

TRI-CENTER COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	22
Statement of Cash Flows	I	23
Fiduciary Fund Financial Statements:		
Statement of Net Assets	J	24
Statement of Changes in Net Assets	K	25
Notes to Financial Statements		26-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		37-38
Budget to GAAP Reconciliation		39
Notes to Required Supplementary Information - Budgetary Reporting		40
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Student Activity Accounts	3	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	44
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		45-46
Schedule of Findings		47-49

Tri-Center Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Mike Pettit	President	2004
Jim Fischer	Vice President	2003
Nancy Cohen	Board Member	2003
Kirk Nielsen	Board Member	2005
Gail Witt	Board Member	2004

Board of Education (After September 2003 Election)		
Mike Pettit	President	2004
Jim Fischer	Vice President	2006
Nancy Cohen	Board Member	2006
Kirk Nielsen	Board Member	2005
Gail Witt	Board Member	2004

School Officials		
Brett Nanninga	Superintendent	2004
Rhonda McKenzie	District Secretary/ Business Manager	2004
Scott Rogers, Peters Law Firm	Attorney	2004
Gruhn Law Firm	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Tri-Center Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Tri-Center Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Tri-Center Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, Tri-Center Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2004, on our consideration of the Tri-Center Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Tri-Center Community School District'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 three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, 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.


NOLTE, CORNMAN & JOHNSON, P.C.

August 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tri-Center Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,185,695 in fiscal 2003 to \$5,592,548 in fiscal 2004, while General Fund expenditures also increased from \$5,051,472 in fiscal 2003 to \$5,428,576 in fiscal 2004. This resulted in an increase in the District's fund balance from \$694,000 in fiscal 2003 to \$832,972 in fiscal 2004, which was a 20% increase from the prior year.
- A salary increase of 4% and a 9.25% increase in health insurance costs contributed to the increase in expenditures from the General Fund. The increase in General Fund revenues was due to the increased open enrollment from neighboring districts and the Medicaid program.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Tri-Center Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Tri-Center Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Tri-Center Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

