments | - | 5,203,628 |
| ISJIT investments | 7,647,857 | - |
| Receivable for Iowa Industrial New Jobs Training Program | 3,244,510 | - |
| Capital assets, net of accumulated depreciation | <u>35,719,772</u> | <u>5,983</u> |
| Total noncurrent assets | <u>46,612,139</u> | <u>5,209,611</u> |
| Total assets | <u>67,643,166</u> | <u>12,999,474</u> |

Indian Hills Community College

Statement of Net Assets

June 30, 2005

| | Primary Government | Component Units |
|---|-----------------------|--------------------|
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | 1,040,638 | 40,221 |
| Salaries and benefits payable | 677,023 | - |
| Interest payable | 65,087 | - |
| Deferred revenue: | | |
| Succeeding year property tax | 2,681,000 | - |
| Other | 2,188,089 | - |
| Early retirement payable | 197,448 | - |
| Compensated absences payable | 486,156 | - |
| Deposits held in custody for others | 67,358 | 56,500 |
| Certificates payable | 1,675,000 | - |
| Bonds payable | 195,000 | - |
| Total current liabilities | <u>9,272,799</u> | <u>96,721</u> |
| Noncurrent liabilities: | | |
| Certificates payable | 9,230,000 | - |
| Bonds payable | 3,700,000 | - |
| Total noncurrent liabilities | <u>12,930,000</u> | <u>-</u> |
| Total liabilities | <u>22,202,799</u> | <u>96,721</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | 31,824,772 | 5,983 |
| Restricted: | | |
| Nonexpendable: | | |
| Other | - | 1,049,044 |
| Expendable: | | |
| Scholarships and fellowships | 26,815 | - |
| Debt service | 336,706 | - |
| Cash reserve | 288,745 | - |
| Other | 209,142 | 8,384,208 |
| Unrestricted | <u>12,754,187</u> | <u>3,463,518</u> |
| Total net assets | <u>\$ 45,440,367</u> | <u>12,902,753</u> |

See notes to financial statements.

Exhibit B

Indian Hills Community College
Statement of Revenues, Expenses and
Changes in Net Assets
Year ended June 30, 2005

| | <u>Primary Government</u> | <u>Component Units</u> |
|---|-------------------------------|----------------------------|
| Operating revenues: | | |
| Tuition and fees, net of scholarship allowances of \$2,725,546 | \$ 7,706,115 | - |
| Federal appropriations | 9,095,078 | - |
| Sales and services | 398,188 | - |
| Iowa Industrial New Jobs Training Program | 3,586,833 | - |
| Auxiliary enterprises revenue | 6,565,815 | - |
| Contributions | - | 443,310 |
| Rental income and facility management | - | 467,456 |
| Fines, damages and forfeitures | - | 23,742 |
| Miscellaneous | 1,145,838 | 94,133 |
| Total operating revenues | <u>28,497,867</u> | <u>1,028,641</u> |
| Operating expenses: | | |
| Education and support: | | |
| Liberal arts and sciences | 3,840,659 | - |
| Vocational technical | 8,824,319 | - |
| Adult education | 2,482,312 | - |
| Cooperative services | 2,484,670 | - |
| Administration | 1,564,374 | - |
| Student services | 3,017,213 | - |
| Learning resources | 937,480 | - |
| Physical plant | 3,263,468 | - |
| General institution | 2,985,839 | - |
| Auxiliary enterprises | 6,340,030 | - |
| Scholarships and grants | 3,324,760 | - |
| Workforce Investment Act | 1,188,327 | - |
| Plant operations | 473,830 | - |
| General and administrative | - | 89,617 |
| Program expenses | - | 347,092 |
| Fund raising expense | - | 10,148 |
| Depreciation | 1,469,125 | - |
| Total operating expenses | <u>42,196,406</u> | <u>446,857</u> |
| Operating income (loss) | <u>(13,698,539)</u> | <u>581,784</u> |

Indian Hills Community College
 Statement of Revenues, Expenses and
 Changes in Net Assets
 Year ended June 30, 2005

| | Primary Government | Component Units |
|--|-----------------------------|-----------------------------|
| Non-operating revenues (expenses): | | |
| State appropriations | 12,292,751 | - |
| Property tax | 2,875,524 | - |
| Gifts from Indian Hills Community College Foundation | 617,922 | - |
| Interest on investments | 391,842 | 485,446 |
| Donated capital assets | 112,143 | - |
| Loss on disposal of capital assets | (72,693) | - |
| Gifts to Indian Hills Community College | - | (617,922) |
| Interest on indebtedness | (757,648) | - |
| Net non-operating revenues (expenses) | <u>15,459,841</u> | <u>(132,476)</u> |
| Change in net assets | 1,761,302 | 449,308 |
| Net assets beginning of year | <u>43,679,065</u> | <u>12,453,445</u> |
| Net assets end of year | <u><u>\$ 45,440,367</u></u> | <u><u>\$ 12,902,753</u></u> |

See notes to financial statements.

Indian Hills Community College

Statement of Cash Flows

Year ended June 30, 2005

| | Primary Government |
|---|-----------------------|
| Cash flows from operating activities: | |
| Tuition and fees | \$ 6,323,771 |
| Federal appropriations | 10,299,455 |
| Iowa Industrial New Jobs Training Program | 2,873,039 |
| Payments to employees for salaries and benefits | (23,144,494) |
| Payments to suppliers for goods and services | (12,080,473) |
| Payments to NJTP recipients | (2,390,106) |
| Scholarships | (3,324,760) |
| Auxiliary enterprise receipts | 6,565,815 |
| Other receipts | 1,544,026 |
| | (13,333,727) |
| Net cash used by operating activities | |
| Cash flows from non-capital financing activities: | |
| State appropriations | 12,292,751 |
| Property tax | 2,875,524 |
| Gifts | 617,922 |
| Federal direct lending receipts | 8,633,287 |
| Federal direct lending disbursements | (8,633,287) |
| Proceeds from issuance of debt | 2,480,000 |
| Principal paid on debt | (1,965,000) |
| Interest paid on debt | (538,620) |
| Agency receipts | 2,183,767 |
| Agency disbursements | (2,240,201) |
| | 15,706,143 |
| Net cash provided by non-capital financing activities | |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (1,757,867) |
| Principal paid on debt | (185,000) |
| Interest paid on debt | (210,120) |
| | (2,152,987) |
| Net cash used by capital and related financing activities | |
| Cash flows from investing activities: | |
| Interest on investments | 391,842 |
| Purchase of investments | (3,604,570) |
| | (3,212,728) |
| Net cash used by investing activities | |
| Net decrease in cash and cash equivalents | (2,993,299) |
| Cash and cash equivalents beginning of year | 12,974,113 |
| Cash and cash equivalents end of year | \$ 9,980,814 |

Indian Hills Community College

Statement of Cash Flows

Year ended June 30, 2005

| | Primary Government |
|---|-----------------------|
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (13,698,539) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Depreciation | 1,469,125 |
| Provisions for doubtful accounts | (8,005) |
| Changes in assets and liabilities: | |
| (Increase) in accounts receivable | (1,374,339) |
| (Increase) in NJTP receivable | (713,794) |
| Decrease in due from other governments | 1,021,307 |
| (Increase) in prepaid expenses | (6,172) |
| (Increase) in unamortized bond issue expense | (119,032) |
| Decrease in inventories | 57,162 |
| Increase in accounts payable | 626,748 |
| (Decrease) in salaries and benefits payable | (6,678) |
| Increase in deferred revenue | 183,070 |
| Increase in compensated absences | 43,072 |
| (Decrease) in early retirement payable | (807,652) |
| | 364,812 |
| Total adjustments | 364,812 |
| Net cash used by operating activities | \$ (13,333,727) |

Noncash capital and related financing activities:

The College received donated capital assets with a fair market value of \$112,143

See notes to financial statements.

