

TRI CENTER COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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 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
Budgetary Comparison Schedule - 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 Special Revenue Fund, 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 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		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 2004 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

Board of Education
(After September 2004 Election)

Jim Fischer	President	2006
Nancy Cohen	Vice-President	2006
Mike Pettit	Board Member	2007
Kirk Nielsen	Board Member	2005
Randy Morriss	Board Member	2007

School Officials

Brett Nanninga	Superintendent	2005
Rhonda McKenzie	District Secretary	2005
Scott Rogers, Peters Law Firm	Attorney	2005
Gruhn Law Firm	Attorney	2005

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, the business-type activities, each major fund, and the aggregate remaining fund information of the Tri Center Community School District, Neola, Iowa as of and for the year ended June 30, 2005, 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 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. 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 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, the business type activities, each major fund and the aggregate remaining fund information of Tri Center Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2005 on our consideration of 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 40 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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 PC
NOLTE, CORNMAN & JOHNSON, P.C.

October 19, 2005

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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,592,548 in fiscal 2004 to \$5,499,528 in fiscal 2005, while General Fund expenditures increased from \$5,428,576 in fiscal 2004 to \$5,617,735 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$832,972 in fiscal 2004 to a balance of \$714,815 in fiscal 2005, a 14% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local and federal sources in fiscal 2005. The increase in expenditures was due primarily to an increase in the instruction and support services functional areas.

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 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 custodial for the benefit of those outside of District government.

Notes to the 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 funds.

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

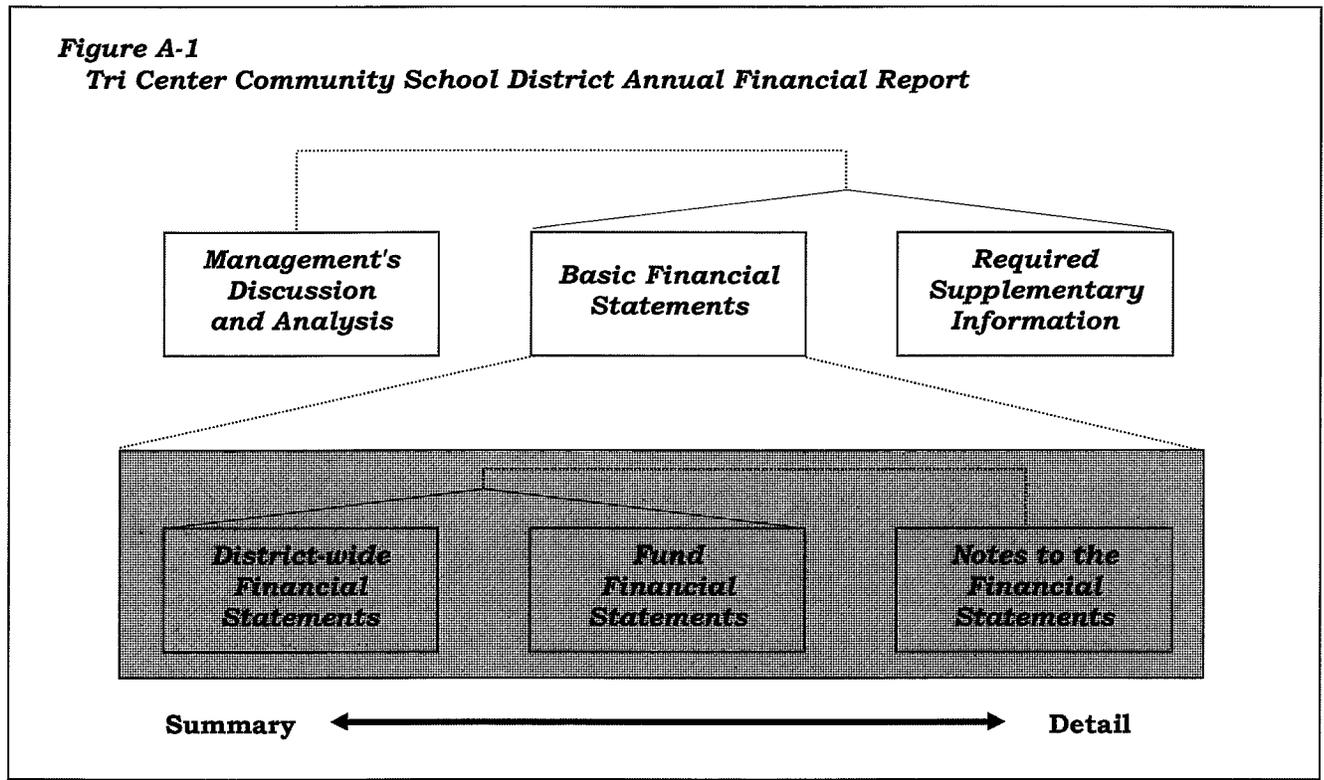


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
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 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 financial 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. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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 fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

The required financial statements for the 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

financial 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 two enterprise funds, the School Nutrition Fund and the Day Care Fund.