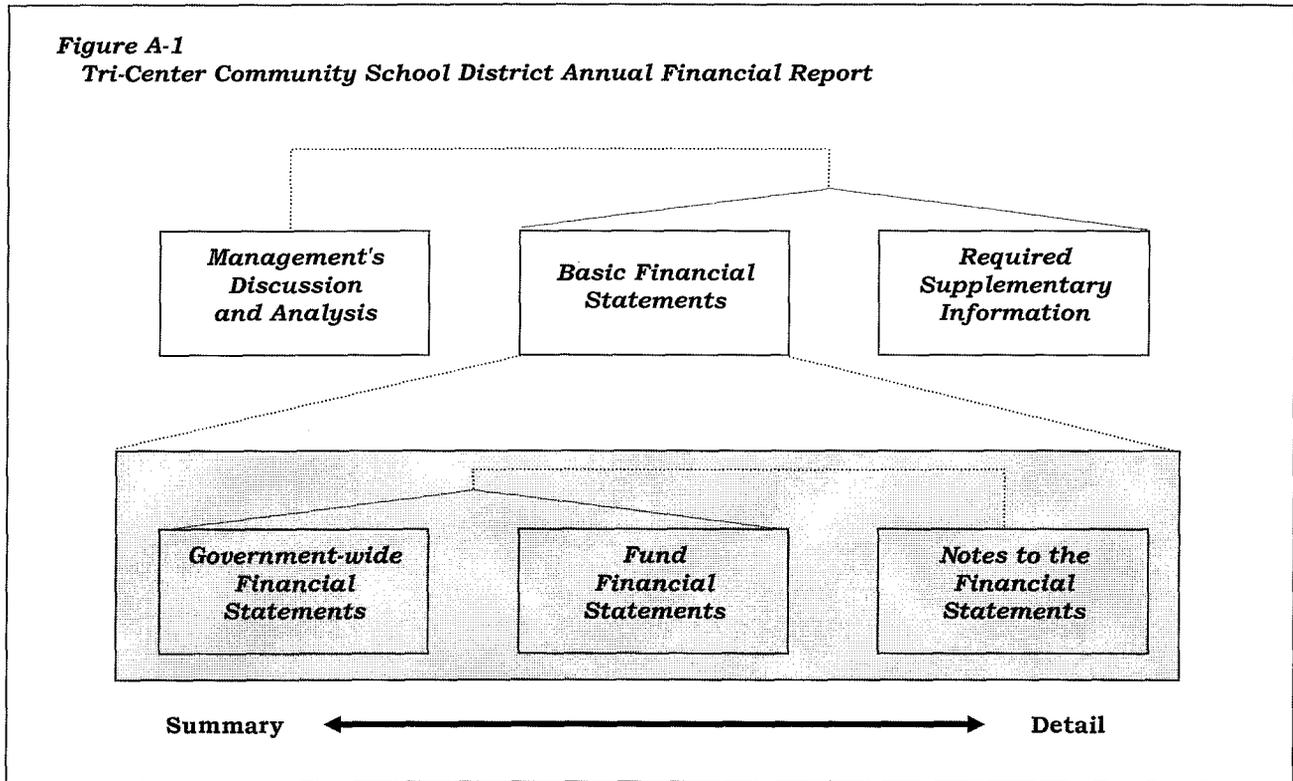


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

The District's governmental funds include the General Fund; Special Revenue Funds; Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust funds.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 3,232,772	56,180	3,288,952
Capital assets	4,139,028	22,982	4,162,010
Total assets	<u>7,371,800</u>	<u>79,162</u>	<u>7,450,962</u>
Long-term obligations	2,227,588	0	2,227,588
Other liabilities	2,279,518	3,662	2,283,180
Total liabilities	<u>4,507,106</u>	<u>3,662</u>	<u>4,510,768</u>
Net assets:			
Invested in capital assets, net of related debt	2,003,777	22,982	2,026,759
Restricted	99,302	0	99,302
Unrestricted	761,615	52,518	814,133
Total net assets	<u>\$ 2,864,694</u>	<u>75,500</u>	<u>2,940,194</u>

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4

Changes of Net Assets

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Revenues:			
Program revenues:			
Charges for services	\$ 794,935	203,069	998,004
Operating grants and contributions and restricted interest	816,073	124,686	940,759
General revenues:			
Property tax	2,015,510	0	2,015,510
Local option sales and services tax	382,874	0	382,874
Unrestricted state grants	2,527,036	0	2,527,036
Unrestricted investment earnings	11,715	1,241	12,956
Total revenues	<u>6,548,143</u>	<u>328,996</u>	<u>6,877,139</u>
Program expenses:			
Governmental activities:			
Instructional	3,548,193	0	3,548,193
Support services	1,458,505	0	1,458,505
Non-instructional programs	11,095	322,993	334,088
Other expenses	485,660	0	485,660
Total expenses	<u>5,503,453</u>	<u>322,993</u>	<u>5,826,446</u>
Change in net assets	<u>\$ 1,044,690</u>	<u>6,003</u>	<u>1,050,693</u>

Property tax and unrestricted state grants (state aid and instructional support state aid) account for 70% of the District's total revenues. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,548,143 and expenses were \$5,503,453. The District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses. The net cost of services is the result after subtracting grants and charges for services that the District used to offset the program's total cost.

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,548,193	2,148,133
Support services	1,458,505	1,454,472
Non-instructional	11,095	11,095
Other expenses	485,660	278,745
Totals	<u>\$ 5,503,453</u>	<u>3,892,445</u>

-
- A portion of the cost financed by users of the District's programs was \$794,935
 - The federal and state government subsidized certain programs with operating grants and contributions totaling \$816,073
 - The net cost portion of governmental activities was financed with \$2,015,510 in property tax, \$382,874 in local option sales and services tax, \$2,527,036 in unrestricted state grants, and unrestricted investment earnings of \$11,715

Business-Type Activities

The District's only business-type activity is the School Nutrition Fund. Revenues of the District's business-type activities totaled \$328,996 in 2004, which is an increase of 3.7% over the prior year. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses increased 5.5% to \$322,993 for business-type activities in 2004, this was due to an increased cost to provide meals.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Tri-Center Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A strong financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$962,609, an increase of \$62,158 over last years ending fund balances of \$900,451.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the result of many factors. Growth during the year in local and federal sources resulted in an increase in revenues. The District also increased its General Fund expenditures over the prior year. The biggest change in General Fund expenditures came in the instructional area.
- The negative ending fund balance in the Management Fund resulted from a 17% increase in the cost of workman's compensation and liability insurance.
- The increase in the Local Option Sales and Services Tax revenue enabled the district to add many facility updates.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$69,497 at June 30, 2003 to \$75,500 at June 30, 2004, representing an increase of 9%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Tri-Center Community School District amended its annual budget one time to reflect additional expenditures associated with Nutrition Fund expenditures, Lagoon renovation and bleachers.

The District's receipts were \$71,297 higher than budgeted receipts. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending

authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the Districts budgetary practice, the certified budget was exceeded in the support services and non-instructional functional areas due to the timing of disbursements paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$4,162,010, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$252,533.