Exhibit D

Indian Hills Community College

Statement of Net Assets
Component Units

June 30, 2005

| | Indian Hills Community College Development Corp., Inc. | Indian Hills Community College Foundation Inc. | Total |
|---|--|--|-------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and pooled investments | \$ 222,839 | 7,453,262 | 7,676,101 |
| Receivables: | | | |
| Accounts | 841 | 104,600 | 105,441 |
| Mortgages | - | 8,321 | 8,321 |
| Total current assets | <u>223,680</u> | <u>7,566,183</u> | <u>7,789,863</u> |
| Noncurrent assets: | | | |
| Cash and pooled investments | - | 5,203,628 | 5,203,628 |
| Capital assets, net of accumulated depreciation | 5,983 | - | 5,983 |
| Total noncurrent assets | <u>5,983</u> | <u>5,203,628</u> | <u>5,209,611</u> |
| Total assets | <u>229,663</u> | <u>12,769,811</u> | <u>12,999,474</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 26,411 | 13,810 | 40,221 |
| Deposits | 56,500 | - | 56,500 |
| Total liabilities | <u>82,911</u> | <u>13,810</u> | <u>96,721</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 5,983 | - | 5,983 |
| Restricted: | | | |
| Nonexpendable: | | | |
| Other | - | 1,049,044 | 1,049,044 |
| Expendable: | | | |
| Other | - | 8,384,208 | 8,384,208 |
| Unrestricted | 140,769 | 3,322,749 | 3,463,518 |
| Total net assets | <u>\$ 146,752</u> | <u>12,756,001</u> | <u>12,902,753</u> |

See notes to financial statements.

Indian Hills Community College
 Statement of Revenues, Expenses and
 Changes of Net Assets
 Component Units

Year ended June 30, 2005

| | Indian Hills Community College Development Corp., Inc. | Indian Hills Community College Foundation Inc. | Total |
|---|---|---|-------------------|
| Operating revenues: | | | |
| Contributions | \$ - | 443,310 | 443,310 |
| Rental income and facility managemnt | 467,456 | - | 467,456 |
| Fines, damages and forfeitures | 23,742 | - | 23,742 |
| Miscellaneous | 6,119 | 88,014 | 94,133 |
| Total operating revenues | <u>497,317</u> | <u>531,324</u> | <u>1,028,641</u> |
| Operating expenses: | | | |
| General and administrative | 75,149 | 14,468 | 89,617 |
| Program expenses | 347,092 | - | 347,092 |
| Fund raising expenses | - | 10,148 | 10,148 |
| Total operating expenses | <u>422,241</u> | <u>24,616</u> | <u>446,857</u> |
| Operating income | <u>75,076</u> | <u>506,708</u> | <u>581,784</u> |
| Non-operating revenues (expenses): | | | |
| Interest income on investments, net of \$30,071 of investment expenses | 3,481 | 481,965 | 485,446 |
| Gifts to Indian Hills Community College | - | (617,922) | (617,922) |
| Net non-operating revenues (expenses) | <u>3,481</u> | <u>(135,957)</u> | <u>(132,476)</u> |
| Change in net assets | 78,557 | 370,751 | 449,308 |
| Net assets beginning of year | 68,195 | 12,385,250 | 12,453,445 |
| Net assets end of year | <u>\$ 146,752</u> | <u>12,756,001</u> | <u>12,902,753</u> |

See notes to financial statements.

Indian Hills Community College

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

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

The College's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

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

Discrete Component Units

Indian Hills Community College Development Corporation, Inc. is a legally separate not-for-profit corporation established to operate the dormitories for Indian Hills Community College and assist in promoting the College. Although the College does not control the timing or amount of receipts from the Development Corporation, the majority of the resources held are used for the benefit of Indian Hills Community College.

Indian Hills Community College Foundation, Inc. is a legally separate not-for-profit organization established to solicit and receive gifts and grants and make contributions to or for the benefit of Indian Hills Community College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources are used for the benefit of Indian Hills Community College.

B. Financial Statement Presentation

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

Invested in Capital Assets, Net of Related Debt: Capital assets, net of accumulated depreciation and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets:

Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the College, including the College's permanent endowment funds.

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

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

GASB Statement No. 35 also requires the Statements of Net Assets, Revenues, Expenses and Changes in Net Assets and Cash Flows be reported on a consolidated basis. These basic financial statements report information on all of the activities of the College. For the most part, the effect of interfund activity has been removed from these statements.

C. Measurement Focus and Basis of Accounting

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

D. Assets, Liabilities and Net Assets

Cash and Pooled Investments – Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

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

Due from Other Governments – This represents state aid, grants and reimbursements due from the State of Iowa and grants and reimbursements due from the Federal government.

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

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

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

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

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

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

| <u>Asset class</u> | <u>Amount</u> |
|----------------------------------|---------------|
| Land, buildings and improvements | \$25,000 |
| Equipment and vehicles | 5,000 |

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

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|----------------------------|--|
| Buildings and improvements | 15-50 |
| Equipment | 3-10 |
| Vehicles | 5 |

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

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

Auxiliary Enterprise Revenues – Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, food service, printing and central stores.

Summer Session – The College operates summer sessions during May, June and July. Revenues and expenses for the summer sessions are recorded in the appropriate fiscal year. Tuition and fees are allocated based on the number of calendar days in a session.

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 and fellowship expenses.

Operating and Non-operating Activities – Operating activities, as reported in the Statement of Revenues, Expenses and Changes in Net Assets, are transactions resulting from exchange transactions, such as payments received for providing services and payments made for services or goods received. Non-operating activities include state appropriations, property tax and interest income.

E. Scholarship Allowances and Student Aid

Financial aid to students is reported in the financial statements under the alternative method, as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student’s account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a total College basis by allocating the cash payments to students, excluding payments for services, on the ratio of all aid to the aid not considered to be third party aid.

(2) Cash and Pooled Investments

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

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

The College had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$10,898,899 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust is not rated for purposes of credit risk.

(3) Inventories

The College’s inventories at June 30, 2005 are as follows:

| Type | Amount |
|-----------------------------|------------|
| Supplies and materials | \$ 364,695 |
| Work in progress | 240,402 |
| Merchandise held for resale | 160,232 |
| Total | \$ 765,329 |

(4) Capital Assets

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

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|---------------------------------|-----------|-----------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 397,885 | - | - | 397,885 |
| Construction in progress | 3,013,445 | 512,096 | 3,013,445 | 512,096 |
| Total capital assets not being depreciated | 3,411,330 | 512,096 | 3,013,445 | 909,981 |
| Capital assets being depreciated: | | | | |
| Buildings | 40,779,324 | 3,855,025 | - | 44,634,349 |
| Improvements other than buildings | 1,801,874 | 62,991 | - | 1,864,865 |
| Equipment and vehicles | 5,557,396 | 453,343 | 308,395 | 5,702,344 |
| Total capital assets being depreciated | 48,138,594 | 4,371,359 | 308,395 | 52,201,558 |
| Less accumulated depreciation for: | | | | |
| Buildings | 11,312,411 | 986,619 | - | 12,299,030 |
| Improvements other than buildings | 533,874 | 69,868 | - | 603,742 |
| Equipment and vehicles | 4,312,059 | 412,638 | 235,702 | 4,488,995 |
| Total accumulated depreciation | 16,158,344 | 1,469,125 | 235,702 | 17,391,767 |
| Total capital assets being depreciated, net | 31,980,250 | 2,902,234 | 72,693 | 34,809,791 |
| Capital assets, net | \$ 35,391,580 | 3,414,330 | 3,086,138 | 35,719,772 |

(5) Changes in Long-Term Debt

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

| | Certificates Payable | Bonds Payable | Total |
|---------------------------|-------------------------|------------------|------------|
| Balance beginning of year | \$ 10,390,000 | 4,080,000 | 14,470,000 |
| Additions | 2,480,000 | - | 2,480,000 |
| Reductions | 1,965,000 | 185,000 | 2,150,000 |
| Balance end of year | \$ 10,905,000 | 3,895,000 | 14,800,000 |

Certificates Payable

In accordance with agreements dated between June 13, 1995 and June 7, 2005, the College issued certificates totaling \$21,465,000 with interest rates ranging from 3.41% to 7.82%. The debt was incurred to fund the development and training costs incurred relative to implementing Chapter 260E of the Code of Iowa, Iowa Industrial New Jobs Training Program (NJTP). NJTP's purpose is to provide tax-aided training for employees of industries which are new to or are expanding their operations within the State of Iowa. Interest is payable semiannually, while principal payments are due annually. The certificates are to be retired by proceeds from anticipated job credits from withholding taxes, incremental property tax, budgeted reserves and, in the case of default, from standby property tax.