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

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

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, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 3,272,261	3,232,772	68,942	56,180	3,341,203	3,288,952	1.59%
Capital assets	4,421,516	4,139,028	30,099	22,982	4,451,615	4,162,010	6.96%
Total assets	<u>7,693,777</u>	<u>7,371,800</u>	<u>99,041</u>	<u>79,162</u>	<u>7,792,818</u>	<u>7,450,962</u>	<u>4.59%</u>
Long-term obligations	2,445,000	2,227,588	0	0	2,445,000	2,227,588	9.76%
Other liabilities	1,885,193	2,279,518	5,328	3,662	1,890,521	2,283,180	-17.20%
Total liabilities	<u>4,330,193</u>	<u>4,507,106</u>	<u>5,328</u>	<u>3,662</u>	<u>4,335,521</u>	<u>4,510,768</u>	<u>-3.89%</u>
Net assets:							
Invested in capital assets, net of related debt	2,603,897	2,003,777	30,099	22,982	2,633,996	2,026,759	29.96%
Restricted	87,033	99,302	0	0	87,033	99,302	-12.36%
Unrestricted	672,654	761,615	63,614	52,518	736,268	814,133	-9.56%
Total net assets	<u>\$ 3,363,584</u>	<u>2,864,694</u>	<u>93,713</u>	<u>75,500</u>	<u>3,457,297</u>	<u>2,940,194</u>	<u>17.59%</u>

The District's combined net assets increased by 29.96%, or \$607,237, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$12,269, or 12.36% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$77,865, or 9.56%. This decrease in unrestricted net assets was a result of the District’s decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental		Business-type		Total	
	Activities		Activities		School District	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 856,042	794,935	216,035	203,069	1,072,077	998,004
Operating grants and contributions and restricted interest	735,666	816,073	119,402	124,686	855,068	940,759
General revenues:						
Property tax	1,806,386	2,015,510	0	0	1,806,386	2,015,510
Local option sales and services tax	478,750	382,874	0	0	478,750	382,874
Unrestricted state grants	2,678,993	2,527,036	0	0	2,678,993	2,527,036
Other	13,358	11,715	438	1,241	13,796	12,956
Total revenues	6,569,195	6,548,143	335,875	328,996	6,905,070	6,877,139
Program expenses:						
Governmental activities:						
Instructional	3,746,559	3,548,193	0	0	3,746,559	3,548,193
Support services	1,957,880	1,458,505	0	0	1,957,880	1,458,505
Non-instructional programs	8,907	11,095	317,662	322,993	326,569	334,088
Other expenses	588,611	485,660	0	0	588,611	485,660
Total expenses	6,301,957	5,503,453	317,662	322,993	6,619,619	5,826,446
Changes in net assets	\$ 267,238	1,044,690	18,213	6,003	285,451	1,050,693

Property tax and unrestricted state grants account for 65% of the total revenue. The District’s expenses primarily relate to instruction and support services which account for 86% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in property tax monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature, and the mid-year reduction of funding on the part of the state.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other

programs. The District saw an overall greater increase in revenues than the increase in expenditures, demonstrating an increase in the financial position for the year.

Governmental Activities

Revenues for governmental activities were \$6,569,195 and expenses were \$6,301,957. In a difficult budget year, 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.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,746,559	2,363,800
Support services	1,957,880	1,953,443
Non-instructional programs	8,907	8,907
Other expenses	588,611	384,099
Totals	<u>\$ 6,301,957</u>	<u>4,710,249</u>

- The cost financed by users of the District's programs was \$856,042.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$735,666.
- The net cost of governmental activities was financed with \$1,806,386 in property tax, \$478,750 in local option sales and services tax, \$2,678,993 in state foundation aid and \$22,708 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$335,875 and expenses were \$317,662. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

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.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,392,236, above last year's ending fund balances of a \$962,609. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to the issuance of revenue bonds in fiscal 2005.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors:
 - The decrease in local and federal sources of revenue was due to drastic decreases in property tax valuation rollbacks enacted by the State.

-
- The Capital Projects Fund balance increased from \$88,063 in fiscal 2004 to \$620,603 in fiscal 2005. This increase was because the District issued revenue bonds during fiscal year 2005.
 - The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$703 in fiscal 2004 to a deficit \$5,178 in fiscal 2005. This decrease was due to the property valuation rollbacks enacted by the state.

Proprietary Fund Highlights

The Proprietary Funds net assets increased from \$75,500 at June 30, 2004 to \$93,713 at June 30, 2005, representing an increase of 24%. For fiscal 2005, the District received more monies from charges for services and federal sources.