The original cost of the District's capital assets was \$6,493,330. Governmental funds account for \$6,430,317, with the remainder of \$63,013 accounted for in the Proprietary School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$1,062,508 at June 30, 2004, compared to \$400,000 reported at June 30, 2003.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Land	\$ 12,669	0	12,669
Buildings	2,859,400	0	2,859,400
Land improvements	948,193	0	948,193
Machinery and equipment	318,766	22,982	341,748
Total	\$ 4,139,028	22,982	4,162,010

Long-Term Debt

At year-end, the District had \$2,227,588 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of 11% from last year's balance of \$2,513,220. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2004	2003	Change
General obligation bonds	\$ 1,870,000	1,980,000	-5.6%
HVAC loan	87,588	171,109	-48.8%
Revenue bonds	270,000	350,000	-22.9%
Early retirement	0	12,111	-100.0%
Totals	\$ 2,227,588	2,513,220	-11.4%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- State budget cuts continue to be a concern for the District, shifting the majority of funding on property taxes.
- The District increased the management levy to help pay for the deficit and increased insurance costs.
- Open enrollment increased again in 2003, which will increase revenues for the 2005 fiscal year.
- The teacher's union bargaining increase was 4% and the insurance cost increase was 9.25%.
- The District will pay off the HVAC loan in June of 2005 and also the final payment for the 1995 bond issue at 5.4%. The rate will be lower for future debt payments.
- The District did not do a cash reserve levy for 2004-2005 because of the increase in the District's financial position.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rhonda McKenzie, Business Manager, Tri-Center Community School District, 33980 310th St., Neola, IA, 51559.

BASIC FINANCIAL STATEMENTS

TRI-CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP (Note 4)	\$ 424,383	0	424,383
Other	747,824	29,166	776,990
Receivables			
Property tax:			
Delinquent	110,168	0	110,168
Succeeding year	1,807,777	0	1,807,777
Accounts	0	80	80
Due from other governments	142,620	0	142,620
Inventories	0	26,934	26,934
Capital assets, net of accumulated depreciation (Note 5)	4,139,028	22,982	4,162,010
TOTAL ASSETS	7,371,800	79,162	7,450,962
LIABILITIES			
Accounts payable	34,386	0	34,386
ISCAP warrants payable (Note 4)	428,000	0	428,000
Accrued interest payable	9,355	0	9,355
Deferred revenue:			
Succeeding year property tax	1,807,777	0	1,807,777
Other	0	3,662	3,662
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	115,000	0	115,000
HVAC loan payable	87,588	0	87,588
Revenue bonds payable	85,000	0	85,000
Portion due after one year:			
General obligation bonds payable	1,755,000	0	1,755,000
Revenue bonds payable	185,000	0	185,000
TOTAL LIABILITIES	4,507,106	3,662	4,510,768
NET ASSETS			
Investment in capital assets, net of related debt	2,003,777	22,982	2,026,759
Restricted for:			
Phase III	9,002	0	9,002
Talented and gifted	11,342	0	11,342
Early intervention	35,124	0	35,124
Other special revenue purposes	43,834	0	43,834
Unrestricted	761,615	52,518	814,133
TOTAL NET ASSETS	\$ 2,864,694	75,500	2,940,194

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,377,706	731,042	605,125
Special instruction	606,173	63,893	0
Other instruction	564,314	0	0
	<u>3,548,193</u>	<u>794,935</u>	<u>605,125</u>
Support services:			
Student services	272,872	0	0
Instructional staff services	158,631	0	0
Administration services	576,396	0	0
Operation and maintenance of plant services	16,705	0	0
Transportation services	433,901	0	4,033
	<u>1,458,505</u>	<u>0</u>	<u>4,033</u>
Non-instructional programs	11,095	0	0
Other expenditures:			
Facilities acquisitions	59,220	0	0
Long-term debt interest	127,025	0	0
AEA flowthrough	206,915	0	206,915
Depreciation (unallocated) *	92,500	0	0
	<u>485,660</u>	<u>0</u>	<u>206,915</u>
Total governmental activities	5,503,453	794,935	816,073
Business-Type activities:			
Non-instructional programs:			
Nutrition services	322,993	203,069	124,686
Total business-type activities	<u>322,993</u>	<u>203,069</u>	<u>124,686</u>
Total	<u>\$ 5,826,446</u>	<u>998,004</u>	<u>940,759</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 10)