The certificates will mature as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------------|---------------|-----------|------------|
| 2006 | \$ 1,675,000 | 580,449 | 2,255,449 |
| 2007 | 1,975,000 | 476,276 | 2,451,276 |
| 2008 | 1,895,000 | 368,246 | 2,263,246 |
| 2009 | 1,405,000 | 271,745 | 1,676,745 |
| 2010 | 1,010,000 | 198,373 | 1,208,373 |
| 2011-2015 | 2,945,000 | 361,227 | 3,306,227 |
| Total | \$ 10,905,000 | 2,256,316 | 13,161,316 |

Dormitory Revenue Bonds

On March 1, 2000, the College issued revenue bonds of \$5,000,000 for the construction of a new dormitory as allowed by Section 260C.19 of the Code of Iowa and approved by the Iowa Department of Education. The interest rate is 5.15% and the College is required to make semiannual interest payments and annual principal payments with a final maturity date of June 2, 2019. The bonds are to be repaid with anticipated revenue from dormitory operations. In fiscal year 2005, principal payments totaled \$185,000.

Details of the College's June 30, 2005 dormitory revenue bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of March 1, 2000 | | | |
|----------------------------|-----------------------------|--------------|-----------|-----------|
| | Interest Rates | Principal | Interest | Total |
| 2006 | 5.15% | \$ 195,000 | 200,593 | 395,593 |
| 2007 | 5.15 | 205,000 | 190,550 | 395,550 |
| 2008 | 5.15 | 215,000 | 179,993 | 394,993 |
| 2009 | 5.15 | 230,000 | 168,920 | 398,920 |
| 2010 | 5.15 | 240,000 | 157,075 | 397,075 |
| 2011-2015 | 5.15 | 1,405,000 | 586,070 | 1,991,070 |
| 2016-2019 | 5.15 | 1,405,000 | 186,658 | 1,591,658 |
| Total | | \$ 3,895,000 | 1,669,859 | 5,564,859 |

(6) Iowa Public Employees Retirement System (IPERS)

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

Plan members are required to contribute 3.70% of their annual covered salary and the College is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The College's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$614,973, \$631,988 and \$602,522, respectively, equal to the required contributions for each year.

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

The 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% of their annual covered salary and the College is required to contribute 5.75% of annual covered payroll. The College's and employees' required and actual contributions to TIAA-CREF for the year ended June 30, 2005 were \$339,030 and \$218,201, respectively.

(8) Risk Pool

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

Each member's annual contributions to the Program fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Program's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year.

The College's contributions to the risk pool are recorded as prepaid expense from its operating funds at the time of payment to the risk pool. The College amortizes the expense over the periods for which the pool is expected to provide coverage.

The Program uses reinsurance to reduce its exposure to large losses. The Program has a self insured retention of \$100,000 per claim, except for workers' compensation which has a self insured retention of \$200,000. Excess insurance for all lines is \$900,000 per occurrence, except workers compensation which is \$150,000. There is additional excess insurance above that for another \$9,000,000 per member. Property is insured with excess coverage over the self insured retention of up to \$99,000,000. Stop gap loss protection is provided above the member's loss fund.

The Program's intergovernmental contract with its members provides that in the event any claim or series of claims exceeds the amount of aggregate excess insurance, then payment of such claims shall be the obligation of the respective individual member. The College does not report a liability for losses in excess of reinsurance unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the College's financial statements. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage in any of the past three fiscal years.

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

The College also carries commercial insurance purchased from other insurers for coverage associated with catastrophic, accidental death and dismemberment. The College assumes liability for any deductibles and claims in excess of coverage limits. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Employee Health Insurance Plan

The Indian Hills Community College Employee Group Health Fund was established to account for the partial self funding of the College's health insurance benefit plan. The plan is funded by both employee and College contributions and is administered through service agreements with Auxiant, formerly known as Employee Group Services. The agreements are subject to automatic renewal provisions. The College assumes liability for claims up to the individual stop loss limitation of \$40,000 per person. Claims in excess of coverage are insured through purchase of stop loss insurance through commercial carriers.

Monthly payments of service fees and plan contributions to the College's Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Auxiant from the Employee Group Health Fund. The College records the plan assets and related liabilities of the Employee Group Health Fund as an Unrestricted Current Fund. Total contributions to the fund for the year ended June 30, 2005 were \$1,220,956.

Amounts payable from the Employee Group Health Fund at June 30, 2005 total \$75,957, which is for claims incurred and not paid as of June 30, 2005. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in the past year. Information on changes in the aggregate liabilities for claims for the current year is as follows:

| | Liability, Beginning of Year | Current Year Claims and Changes in Estimates | Claim Payments | Liability, End of Year |
|-----------------------------|------------------------------------|---|-------------------|------------------------------|
| Year ended June 30, 2005 | \$ 57,162 | 1,225,890 | (1,207,095) | 75,957 |

(10) New Jobs Training Programs

The College administers the Iowa Industrial New Jobs Training Program (NJTP) in Area XV in accordance with Chapter 260E of the Code of Iowa. NJTP's purpose is to provide tax-aided training or retraining for employees of industries which are new to or are expanding their operations within the State of Iowa. Certificates are sold by the College to fund approved projects and are to be retired by proceeds from anticipated jobs credits from withholding taxes, incremental property tax, budgeted reserves and, in the case of default, from standby property tax. Since inception, the College has administered 61 projects, with 17 currently receiving project funding. Of the remaining 44 projects, 41 projects have been completed, of which 23 have been fully repaid and 18 are in the repayment process. Three projects have defaulted, one of which was repaid by the guarantor bank and one is being paid by standby levy. In cases where projects exceed the budgeted amounts, the College intends to obtain additional withholding revenue from the companies.

The College also administered the Iowa Small Business New Jobs Training Program (SBNJTP) in Area XV in accordance with Chapter 260F of the Code of Iowa. SBNJTP's purpose is to provide tax-aided training or retraining for employees of small businesses which are new to or are expanding their operations within the State of Iowa. Approved small businesses received loans from the Iowa Employment Training Fund, a State administered fund. Since inception, the College administered ten projects. Of the ten projects, four were completed and six defaulted.

(11) Early Retirement

On November 10, 2003, the Board of Directors passed an Early Retirement Program. The program enrollment period ran from November 11, 2003 until January 15, 2004. Full-time staff who were between the ages of 55 and 65, had been employed by the College continually for the previous 10 years and were eligible for the College's group health plan during those 10 years were eligible.

Early retirement would begin at the end of the employee's contract or by June 30, 2004. Employees who accepted early retirement would receive a cash payment equal to 5% of the employee's annualized salary for each full year of employment up to 100%. The employee had the option to receive a one time payment or installments as approved by the employee and the College. Employees could also elect to receive single coverage health insurance paid by the College until the age of 65 or a cash payment made monthly for a maximum of 12 months or until age 65.

The liability at June 30, 2005 for those employees who have elected early retirement was \$197,448. Early retirement is funded on a pay-as-you-go basis through property tax levies. During the year ended June 30, 2005, \$807,652 was paid from the Unrestricted Fund.

(12) Segment Reporting

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bond issues are outstanding. A segment has a specifically identifiable revenue stream pledged in support of revenue bonds and has related expenses, assets and liabilities required by an external party to be accounted for separately. The College has one segment meeting the reporting requirement of GASB Statement No. 35. The segment is the Residence System. The College is required to present the following condensed statements: statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows for the segment.

Dormitory revenue bonds were issued for the construction of a new residence hall. The bonds are payable from the net rents, profits and income derived from operation of the system. The primary source of revenue is dormitory room rental.

| | <u>Residence System</u> |
|---|-----------------------------|
| Condensed Statement of Net Assets | |
| Assets: | |
| Current assets | \$ 353,422 |
| Capital assets, net of accumulated depreciation | 8,685,246 |
| Total assets | <u>9,038,668</u> |
| Liabilities: | |
| Current liabilities | 236,759 |
| Noncurrent liabilities | 3,700,000 |
| Total liabilities | <u>3,936,759</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 4,790,246 |
| Restricted | 311,663 |
| Total net assets | <u>\$ 5,101,909</u> |

Condensed Statement of Revenues, Expenses and Changes in Net Assets

| | |
|------------------------------|---------------------|
| Operating revenues: | |
| Sales and services | \$ 434,427 |
| Operating expenses | (376,688) |
| Depreciation | (204,918) |
| Operating loss | <u>(147,179)</u> |
| Nonoperating income: | |
| Investment income | 9,274 |
| Decrease in net assets | <u>(137,905)</u> |
| Net assets beginning of year | 5,239,814 |
| Net assets end of year | <u>\$ 5,101,909</u> |

Condensed Statement of Cash Flows

| | |
|---|-------------------|
| Net cash flows provided by operating activities | \$ 309,619 |
| Net cash flows provided by investing activities | 9,274 |
| Net cash flows used in capital and related financing activities | (395,120) |
| Net decrease in cash and cash equivalents | (76,227) |
| Cash and cash equivalents beginning of year | 429,649 |
| Cash and cash equivalents end of year | <u>\$ 353,422</u> |

Required Supplementary Information

Indian Hills Community College
 Budgetary Comparison Schedule of Expenditures -
 Budget and Actual

Required Supplementary Information

Year ended June 30, 2005

| Funds/Levy | Original/ Final Budget | Actual | Variance between Actual and Budget |
|-----------------------|------------------------------|-------------------|---|
| Unrestricted | \$ 25,510,000 | 24,715,816 | 794,184 |
| Restricted | 6,603,896 | 5,099,844 | 1,504,052 |
| Unemployment | 40,000 | 6,100 | 33,900 |
| Insurance | 447,000 | 428,947 | 18,053 |
| Tort Liability | 168,000 | 179,201 | (11,201) |
| Early Retirement | 734,412 | - | 734,412 |
| Standby | 45,093 | - | 45,093 |
| Equipment Replacement | 344,745 | 338,331 | 6,414 |
| Total Restricted | <u>8,383,146</u> | <u>6,052,423</u> | <u>2,330,723</u> |
| Plant | 7,555,052 | 1,942,161 | 5,612,891 |
| Bonds and Interest | <u>395,120</u> | <u>394,326</u> | <u>794</u> |
| Total | <u>\$ 41,843,318</u> | <u>33,104,726</u> | <u>8,738,592</u> |

The variance in the Restricted Fund is due to the College budgeting an allowance for NJTP projects which may or may not come to fruition. In addition, the College budgets an additional amount for federal grants which are in process and may or may not be awarded.

See accompanying independent auditor's report.

Indian Hills Community College

Note to Required Supplementary Information -
Budgetary Reporting

June 30, 2005

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

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

Other Supplementary Information

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

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

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

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

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

Endowment Funds – The Endowment Funds are used to account for resources, the principal of which is maintained inviolate to conform with restrictions by donors or other outside agencies. Generally, only the income from these funds may be used.

Plant Funds – The Plant Funds are used to account for transactions relating to investment in the College's 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. Agency Fund assets equal liabilities.

Schedules presented in the other supplementary information are reported using the current financial resources measurement focus and the accrual basis of accounting, except for depreciation and other items included in the adjustments column. The statement of revenues, expenditures and changes in fund balance is a 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.

Indian Hills Community College

Balance Sheet
All Funds

June 30, 2005

| | Current Funds | |
|---|----------------------|-------------------|
| | Unrestricted | Restricted |
| Assets | | |
| Cash and investments: | | |
| Cash and pooled investments | \$ 1,577,511 | 5,723,747 |
| ISJIT investments | 4,516,245 | 1,955,205 |
| Receivables: | | |
| Accounts (less allowance of \$267,367) | 1,535,187 | 4,585 |
| Succeeding year property tax | 709,000 | 1,185,000 |
| Iowa Industrial New Jobs Training Program | - | 3,292,881 |
| Due from other funds | 839,556 | 1,021,846 |
| Due from other governments | 1,490,371 | 140,697 |
| Prepaid expenses | 525 | 45,427 |
| Unamortized bond issue expense | - | 1,680,207 |
| Inventories | 765,329 | - |
| Capital assets: | | |
| Land | - | - |
| Buildings | - | - |
| Construction in progress | - | - |
| Improvements other than buildings | - | - |
| Equipment and vehicles | - | - |
| Accumulated depreciation | - | - |
| Total assets | \$ 11,433,724 | 15,049,595 |

| Endowment Funds | Plant Funds | | | Agency Funds | Adjustments | Total |
|--------------------|-----------------|-------------------------------|------------------------|-----------------|--------------|--------------|
| | Unex- pended | Retirement of Indebtedness | Investment in Plant | | | |
| 1,000,000 | 1,679,556 | - | - | - | - | 9,980,814 |
| 2,600,000 | 791,559 | 353,422 | - | 82,468 | - | 10,298,899 |
| - | 7,472 | - | - | - | - | 1,547,244 |
| - | 787,000 | - | - | - | - | 2,681,000 |
| - | - | - | - | - | - | 3,292,881 |
| - | 52,230 | - | - | - | (1,913,632) | - |
| - | - | - | - | - | - | 1,631,068 |
| - | - | - | - | - | - | 45,952 |
| - | - | - | - | - | - | 1,680,207 |
| - | - | - | - | - | - | 765,329 |
| - | - | - | 397,885 | - | - | 397,885 |
| - | - | - | 44,634,349 | - | - | 44,634,349 |
| - | - | - | 512,096 | - | - | 512,096 |
| - | - | - | 1,864,865 | - | - | 1,864,865 |
| - | - | - | 5,702,344 | - | - | 5,702,344 |
| - | - | - | - | - | (17,391,767) | (17,391,767) |
| 3,600,000 | 3,317,817 | 353,422 | 53,111,539 | 82,468 | (19,305,399) | 67,643,166 |

Indian Hills Community College

Balance Sheet
All Funds

June 30, 2005

| | Current Funds | |
|---|----------------------|-------------------|
| | Unrestricted | Restricted |
| Liabilities and Fund Balances | | |
| Liabilities: | | |
| Accounts payable | \$ 1,028,414 | 10,528 |
| Salaries and benefits payable | 608,863 | 66,990 |
| Interest payable | - | 48,371 |
| Due to other funds | 1,408,560 | 495,374 |
| Deferred revenue: | | |
| Succeeding year property tax | 709,000 | 1,185,000 |
| Other | 601,434 | 1,584,109 |
| Early retirement payable | - | 197,448 |
| Compensated absences | 454,083 | 32,073 |
| Deposits held in custody for others | - | - |
| Certificates payable | - | 10,905,000 |
| Bonds payable | - | - |
| Total liabilities | 4,810,354 | 14,524,893 |
| Fund balances: | | |
| Invested in capital assets, net of related debt | - | - |
| Fund balances: | | |
| Restricted | | |
| Expendable: | | |
| Scholarships and fellowships | - | 26,815 |
| Debt service | - | - |
| Cash reserve | - | 288,745 |
| Other | - | 209,142 |
| Unrestricted | 2,587,126 | - |
| Auxiliary enterprises | 4,036,244 | - |
| Total fund balance | 6,623,370 | 524,702 |
| Total liabilities and fund balances | \$ 11,433,724 | 15,049,595 |

See accompanying independent auditor's report.

| Endowment Funds | Plant Funds | | | Agency Funds | Adjustments | Total |
|--------------------|-----------------|-------------------------------|------------------------|-----------------|--------------|------------|
| | Unex- pended | Retirement of Indebtedness | Investment in Plant | | | |
| - | - | - | - | 1,696 | - | 1,040,638 |
| - | - | - | - | 1,170 | - | 677,023 |
| - | - | 16,716 | - | - | - | 65,087 |
| - | - | - | - | 9,698 | (1,913,632) | - |
| - | 787,000 | - | - | - | - | 2,681,000 |
| - | - | - | - | 2,546 | - | 2,188,089 |
| - | - | - | - | - | - | 197,448 |
| - | - | - | - | - | - | 486,156 |
| - | - | - | - | 67,358 | - | 67,358 |
| - | - | - | - | - | - | 10,905,000 |
| - | - | - | 3,895,000 | - | - | 3,895,000 |
| - | 787,000 | 16,716 | 3,895,000 | 82,468 | (1,913,632) | 22,202,799 |
| - | - | - | 49,216,539 | - | (17,391,767) | 31,824,772 |
| - | - | - | - | - | - | 26,815 |
| - | - | 336,706 | - | - | - | 336,706 |
| - | - | - | - | - | - | 288,745 |
| - | - | - | - | - | - | 209,142 |
| 3,600,000 | 2,530,817 | - | - | - | - | 8,717,943 |
| - | - | - | - | - | - | 4,036,244 |
| 3,600,000 | 2,530,817 | 336,706 | 49,216,539 | - | (17,391,767) | 45,440,367 |
| 3,600,000 | 3,317,817 | 353,422 | 53,111,539 | 82,468 | (19,305,399) | 67,643,166 |