Net assets end of year

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,041,539)	0	(1,041,539)
(542,280)	0	(542,280)
(564,314)	0	(564,314)
(2,148,133)	0	(2,148,133)
(272,872)	0	(272,872)
(158,631)	0	(158,631)
(576,396)	0	(576,396)
(16,705)	0	(16,705)
(429,868)	0	(429,868)
(1,454,472)	0	(1,454,472)
(11,095)		(11,095)
(59,220)	0	(59,220)
(127,025)	0	(127,025)
0	0	0
(92,500)	0	(92,500)
(278,745)	0	(278,745)
(3,892,445)	0	(3,892,445)
0	4,762	4,762
0	4,762	4,762
(3,892,445)	4,762	(3,887,683)
\$ 1,747,761	0	1,747,761
216,346	0	216,346
51,403	0	51,403
382,874	0	382,874
2,527,036	0	2,527,036
11,715	1,241	12,956
4,937,135	1,241	4,938,376
1,044,690	6,003	1,050,693
1,820,004	69,497	1,889,501
\$ 2,864,694	75,500	2,940,194

TRI-CENTER COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 424,383	0	424,383
Other	697,132	50,692	747,824
Receivables:			
Property tax:			
Delinquent	92,436	17,732	110,168
Succeeding year	1,453,447	354,330	1,807,777
Due from other governments	81,407	61,213	142,620
TOTAL ASSETS	\$ 2,748,805	483,967	3,232,772
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	34,386	0	34,386
ISCAP warrants payable(Note 4)	428,000	0	428,000
Deferred revenue:			
Succeeding year property tax	1,453,447	354,330	1,807,777
Total liabilities	1,915,833	354,330	2,270,163
Fund balances:			
Reserved for:			
Phase III	9,002	0	9,002
Talented and gifted	11,342	0	11,342
Early intervention	35,124	0	35,124
Unreserved:			
Undesignated	777,504	129,637	907,141
Total fund balances	832,972	129,637	962,609
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,748,805	483,967	3,232,772

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 17)	\$	962,609
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		4,139,028
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(9,355)
Long-term liabilities, including bonds payable, HVAC loan payable, and Revenue bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(2,227,588)</u>
Net assets of governmental activites (page 14)	\$	<u>2,864,694</u>

SEE NOTES TO FINANCIAL STATEMENTS.

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Tri-Center Community School District and other parties to whom Tri-Center Community School District may report. 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 Tri-Center Community School District 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.

NOLTE, CORNMAN & JOHNSON, P.C.

August 19, 2004

Exhibit E

TRI-CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Other Nonmajor Governmental		Total
	General	Funds	
REVENUES:			
Local sources:			
Local tax	\$ 1,686,683	711,701	2,398,384
Tuition	471,937	0	471,937
Other	90,819	243,894	334,713
State sources	2,945,893	0	2,945,893
Federal sources	397,216	0	397,216
Total revenues	<u>5,592,548</u>	<u>955,595</u>	<u>6,548,143</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,487,085	19,566	2,506,651
Special instruction	606,173	0	606,173
Other instruction	322,595	241,719	564,314
	<u>3,415,853</u>	<u>261,285</u>	<u>3,677,138</u>
Support services:			
Student services	272,872	0	272,872
Instructional staff services	158,631	0	158,631
Administration services	552,583	23,813	576,396
Operation and maintenance of plant services	520,513	32,772	553,285
Transportation services	293,428	125,006	418,434
	<u>1,798,027</u>	<u>181,591</u>	<u>1,979,618</u>
Non-instructional programs:			
Food service operations	1,101	3,314	4,415
Community service & education operations	6,680	0	6,680
	<u>7,781</u>	<u>3,314</u>	<u>11,095</u>
Other expenditures:			
Facilities acquisitions	0	168,144	168,144
Long-term debt:			
Principal	0	273,521	273,521
Interest and fiscal charges	0	127,779	127,779
AEA flowthrough	206,915	0	206,915
	<u>206,915</u>	<u>569,444</u>	<u>776,359</u>
Total expenditures	<u>5,428,576</u>	<u>1,015,634</u>	<u>6,444,210</u>
Excess(deficiency) of revenues over(under) expenditures	163,972	(60,039)	103,933
Other financing sources(uses):			
Transfers in	0	185,047	185,047
Transfers out	(25,000)	(160,047)	(185,047)
Total other financing sources(uses)	<u>(25,000)</u>	<u>25,000</u>	<u>0</u>
Net change in fund balances	138,972	(35,039)	103,933
Fund balance beginning of year, as restated(Note 10)	694,000	164,676	858,676
Fund balance end of year	<u>\$ 832,972</u>	<u>129,637</u>	<u>962,609</u>

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2004

Net change in fund balances - total governmental funds (page 19) \$ 103,933

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 903,724	
Depreciation expense	<u>(249,353)</u>	654,371

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

Repaid	273,521
--------	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

754

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	<u>12,111</u>
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Changes in net assets of governmental activities (page 16) \$ 1,044,690