Indian Hills Community College

Schedule of Revenues, Expenditures and
Changes in Fund Balances
All Funds

Year ended June 30, 2005

| | Current Funds | |
|--|-------------------|-------------------|
| | Unrestricted | Restricted |
| Revenues: | | |
| General: | | |
| State appropriations | \$ 11,499,637 | 555,516 |
| Tuition and fees | 10,431,661 | - |
| Property tax | 770,942 | 1,311,633 |
| Federal appropriations | 897,099 | 8,197,979 |
| Sales and services | 107,876 | - |
| Interest on investments | 149,853 | 195,508 |
| Iowa Industrial New Jobs Training Program | - | 3,586,833 |
| Increase in plant investment due to donated plant assets | - | - |
| Increase in plant investment due to plant expenditures (including \$289,536 in current fund expenditures) | - | - |
| Increase in plant investment due to retirement of debt | - | - |
| Miscellaneous | 728,354 | 894,671 |
| | <u>24,585,422</u> | <u>14,742,140</u> |
| Auxiliary enterprises: | | |
| Tuition and fees | 205,707 | - |
| Federal appropriations | 28,168 | - |
| Sales and services | 5,611,876 | - |
| Interest on investments | 47,880 | - |
| Reimbursement from operating funds for self funded health insurance | 1,220,956 | - |
| Miscellaneous | 97,219 | - |
| | <u>7,211,806</u> | <u>-</u> |
| Total revenues | <u>31,797,228</u> | <u>14,742,140</u> |
| Expenditures: | | |
| Education and support: | | |
| Liberal arts and sciences | 3,652,547 | 261,292 |
| Vocational technical | 8,284,121 | 864,713 |
| Adult education | 1,891,022 | 693,687 |
| Cooperative services | 63,588 | 2,421,608 |
| Administration | 1,308,122 | 344,431 |
| Student services | 2,819,088 | 310,224 |
| Learning resources | 953,797 | - |
| Physical plant | 2,867,063 | 428,947 |
| General institution | 2,876,468 | 179,200 |
| Total education and support | <u>24,715,816</u> | <u>5,504,102</u> |

| Plant Funds | | | | |
|-----------------|-------------------------------|------------------------|-------------|------------|
| Unex- pended | Retirement of Indebtedness | Investment in Plant | Adjustments | Total |
| 237,598 | - | - | - | 12,292,751 |
| - | - | - | (2,725,546) | 7,706,115 |
| 777,202 | 15,747 | - | - | 2,875,524 |
| - | - | - | - | 9,095,078 |
| 290,312 | - | - | - | 398,188 |
| 37,117 | 9,364 | - | - | 391,842 |
| - | - | - | - | 3,586,833 |
| - | - | 112,143 | - | 112,143 |
| - | - | 1,757,867 | (1,757,867) | - |
| - | - | 185,000 | (185,000) | - |
| 140,735 | - | - | - | 1,763,760 |
| 1,482,964 | 25,111 | 2,055,010 | (4,668,413) | 38,222,234 |
| - | - | - | - | 205,707 |
| - | - | - | - | 28,168 |
| - | - | - | (645,991) | 4,965,885 |
| - | - | - | - | 47,880 |
| - | - | - | - | 1,220,956 |
| - | - | - | - | 97,219 |
| - | - | - | (645,991) | 6,565,815 |
| 1,482,964 | 25,111 | 2,055,010 | (5,314,404) | 44,788,049 |
| - | - | - | (73,180) | 3,840,659 |
| - | - | - | (324,515) | 8,824,319 |
| - | - | - | (102,397) | 2,482,312 |
| - | - | - | (526) | 2,484,670 |
| - | - | - | (88,179) | 1,564,374 |
| - | - | - | (112,099) | 3,017,213 |
| - | - | - | (16,317) | 937,480 |
| - | - | - | (32,542) | 3,263,468 |
| - | - | - | (69,829) | 2,985,839 |
| - | - | - | (819,584) | 29,400,334 |

Indian Hills Community College

Schedule of Revenues, Expenditures and
Changes in Fund Balances
All Funds

Year ended June 30, 2005

| | Current Funds | |
|--|---------------------|--------------------|
| | Unrestricted | Restricted |
| Expenditures (continued): | | |
| Auxiliary enterprises | 6,450,441 | - |
| Scholarships and grants | - | 6,050,306 |
| Workforce Investment Act | - | 1,193,859 |
| Plant operations | - | - |
| Plant asset acquisitions | - | - |
| Retirement of indebtedness | - | - |
| Disposal of plant assets | - | - |
| Interest on indebtedness | - | 548,322 |
| Depreciation | - | - |
| Loss on disposal of capital assets | - | - |
| Total expenditures | <u>31,166,257</u> | <u>13,296,589</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>630,971</u> | <u>1,445,551</u> |
| Transfers: | | |
| Mandatory transfers | (309,619) | - |
| Non-mandatory transfers | 839,460 | (1,358,586) |
| Total transfers | <u>529,841</u> | <u>(1,358,586)</u> |
| Net | 1,160,812 | 86,965 |
| Fund balances beginning of year | <u>5,462,558</u> | <u>437,737</u> |
| Fund balances end of year | <u>\$ 6,623,370</u> | <u>524,702</u> |

See accompanying independent auditor's report.

| Endowment Funds | Plant Funds | | | Adjustments | Total |
|--------------------|-----------------|-------------------------------|------------------------|--------------|------------|
| | Unex- pended | Retirement of Indebtedness | Investment in Plant | | |
| - | - | - | - | (110,411) | 6,340,030 |
| - | - | - | - | (2,725,546) | 3,324,760 |
| - | - | - | - | (5,532) | 1,188,327 |
| - | 473,830 | - | - | - | 473,830 |
| - | 1,468,331 | - | - | (1,468,331) | - |
| - | - | 185,000 | - | (185,000) | - |
| - | - | - | 308,395 | (308,395) | - |
| - | - | 209,326 | - | - | 757,648 |
| - | - | - | - | 1,469,125 | 1,469,125 |
| - | - | - | - | 72,693 | 72,693 |
| - | 1,942,161 | 394,326 | 308,395 | (4,080,981) | 43,026,747 |
| - | (459,197) | (369,215) | 1,746,615 | (1,233,423) | 1,761,302 |
| - | - | 309,619 | - | - | - |
| - | 868,689 | (349,563) | - | - | - |
| - | 868,689 | (39,944) | - | - | - |
| - | 409,492 | (409,159) | 1,746,615 | (1,233,423) | 1,761,302 |
| 3,600,000 | 2,121,325 | 745,865 | 47,469,924 | (16,158,344) | 43,679,065 |
| 3,600,000 | 2,530,817 | 336,706 | 49,216,539 | (17,391,767) | 45,440,367 |

Indian Hills Community College

Schedule of Revenues, Expenditures and
Changes in Fund Balances
Unrestricted Fund
Education and Support

Year ended June 30, 2005

| | Education | | | |
|--|---------------------------------|-------------------------|--------------------|------------------------------|
| | Liberal Arts and Sciences | Vocational Technical | Adult Education | Coopera- tive Services |
| Revenues: | | | | |
| State appropriations | \$ 3,397,609 | 6,587,483 | 1,381,559 | - |
| Tuition and fees | 4,199,400 | 5,199,435 | 856,449 | 68,253 |
| Property tax | - | - | - | - |
| Federal appropriations | - | 449,393 | 287,706 | - |
| Sales and services | 686 | 5,399 | 81,581 | - |
| Interest on investments | 134,669 | - | - | - |
| Miscellaneous | 273 | 236,870 | 7,776 | - |
| | <u>7,732,637</u> | <u>12,478,580</u> | <u>2,615,071</u> | <u>68,253</u> |
| Allocation of support services | 524,173 | 963,802 | 202,906 | - |
| Total revenues | <u>8,256,810</u> | <u>13,442,382</u> | <u>2,817,977</u> | <u>68,253</u> |
| Expenditures: | | | | |
| Salaries and benefits | 3,387,058 | 7,636,673 | 1,390,140 | 60,564 |
| Services | 99,599 | 147,839 | 331,514 | 526 |
| Materials and supplies | 116,059 | 359,193 | 45,665 | - |
| Travel | 31,594 | 135,125 | 36,724 | 2,498 |
| Loan cancellation and bad debts | - | - | - | - |
| Administrative and collections | - | - | 320 | - |
| Plant asset acquisitions | - | - | - | - |
| Cost of goods sold | 4,494 | 265 | 79,495 | - |
| Miscellaneous | 13,743 | 5,026 | 7,164 | - |
| | <u>3,652,547</u> | <u>8,284,121</u> | <u>1,891,022</u> | <u>63,588</u> |
| Allocation of support services | 3,355,607 | 6,169,987 | 1,298,944 | - |
| Total expenditures | <u>7,008,154</u> | <u>14,454,108</u> | <u>3,189,966</u> | <u>63,588</u> |
| Excess (deficiency) of revenues over (under) expenditures | 1,248,656 | (1,011,726) | (371,989) | 4,665 |
| Transfers: | | | | |
| Non-mandatory transfers | - | 7,253 | - | - |
| Net | <u>\$ 1,248,656</u> | <u>(1,004,473)</u> | <u>(371,989)</u> | <u>4,665</u> |
| Fund balance beginning of year | | | | |
| Fund balance end of year | | | | |

Note: The support services allocations are based on the percentage of contact hours reported.

See accompanying independent auditor's report.

| General Adminis- tration | Support | | | | Education and Support Total |
|--------------------------------|---------------------|-----------------------|-------------------|------------------------|--------------------------------------|
| | Student Services | Learning Resources | Physical Plant | General Institution | |
| - | - | 123,780 | 9,206 | - | 11,499,637 |
| 1,049 | 107,075 | - | - | - | 10,431,661 |
| 770,942 | - | - | - | - | 770,942 |
| - | 160,000 | - | - | - | 897,099 |
| - | 13,565 | 4,368 | 1,383 | 894 | 107,876 |
| 15,184 | - | - | - | - | 149,853 |
| 142,625 | 6,199 | 2,286 | 313,056 | 19,269 | 728,354 |
| 929,800 | 286,839 | 130,434 | 323,645 | 20,163 | 24,585,422 |
| (929,800) | (286,839) | (130,434) | (323,645) | (20,163) | - |
| - | - | - | - | - | 24,585,422 |
| 938,322 | 2,579,674 | 464,368 | 1,507,856 | 1,743,657 | 19,708,312 |
| 114,526 | 121,212 | 359,413 | 1,050,503 | 792,836 | 3,017,968 |
| 12,388 | 94,700 | 121,836 | 294,749 | 167,877 | 1,212,467 |
| 46,419 | 18,995 | 4,631 | 170 | 84,552 | 360,708 |
| 169,269 | - | - | - | - | 169,269 |
| 12,869 | - | - | - | - | 13,189 |
| - | - | - | 13,785 | - | 13,785 |
| - | - | - | - | - | 84,254 |
| 14,329 | 4,507 | 3,549 | - | 87,546 | 135,864 |
| 1,308,122 | 2,819,088 | 953,797 | 2,867,063 | 2,876,468 | 24,715,816 |
| (1,308,122) | (2,819,088) | (953,797) | (2,867,063) | (2,876,468) | - |
| - | - | - | - | - | 24,715,816 |
| - | - | - | - | - | (130,394) |
| 597,641 | - | - | - | 30,798 | 635,692 |
| 597,641 | - | - | - | 30,798 | 505,298 |
| | | | | | 2,081,828 |
| | | | | | <u>\$ 2,587,126</u> |

Indian Hills Community College

Indian Hills Community College

Schedule of Revenues, Expenditures and
Changes in Fund Balances
Unrestricted Fund
Auxiliary Enterprises

Year ended June 30, 2005

| | Institutional Services | Education Program | Miscellaneous | Total |
|---|---------------------------|----------------------|------------------|------------------|
| Revenues: | | | | |
| Tuition and fees | \$ - | 185,192 | 20,515 | 205,707 |
| Federal appropriations | - | 28,168 | - | 28,168 |
| Sales and services | 3,023,028 | 2,041,551 | 547,297 | 5,611,876 |
| Interest on investments | 5,013 | - | 42,867 | 47,880 |
| Reimbursements from operating funds for self funded health insurance | 1,220,956 | - | - | 1,220,956 |
| Miscellaneous | 17,004 | 65,102 | 15,113 | 97,219 |
| Total revenues | 4,266,001 | 2,320,013 | 625,792 | 7,211,806 |
| Expenditures: | | | | |
| Salaries and benefits | 335,168 | 915,860 | 85,672 | 1,336,701 |
| Services | 185,014 | 151,431 | 79,586 | 416,031 |
| Materials and supplies | 136,596 | 15,887 | 54,402 | 206,885 |
| Travel | 19,462 | 2,529 | 1,649 | 23,640 |
| Loan cancellation and bad debts | 39,818 | - | - | 39,818 |
| Plant asset acquisitions | 26,219 | 6,290 | - | 32,509 |
| Group health claims | 1,207,095 | - | - | 1,207,095 |
| Miscellaneous | - | 225,325 | - | 225,325 |
| Cost of goods sold | 1,991,722 | 970,715 | - | 2,962,437 |
| Total expenditures | 3,941,094 | 2,288,037 | 221,309 | 6,450,441 |
| Excess of revenues over expenditures | 324,907 | 31,976 | 404,483 | 761,365 |
| Transfers: | | | | |
| Mandatory transfers | - | - | (309,619) | (309,619) |
| Non-mandatory transfers | 135,658 | - | 68,110 | 203,768 |
| Total transfers | 135,658 | - | (241,509) | (105,851) |
| Net | 460,565 | 31,976 | 162,974 | 655,514 |
| Fund balances beginning of year | 2,293,287 | 14,647 | 1,072,796 | 3,380,730 |
| Fund balances end of year | \$ 2,753,852 | 46,623 | 1,235,770 | 4,036,244 |

See accompanying independent auditor's report.

Indian Hills Community College

Schedule of Revenues, Expenditures and
Changes in Fund Balances
Restricted Fund

Year ended June 30, 2005

| | Scholarships and Grants | Equipment Replacement | Tort Liability | Insurance | Early Retirement |
|---|-------------------------------|--------------------------|-------------------|-----------|---------------------|
| Revenues: | | | | | |
| State appropriations | \$ 281,120 | - | - | - | - |
| Property tax | - | 338,331 | 199,126 | 470,758 | 224,133 |
| Federal appropriations | 4,918,648 | - | - | - | - |
| Interest on investments | - | - | - | - | - |
| Iowa Industrial New Jobs Training Program | - | - | - | - | - |
| Miscellaneous | 856,860 | - | - | 21,833 | - |
| Total revenues | 6,056,628 | 338,331 | 199,126 | 492,591 | 224,133 |
| Expenditures: | | | | | |
| Salaries and benefits | - | - | 73,280 | - | - |
| Services | 13,120 | - | 105,921 | 420,882 | - |
| Materials and supplies | - | 266,215 | - | 8,065 | - |
| Travel | - | - | - | - | - |
| Interest on indebtedness | - | - | - | - | - |
| Awards to subrecipients | - | - | - | - | - |
| Plant asset acquisitions | - | 72,116 | - | - | - |
| Miscellaneous | - | - | - | - | - |
| Federal Pell grant program | 4,602,516 | - | - | - | - |
| Federal supplemental educational opportunity grant | 102,400 | - | - | - | - |
| Health and Human Services Nursing | 200,612 | - | - | - | - |
| Iowa College Student Aid Commission | 281,120 | - | - | - | - |
| Private scholarships | 850,538 | - | - | - | - |
| Total expenditures | 6,050,306 | 338,331 | 179,201 | 428,947 | - |
| Excess (deficiency) of revenues over (under) expenditures | 6,322 | - | 19,925 | 63,644 | 224,133 |
| Transfers: | | | | | |
| Non-mandatory transfers | - | - | 15,201 | - | (224,133) |
| Net | 6,322 | - | 35,126 | 63,644 | - |
| Fund balances beginning of year | 20,493 | - | - | 5,916 | - |
| Fund balances end of year | \$ 26,815 | - | 35,126 | 69,560 | - |