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 29,166
Accounts receivable	80
Inventories	26,934
Capital assets, net of accumulated depreciation	22,982
Total assets	<u>79,162</u>
LIABILITIES	
Deferred Revenue:	
Other	3,662
Total liabilities	<u>3,662</u>
NET ASSETS	
Invested in capital assets, net of related debt	22,982
Unrestricted	52,518
Total net assets	<u>\$ 75,500</u>

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 203,069
TOTAL OPERATING REVENUES	203,069
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	140,181
Benefits	25,392
Supplies	154,240
Depreciation	3,180
TOTAL OPERATING EXPENSES	322,993
OPERATING LOSS	(119,924)
NON-OPERATING REVENUES:	
State sources	4,597
Federal sources	120,089
Interest income	1,241
TOTAL NON-OPERATING REVENUES	125,927
Change in net assets	6,003
Net assets beginning of year	69,497
Net assets end of year	\$ 75,500

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 203,649
Cash payments to employees for services	(165,573)
Cash payments to suppliers for goods or services	(109,182)
Net cash used in operating activities	(71,106)
Cash flows from non-capital financing activities:	
State grants received	4,597
Federal grants received	76,779
Net cash provided by non-capital financing activities	81,376
Cash flows from capital and related financing activities:	
Purchase of capital assets	(11,738)
Net cash used in capital and related financing activities	(11,738)
Cash flows from investing activities:	
Interest on investments	1,241
Net cash provided by investing activities	1,241
Net decrease in cash and cash equivalents	(227)
Cash and cash equivalents at beginning of year	29,393
Cash and cash equivalents at end of year	\$ 29,166
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (119,924)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	43,310
Depreciation	3,180
Decrease in inventories	1,748
Increase in accounts receivable	(32)
Increase in deferred revenue	612
Net cash used in operating activities	\$ (71,106)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 29,166
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2004, the District received Federal commodities valued at \$43,310.	

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 41,187
Total assets	<u>41,187</u>
Liabilities	
Total liabilities	<u>0</u>
Net assets	
Reserved for scholarships	<u>\$ 41,187</u>

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2004

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 0
Interest income	1,312
Total additions	<u>1,312</u>
Deductions:	
Instruction:	
Scholarships awarded	<u>1,900</u>
Change in net assets	(588)
Net assets beginning of year	<u>41,775</u>
Net assets end of year	<u>\$ 41,187</u>

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The Tri-Center Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Neola, Minden and Persia, Iowa, and the predominate agricultural territory in Harrison, Pottawattamie and Shelby counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District'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, Tri-Center Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District 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 District are such that exclusion would cause the District'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 District 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 District. The Tri-Center Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Harrison, Pottawattamie and Shelby Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require

income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported 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 satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating

revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. 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, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April 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 in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means 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 in the governmental fund financial statements represent 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 receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004 expenditures in the support services functional program area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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 District 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 Education; 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 District had no investments at June 30, 2004.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General Fund	\$ 25,000
Debt Service	Capital Projects	160,047
Total		<u>\$ 185,047</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporations is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	424,383	0	428,000	0
Total			\$ 424,383	0	428,000	0

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments of the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no advance activity in the General Fund for the year ended June 30, 2004.

The warrants bear interest and the available proceeds of the warrants area invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,669	0	0	12,669
Total capital assets not being depreciated	12,669	0	0	12,669
Capital assets being depreciated:				
Buildings	4,625,000	0	0	4,625,000
Land improvements	400,000	662,508	0	1,062,508
Machinery and equipment	488,924	241,216	0	730,140
Total capital assets being depreciated	5,513,924	903,724	0	6,417,648
Less accumulated depreciation for:				
Buildings	1,673,100	92,500	0	1,765,600
Land improvements	60,000	54,315	0	114,315
Machinery and equipment	308,836	102,538	0	411,374
Total accumulated depreciation	2,041,936	249,353	0	2,291,289
Total capital assets being depreciated, net	3,471,988	654,371	0	4,126,359
Governmental activities capital assets, net	\$ 3,484,657	654,371	0	4,139,028
Business-type activities:				
Machinery and equipment	\$ 51,275	11,738	0	63,013
Less accumulated depreciation	36,851	3,180	0	40,031
Business-type activities capital assets, net	\$ 14,424	8,558	0	22,982

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 43,758
Support services:		
Operation and maintenance of plant		59,583
Transportation		53,512
Administration		156,853
Unallocated depreciation		92,500
Total governmental activities depreciation expense		\$ 249,353
Business-type activities:		
Food services		\$ 3,180
Total business-type activities depreciation expense		\$ 3,180