See accompanying Independent Auditor's Report

See accompanying independent auditor's report.

| Unemploy- ment Compen- sation | Higher Education Institutional Aid (Title III) | Workforce Investment Act | Iowa Industrial New Jobs Training Program | Miscel- laneous | Total |
|--|---|--------------------------------|---|--------------------|--------------------|
| - | - | - | - | 274,396 | 555,516 |
| 39,709 | - | - | 39,576 | - | 1,311,633 |
| - | 357,724 | 1,187,998 | - | 1,733,609 | 8,197,979 |
| - | - | - | 195,508 | - | 195,508 |
| - | - | - | 3,586,833 | - | 3,586,833 |
| - | - | - | - | 15,978 | 894,671 |
| <u>39,709</u> | <u>357,724</u> | <u>1,187,998</u> | <u>3,821,917</u> | <u>2,023,983</u> | <u>14,742,140</u> |
| 6,100 | 173,639 | 706,604 | 146,599 | 928,608 | 2,034,830 |
| - | 8,270 | 189,189 | 2,271,074 | 378,139 | 3,386,595 |
| - | 110,327 | 30,791 | - | 132,137 | 547,535 |
| - | 17,988 | 22,208 | 3,934 | 112,266 | 156,396 |
| - | - | - | 548,322 | - | 548,322 |
| - | - | 245,068 | - | - | 245,068 |
| - | - | - | - | 171,126 | 243,242 |
| - | - | - | - | 97,415 | 97,415 |
| - | - | - | - | - | 4,602,516 |
| - | - | - | - | - | 102,400 |
| - | - | - | - | - | 200,612 |
| - | - | - | - | - | 281,120 |
| - | - | - | - | - | 850,538 |
| <u>6,100</u> | <u>310,224</u> | <u>1,193,860</u> | <u>2,969,929</u> | <u>1,819,691</u> | <u>13,296,589</u> |
| 33,609 | 47,500 | (5,862) | 851,988 | 204,292 | 1,445,551 |
| <u>(46,000)</u> | <u>(47,500)</u> | <u>-</u> | <u>(851,988)</u> | <u>(204,166)</u> | <u>(1,358,586)</u> |
| (12,391) | - | (5,862) | - | 126 | 86,965 |
| <u>36,313</u> | <u>-</u> | <u>19,509</u> | <u>-</u> | <u>355,506</u> | <u>437,737</u> |
| <u>23,922</u> | <u>-</u> | <u>13,647</u> | <u>-</u> | <u>355,632</u> | <u>524,702</u> |

Indian Hills Community College

Indian Hills Community College

Schedule of Changes in Deposits Held in Custody for Others
Agency Funds

Year ended June 30, 2005

| | Athletics and Student Organizations | Federal Direct Student Loan Program | Retraining Program (HF 260F) | Miscel- laneous | Total |
|---------------------------------|---|---|------------------------------------|--------------------|------------|
| Balance beginning of year | \$ (7,628) | - | 91,429 | 39,991 | 123,792 |
| Additions: | | | | | |
| State appropriations | - | - | 184,333 | 1,386,826 | 1,571,159 |
| Federal appropriations | - | 8,633,287 | - | - | 8,633,287 |
| Tuition and fees | 188,440 | - | - | - | 188,440 |
| Sales and services | 170,401 | - | - | 74,595 | 244,996 |
| Miscellaneous | 21,099 | - | - | 130,415 | 151,514 |
| Flexible spending contributions | - | - | - | 27,658 | 27,658 |
| Total additions | 379,940 | 8,633,287 | 184,333 | 1,619,494 | 10,817,054 |
| Deductions: | | | | | |
| Salaries and benefits | 11,328 | - | - | 122,168 | 133,496 |
| Services | 89,691 | - | 193,295 | 80,177 | 363,163 |
| Materials and supplies | 71,650 | - | - | 267 | 71,917 |
| Travel | 225,097 | - | - | - | 225,097 |
| Miscellaneous | 29,914 | - | - | 1,388,167 | 1,418,081 |
| Cost of goods sold | 9,347 | - | - | - | 9,347 |
| Direct student loans | - | 8,633,287 | - | - | 8,633,287 |
| Flexible spending disbursements | - | - | - | 19,100 | 19,100 |
| Total deductions | 437,027 | 8,633,287 | 193,295 | 1,609,879 | 10,873,488 |
| Balance end of year | \$ (64,715) | - | 82,467 | 49,606 | 67,358 |

See accompanying independent auditor's report.

Schedule 7

Indian Hills Community College
Schedule of Credit and Contact Hours
Year ended June 30, 2005

| Category | Credit Hours | | | Contact Hours | | |
|--------------------------------------|---------------------|-------------------------|----------------|---------------------|-------------------------|------------------|
| | Eligible for Aid | Not Eligible for Aid | Total | Eligible for Aid | Not Eligible for Aid | Total |
| Arts and Sciences | 45,963 | - | 45,963 | 949,326 | - | 949,326 |
| Vocational Education | 55,705 | 24 | 55,729 | 1,792,394 | - | 1,792,394 |
| Adult Education/Continuing Education | - | - | - | 368,796 | 15,372 | 384,168 |
| Cooperative programs/services | - | - | - | - | - | - |
| Related Services and Activities | - | - | - | - | - | - |
| Total | <u>101,668</u> | <u>24</u> | <u>101,692</u> | <u>3,110,516</u> | <u>15,372</u> | <u>3,125,888</u> |

See accompanying independent auditor's report.

Indian Hills Community College
Schedule of Tax and Intergovernmental Revenues

| | Years ended June 30, | | | |
|----------------------|----------------------|-------------------|-------------------|-------------------|
| | 2005 | 2004 | 2003 | 2002 |
| Local (property tax) | \$ 2,875,524 | 3,179,361 | 3,163,315 | 3,039,503 |
| State | 12,292,751 | 11,593,825 | 11,740,024 | 12,569,921 |
| Federal | 9,123,246 | 8,944,834 | 8,563,371 | 7,753,398 |
| Total | <u>\$ 24,291,521</u> | <u>23,718,020</u> | <u>23,466,710</u> | <u>23,362,822</u> |

See accompanying independent auditor's report.

Schedule 9

Indian Hills Community College

Schedule of Current Fund Revenues by Source
and Expenditures by Function

For the Last Five Years

| | Years ended June 30, | | | | |
|--|----------------------|------------|------------|------------|------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Revenues: | | | | | |
| State appropriations | \$ 12,055,153 | 11,877,824 | 11,740,024 | 11,903,254 | 12,931,112 |
| Tuition and fees | 10,431,661 | 10,085,886 | 9,290,403 | 8,153,196 | 6,769,630 |
| Property tax | 2,082,575 | 1,464,791 | 1,444,351 | 1,456,252 | 1,445,763 |
| Federal appropriations | 9,095,078 | 8,925,246 | 8,552,156 | 7,741,431 | 6,181,892 |
| Sales and services | 107,876 | 702,491 | 57,281 | 28,982 | 36,439 |
| Interest on investments | 345,361 | 103,560 | 204,443 | 323,758 | 611,783 |
| Iowa Industrial New Jobs Training Program | 3,586,833 | 2,605,028 | 2,044,904 | 2,691,786 | 2,487,532 |
| Auxiliary enterprises | 7,211,806 | 6,801,482 | 6,445,944 | 6,092,312 | 6,526,862 |
| Miscellaneous | 1,623,025 | 964,840 | 1,418,976 | 973,531 | 845,564 |
| Total | \$ 46,539,368 | 43,531,148 | 41,198,482 | 39,364,502 | 37,836,577 |
| Expenditures: | | | | | |
| Liberal arts and sciences | \$ 3,913,839 | 3,910,501 | 3,519,765 | 3,130,772 | 3,390,166 |
| Vocational technical | 9,148,834 | 8,473,152 | 7,862,347 | 7,681,105 | 7,171,627 |
| Adult education | 2,584,709 | 3,048,487 | 3,099,715 | 2,222,860 | 1,844,938 |
| Cooperative services | 2,485,196 | 1,773,900 | 1,890,954 | 2,637,049 | 349,073 |
| Administration | 1,652,553 | 1,575,133 | 1,535,790 | 1,269,738 | 1,365,426 |
| Student services | 3,129,312 | 3,242,171 | 3,038,017 | 2,952,997 | 2,234,009 |
| Learning resources | 953,797 | 938,187 | 867,409 | 804,581 | 897,957 |
| Physical plant | 3,296,010 | 3,064,897 | 3,111,572 | 2,661,665 | 2,706,806 |
| General institution | 3,055,668 | 3,975,255 | 2,977,428 | 2,843,839 | 2,755,138 |
| Auxiliary enterprises | 6,450,441 | 5,781,303 | 5,690,620 | 5,339,799 | 5,912,931 |
| Scholarships and grants | 6,050,306 | 5,630,328 | 5,283,155 | 4,196,945 | 3,123,861 |
| Workforce Investment Act | 1,193,859 | 1,402,372 | 1,444,968 | 2,015,869 | 1,485,069 |
| Interest on indebtedness | 548,322 | 585,424 | 632,708 | 652,472 | 635,495 |
| Total | \$ 44,462,846 | 43,401,110 | 40,954,448 | 38,409,691 | 33,872,496 |

See accompanying independent auditor's report.