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,980,000	0	110,000	1,870,000	115,000
HVAC loan	171,109	0	83,521	87,588	87,588
Revenue Bonds	350,000	0	80,000	270,000	85,000
Early retirement	12,111	0	12,111	0	0
Total	\$ 2,513,220	0	285,632	2,227,588	287,588

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of June 30, 1995			Bond Issue of April 1, 2003			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2005	5.40	\$ 115,000	99,662	3.75	\$ 0	54,805	\$ 115,000	154,467	269,467
2006	-	-	-	3.85	150,000	54,805	150,000	54,805	204,805
2007	-	-	-	3.75	150,000	51,430	150,000	51,430	201,430
2008	-	-	-	3.85	160,000	47,680	160,000	47,680	207,680
2009	-	-	-	3.75	165,000	43,280	165,000	43,280	208,280
2010	-	-	-	3.85	170,000	38,165	170,000	38,165	208,165
2011	-	-	-	3.75	175,000	32,725	175,000	32,725	207,725
2012	-	-	-	3.85	185,000	27,125	185,000	27,125	212,125
2013	-	-	-	3.75	190,000	21,020	190,000	21,020	211,020
2014	-	-	-	3.85	200,000	14,560	200,000	14,560	214,560
2015	-	-	-	3.75	210,000	7,560	210,000	7,560	217,560
Total		\$ 115,000	99,662		\$ 1,755,000	393,155	\$ 1,870,000	492,817	2,362,817

HVAC Equipment Loan

During the year ended June 30, 2002, the District entered into a loan agreement to purchase HVAC Equipment for the Elementary Building. Details of the District's June 30, 2004 loan indebtedness are as follows:

Year Ending June 30,	HVAC Equipment Loan			
	Interest Rates	Principal	Interest	Total
2005	4.75	\$ 87,498	4,156	91,654
Total		\$ 87,498	4,156	91,654

Revenue Bonds

During the year ended June 30, 2002, the District issued local option sales revenue bonds. Details of the District's June 30, 2004 loan indebtedness are as follows:

Year Ending June 30,	Revenue Bonds Issued 2002			
	Interest Rates	Principal	Interest	Total
2005	3.75	\$ 85,000	10,406	95,406
2006	3.85	90,000	7,218	97,218
2007	3.95	95,000	3,752	98,752
Total		\$ 270,000	21,376	291,376

(7) Pension and Retirement Benefits

The District 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 salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$190,734, \$191,433, \$179,596, respectively, equal to the required contributions for each year.

(8) Risk Management

Tri-Center Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$206,915 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

Governmental Accounting Standards Board(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds

rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$5,741,300 were restated to \$5,526,593. The restatement primarily removed assets below the District's capitalizations threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		Total
	General	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 694,000	206,451	900,451
Reclassify Expendable Trust Accounts as Fiduciary Private Purpose Trust	0	(41,775)	(41,775)
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 694,000</u>	<u>164,676</u>	858,676
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$2,041,936			3,484,657
Long-term liabilities:			
Bonds and notes		2,501,109	
Early retirement		<u>12,111</u>	(2,513,220)
Accrued interest payable			(10,109)
Net assets, July 1, 2003, as restated			<u>\$ 1,820,004</u>

(11) Budget Overexpenditures

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional are level. During the year ended June 30, 2004, disbursements in the support services and non-instructional functional program areas exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 3,059,006	204,890
State sources	2,945,894	4,597
Federal sources	368,774	120,089
Total revenues	<u>6,373,674</u>	<u>329,576</u>
Disbursements:		
Instruction	3,673,929	0
Support services	2,342,130	0
Non-instructional programs	11,094	329,803
Other expenditures	428,510	0
Total expenditures	<u>6,455,663</u>	<u>329,803</u>
Deficiency of receipts under disbursements	(81,989)	(227)
Other financing sources, net	0	0
Deficiency of receipts and other financing sources under disbursements	(81,989)	(227)
Balance beginning of year	<u>829,813</u>	<u>29,393</u>
Balance end of year	<u>\$ 747,824</u>	<u>29,166</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,263,896	3,326,086	3,326,086	(62,190)
2,950,491	3,080,867	3,080,867	(130,376)
488,863	225,000	225,000	263,863
<u>6,703,250</u>	<u>6,631,953</u>	<u>6,631,953</u>	<u>71,297</u>
3,673,929	4,021,018	4,021,018	347,089
2,342,130	2,065,000	2,120,000	(222,130)
340,897	325,000	325,000	(15,897)
428,510	761,782	811,782	383,272
<u>6,785,466</u>	<u>7,172,800</u>	<u>7,277,800</u>	<u>492,334</u>
(82,216)	(540,847)	(645,847)	(563,631)
0	1,000	1,000	1,000
(82,216)	(539,847)	(644,847)	(562,631)
859,206	661,821	661,821	197,385
<u>776,990</u>	<u>121,974</u>	<u>16,974</u>	<u>760,016</u>

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 6,373,674	174,469	6,548,143
Expenditures	6,455,663	(11,453)	6,444,210
Net	(81,989)	185,922	103,933
Beginning fund balances	829,813	28,863	858,676
Ending fund balances	\$ 747,824	214,785	962,609

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 329,576	(580)	328,996
Expenditures	329,803	(6,810)	322,993
Net	(227)	6,230	6,003
Beginning fund balances	29,393	40,104	69,497
Ending fund balances	\$ 29,166	46,334	75,500

TRI-CENTER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$110,000.

During the year ended June 30, 2004, disbursements in the support services and non-instructional functional program areas exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Capital Projects	
ASSETS								
Cash and pooled investments	\$ (19,236)	43,318	(2,059)	516	22,539	1,303	26,850	50,692
Receivables:								
Property tax:								
Current year delinquent	3,347	0	2,762	0	6,109	11,623	0	17,732
Succeeding year	120,000	0	44,667	0	164,667	189,663	0	354,330
Due from other governments	0	0	0	0	0	0	61,213	61,213
TOTAL ASSETS	\$ 104,111	43,318	45,370	516	193,315	202,589	88,063	483,967
LIABILITIES AND FUND EQUITY								
Liabilities:								
Deferred revenue:								
Succeeding year property tax	120,000	0	44,667	0	164,667	189,663	0	354,330
Total Liabilities	120,000	0	44,667	0	164,667	189,663	0	354,330
Fund equity:								
Fund balances:								
Unreserved:								
Undesignated	(15,889)	43,318	703	516	28,648	12,926	88,063	129,637
Total fund balances	(15,889)	43,318	703	516	28,648	12,926	88,063	129,637
TOTAL LIABILITIES AND FUND EQUITY	\$ 104,111	43,318	45,370	516	193,315	202,589	88,063	483,967

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Capital Projects	
REVENUES:								
Local sources:								
Local tax	\$ 61,078	0	51,403	0	112,481	216,346	382,874	711,701
Other	442	238,794	1,704	0	240,940	1,588	1,366	243,894
TOTAL REVENUES	61,520	238,794	53,107	0	353,421	217,934	384,240	955,595
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	19,566	0	0	0	19,566	0	0	19,566
Other instruction	0	241,719	0	0	241,719	0	0	241,719
Support services:								
Administration services	23,813	0	0	0	23,813	0	0	23,813
Operation and maintenance of plant services	32,772	0	0	0	32,772	0	0	32,772
Student transportation	22,000	0	103,006	0	125,006	0	0	125,006
Non-instructional programs	3,314	0	0	0	3,314	0	0	3,314
Other expenditures:								
Facilities acquisitions	0	0	0	0	0	0	168,144	168,144
Long-term debt:								
Principal	0	0	0	0	0	273,521	0	273,521
Interest and fiscal charges	0	0	0	0	0	127,779	0	127,779
TOTAL EXPENDITURES	101,465	241,719	103,006	0	446,190	401,300	168,144	1,015,634
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(39,945)	(2,925)	(49,899)	0	(92,769)	(183,366)	216,096	(60,039)
OTHER FINANCING SOURCES(USES):								
Transfers in	0	0	0	0	0	185,047	0	185,047
Transfers out	0	0	0	0	0	0	(160,047)	(160,047)
Total other financing sources(uses)	0	0	0	0	0	185,047	(160,047)	25,000
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	(39,945)	(2,925)	(49,899)	0	(92,769)	1,681	56,049	(35,039)
FUND BALANCE BEGINNING OF YEAR, AS RESTATED(NOTE 10)	24,056	46,243	50,602	516	121,417	11,245	32,014	164,676
FUND BALANCE END OF YEAR	\$ (15,889)	43,318	703	516	28,648	12,926	88,063	129,637