Indian Hills Community College
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2005

| Grantor/Program | CFDA Number | Agency or Pass-through Number | Program Expenditures | New Loans and New Loan Guarantees |
|---|----------------|-------------------------------------|-------------------------|---|
| Direct: | | | | |
| U.S. Department of Labor: Employment and Training Administration Pilots, Demonstrations and Research Projects | 17.261 | | \$ 222,407 | - |
| National Science Foundation: Education and Human Resources | 47.076 | | 111,927 | - |
| U.S. Department of Education: Federal Supplemental Educational Opportunity Grant | 84.007 | * | 115,520 | - |
| Federal Work-Study Program | 84.033 | * | 160,000 | - |
| Federal Pell Grant Program | 84.063 | * | 4,602,516 | - |
| Federal Direct Student Loans | 84.268 | * | - | 8,633,287 |
| Trio Cluster: TRIO-Student Support Services | 84.042 | | 261,292 | - |
| TRIO-Upperward Bound | 84.047 | | 320,108 | - |
| TRIO-Educational Opportunity Center | 84.066 | | 211,018 | - |
| | | | 792,418 | - |
| Higher Education-Institutional Aid | 84.031 | | 357,724 | - |
| Congressional Set-aside | 84.116Z | | 12,694 | - |
| U.S. Department of Health and Human Services Scholarships for Health Profession Students from Disadvantaged Backgrounds | 93.925 | * | 200,612 | - |
| Total direct | | | 6,575,818 | 8,633,287 |
| Indirect: | | | | |
| U.S. Department of Agriculture: Iowa Department of Education: Child and Adult Care Food Program | 10.558 | | 28,168 | - |
| U.S. Department of Labor: Forsyth Technical Community College: Employment and Training Administration Pilots, Demonstrations and Research Projects | 17.261 | | 462,158 | - |
| Iowa Department of Education: Mine Health and Safety Grants | 17.600 | | 1,540 | - |
| Iowa Department of Workforce Development: Employment Service | 17.207 | 1-W-15-FR | 22,516 | - |
| Unemployment Insurance | 17.225 | 1-W-15-FR | 25,223 | - |
| WIA Cluster: WIA Adult Program | 17.258 | 1-W-15-FR | 218,257 | - |
| WIA Youth Activities | 17.259 | 1-W-15-FR | 219,314 | - |
| WIA Dislocated Workers | 17.260 | 1-W-15-FR | 295,428 | - |
| | | | 732,999 | - |
| Work Incentive Grants | 17.266 | | 340 | - |
| Local Veterans' Employment Representative Program | 17.804 | 1-W-15-FR | 3,546 | - |
| NAAFTA Rapid Response | 17.000 | | 1,870 | - |
| Federal Mediation and Conciliation Services: Iowa Department of Workforce Development: Labor Management Cooperation | 34.002 | | 4,263 | - |

Schedule 10

Indian Hills Community College
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2005

| Grantor/Program | CFDA Number | Agency or Pass-through Number | Program Expenditures | New Loans and New Loan Guarantees |
|---|----------------|-------------------------------------|-------------------------|---|
| Small Business Administration: Indirect through Iowa State University: Small Business Development Center | 59.037 | | 54,000 | - |
| U.S. Department of Education: Indirect through Iowa Department of Education: Adult Education - State Grant Program | 84.002 | | 274,096 | - |
| Vocational Education - Basic Grants to States | 84.048 | | 539,398 | - |
| U.S. Department of Health and Human Services: Indirect through Iowa Department of Workforce Development Temporary Assistance for Needy Families | 93.558 | | 469,367 | - |
| Total indirect | | | 2,619,484 | - |
| Total | | | \$ 9,195,302 | \$ 8,633,287 |

* – Combined student financial assistance expenditures treated as major financial assistance program, Student Financial Assistance Cluster.

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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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 Directors of
Indian Hills Community College:

We have audited the accompanying financial statements of Indian Hills Community College, Ottumwa, Iowa, and the aggregate discretely presented component units as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements listed in the table of contents and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the component units were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Indian Hills Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

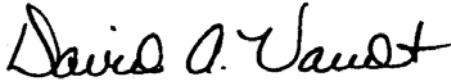
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Indian Hills Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards.

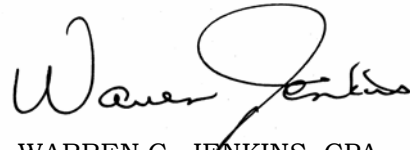
Comments involving statutory and other legal matters about the College's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the College. Since our audit was based on tests and samples, not all 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Indian Hills Community College during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 30, 2005



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

To the Board of Directors of
Indian Hills Community College:

Compliance

We have audited the compliance of Indian Hills Community College, Ottumwa, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Indian Hills Community College's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Indian Hills Community College's management. Our responsibility is to express an opinion on Indian Hills Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 non-compliance 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 Indian Hills Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Indian Hills Community College's compliance with those requirements.

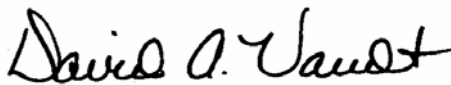
In our opinion, Indian Hills Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in 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 non-compliance 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 operations that we consider to be material weaknesses.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 30, 2005

Indian Hills Community College
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number – 17.261 Employment and Training Administration, Pilots, Demonstrations and Research Projects
 - CFDA Number – 84.048 Vocational Education – Basic Grants to States
 - CFDA Number – 84.031 Higher Education – Institutional Aid
 - Student Financial Aid – Cluster:
 - CFDA Number – 84.007 Federal Supplemental Educational Opportunity Grants
 - CFDA Number – 84.033 Federal Work-Study Program
 - CFDA Number – 84.268 Federal Direct Student Loan
 - CFDA Number – 84.063 Federal Pell Grant Program
 - CFDA Number – 93.925 Scholarships for Health Profession Students from Disadvantaged Backgrounds
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Indian Hills Community College did qualify as a low-risk auditee.

Indian Hills Community College
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over financial reporting were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over financial reporting were noted.

Indian Hills Community College
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting:

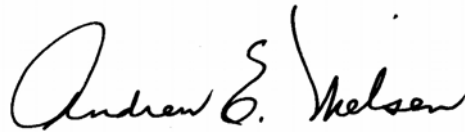
- IV-A-03 Official Depositories – Official depositories have been adopted by the Board. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- IV-B-03 Certified Budget – Expenditures for the year ended June 30, 2005 did not exceed the amounts budgeted.
- IV-C-03 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-03 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-03 Business Transactions – No business transactions between the College and College officials or employees were noted.
- IV-F-03 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-03 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-H-03 Publication – The College published a statement showing the receipt and disbursement of all funds, including the names of all persons, firms or corporations to which disbursements were made, as required by Section 260C.14(12) of the Code of Iowa.
- IV-I-03 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the College’s investment policy were noted.
- IV-J-03 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.

Indian Hills Community College

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
James S. Cunningham, CPA, Senior Auditor II
Daniel L. Durbin, CPA, Staff Auditor
Brad T. Holton, Staff Auditor
Jessica L. Christensen, Assistant Auditor
Bradley A. Meisterling, Assistant Auditor
Curtis E. Van Zee, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State