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Class of 2005	\$ 0	20,982	16,740	4,242
Class of 2004	4,465	2,281	6,736	10
Leadership	6,420	3,006	4,295	5,131
Yearbook	1,251	11,231	10,672	1,810
Student Council-Persia	0	850	171	679
Student Council	476	7,886	8,208	154
Elementary Student Council	3,472	3,741	5,617	1,596
Musicals	4,702	6,109	3,297	7,514
High School Cheerleaders	2,501	2,218	3,724	995
Drill Team	1,229	665	1,739	155
Elementary Art Club	1,451	2,898	2,814	1,535
National Honor Society	18	1,577	1,023	572
Astra	1,755	2,282	2,384	1,653
FFA	9,661	18,621	18,249	10,033
Drama	32	131	154	9
Vending	110	28,784	28,777	117
General Activity	1,832	17,231	17,083	1,980
Boys Basketball	2,192	4,179	3,202	3,169
Football	1,604	11,632	12,838	398
Baseball	38	10,205	10,096	147
Boys Track	3	3,889	5,073	(1,181)
Cross Country	687	1,090	1,359	418
Wrestling	54	3,272	3,136	190
Girls Basketball	775	7,444	6,809	1,410
Volleyball	615	8,594	8,707	502
Girls Track	72	3,348	3,420	0
Summer Softball	695	6,729	7,424	0
Misc Athletics	93	10,622	10,715	0
Music Boosters	3	1,974	1,917	60
Golf	15	869	864	20
Butterfly Garden	22	0	22	0
Trip	0	34,454	34,454	0
Total	\$ 46,243	238,794	241,719	43,318

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 2,398,384	2,195,895	2,028,203	1,975,449
Tuition	471,937	343,337	309,464	270,100
Other	334,713	336,894	497,277	332,482
State sources	2,945,893	2,972,311	2,783,970	2,824,075
Federal sources	397,216	126,689	104,045	89,801
Total	<u>\$ 6,548,143</u>	<u>5,975,126</u>	<u>5,722,959</u>	<u>5,491,907</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,506,651	2,260,818	2,226,494	2,048,168
Special instruction	606,173	555,558	541,438	566,520
Other instruction	564,314	570,743	654,652	567,023
Support services:				
Student services	272,872	185,498	174,694	160,309
Instructional staff services	158,631	149,241	134,261	178,675
Administration services	576,396	620,671	517,764	486,035
Operation and maintenance of plant services	553,285	566,132	500,256	503,584
Transportation services	418,434	348,912	342,918	374,368
Non-instructional programs	11,095	9,259	5,096	2,087
Other expenditures:				
Facilities acquisitions	168,144	259,728	281,985	403,390
Long-term debt:				
Principal	273,521	259,866	76,145	162,904
Interest and other charges	127,779	144,480	227,279	140,380
AEA flow-through	206,915	219,029	213,203	215,999
Total	<u>\$ 6,444,210</u>	<u>6,149,935</u>	<u>5,896,185</u>	<u>5,809,442</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of the
Tri-Center Community School District:

We have audited the financial statements of Tri-Center Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 19, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Tri-Center Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. 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. Prior year statutory comments have all been resolved except for II-B-04 and II-G-04.

Internal Control Over Financial Reporting

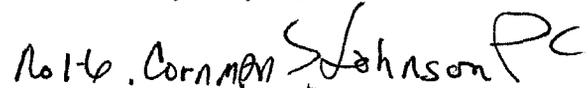
In planning and performing our audit, we considered Tri-Center Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Tri-Center Community School District and other parties to whom Tri-Center Community School District may report. 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 Tri-Center Community School District 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.


NOLTE, CORNMAN & JOHNSON, P.C.

August 19, 2004

TRI-CENTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-04 Supporting Documentation - We noted during the audit that receipts provided for reimbursements did not have detailed accounting of what the purchase was for. The receipts provided were from the individual's credit card, however they did not show the details of the expenditure made.

Recommendation - The District should have procedures in place to ensure that there is appropriate supporting documentation for credit card purchases.

Response - We will not reimburse unless we receive the required documentation.

Conclusion - Response accepted.

I-C-04 Purchase Orders - Although the District has a purchase order procedure in place, we noted during the audit that a purchase order was filled out after the expense was made.

Recommendation - The purchase order procedures in place are a good system to use to control expenditures. However, the procedures need to be followed.

Response - We will follow the procedures in place.

Conclusion - Response accepted.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amended certified budget amounts in the support services and non-instructional programs functional areas.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions - No business transactions between the District and District officials were noted.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However we did note that the monthly bills were not published as required by Chapter 279.35 of the Code of Iowa.

Recommendation - The District should publish a listing of bills presented for payment including a description of the claim on a monthly basis.

Response - We will comply.

Conclusion - Response accepted.

II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-04 Financial Condition - We noted that the Management Fund had a deficit undesignated balance of \$15,889 at June 30, 2004. We also noted that the Student Activity Fund had an account with a negative balance at June 30, 2004.

Recommendation - The District should continue to monitor this fund and account and investigate alternatives to eliminate the deficit.

Response - We will monitor this fund and account and investigate any available options to eliminate the deficit.

Conclusion - Response accepted.