BUDGETARY HIGHLIGHTS

The District's revenues were \$432,369 more than budgeted revenues, a variance of 6.59%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total disbursements were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget disbursements 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 disbursements for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and other expenditures functional areas.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$4,451,615, 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) This amount represents a net increase of 1% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$284,584.

The original cost of the District's capital assets was \$7,355,262. Governmental funds account for \$7,290,741 with the remainder of \$64,521 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$650,694 at June 30, 2005, compared to \$566,316 reported at June 30, 2004. This increase resulted from the additions of buses and other machinery and equipment during fiscal year 2005.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
	Land	\$ 12,669	12,669	0	0	12,669	12,669
Buildings	2,774,054	2,807,923	0	0	2,774,054	2,807,923	-1.22%
Land improvements	984,099	983,772	0	0	984,099	983,772	0.03%
Machinery and equipment	650,694	566,316	30,099	22,982	680,793	589,298	13.44%
Total	\$ 4,421,516	4,370,680	30,099	22,982	4,451,615	4,393,662	1.30%

Long-Term Debt

At June 30, 2005, the District had \$2,445,000 in general obligation and other long-term debt outstanding. This represents an increase of 10% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$1,755,000 at June 30, 2005.

The District had outstanding revenue bonds of \$690,000 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 1,755,000	1,870,000	-6.1%
Revenue bonds	690,000	270,000	155.6%
HVAC loan	0	87,498	-100.0%
Totals	\$ 2,445,000	2,227,498	9.8%

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:

- The final HVAC project payment was made in June of 2005.
- The school board issued \$505,000 in revenue bonds for the construction of a multi-purpose building.
- The teachers union bargaining increase was 6% and the insurance costs increase was 7.95%
- The District utilized \$25,000 from the local option sales and services tax money to help pay down Debt Service obligations.
- Rising costs of natural gas and diesel fuel will affect spending trends in 2005-2006 and future years.
- The District did not levy for cash reserve due to the General Fund financial position.

-
- The District increased its Management levy to pay for increase costs of liability insurance and to offset the deficit in the Management Fund.

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 Street, Neola, Iowa, 51559.

BASIC FINANCIAL STATEMENTS

TRI CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 79	0	79
Other	1,262,611	38,052	1,300,663
Receivables:			
Property tax:			
Delinquent	19,709	0	19,709
Succeeding year	1,837,578	0	1,837,578
Due from other governments	152,284	0	152,284
Inventories	0	30,890	30,890
Capital assets, net of accumulated depreciation (Note 5)	4,421,516	30,099	4,451,615
TOTAL ASSETS	7,693,777	99,041	7,792,818
LIABILITIES			
Accounts payable	29,818	0	29,818
Salaries and benefits payable	6,972	0	6,972
Excess of warrants issued over bank balance	5,657	0	5,657
Accrued interest payable	5,168	0	5,168
Deferred revenue:			
Succeeding year property tax	1,837,578	0	1,837,578
Other	0	5,328	5,328
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	150,000	0	150,000
Revenue bonds payable	90,000	0	90,000
Portion due after one year:			
General obligation bonds payable	1,605,000	0	1,605,000
Revenue bonds payable	600,000	0	600,000
TOTAL LIABILITIES	4,330,193	5,328	4,335,521
NET ASSETS			
Investment in capital assets, net of related debt	2,603,897	30,099	2,633,996
Restricted for:			
Early intervention	30,448	0	30,448
Talented and gifted	11,713	0	11,713
Management levy	5,555	0	5,555
Other special revenue purposes	39,317	0	39,317
Unrestricted	672,654	63,614	736,268
TOTAL NET ASSETS	\$ 3,363,584	93,713	3,457,297

SEE NOTES TO FINANCIAL STATEMENTS.

TRI CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,567,544	744,695	491,353
Special instruction	695,169	111,347	35,364
Other instruction	483,846	0	0
	<u>3,746,559</u>	<u>856,042</u>	<u>526,717</u>
Support services:			
Student services	210,074	0	0
Instructional staff services	188,093	0	0
Administration services	631,440	0	0
Operation and maintenance of plant services	567,967	0	0
Transportation services	360,306	0	4,437
	<u>1,957,880</u>	<u>0</u>	<u>4,437</u>
Non-instructional programs:			
Food service operations	8,907	0	0
Other expenditures:			
Facilities and acquisitions	122,980	0	0
Long-term debt interest	110,283	0	0
AEA flowthrough	204,512	0	204,512
Depreciation(unallocated)*	150,836	0	0
	<u>588,611</u>	<u>0</u>	<u>204,512</u>
Total governmental activities	6,301,957	856,042	735,666
Business-Type activities:			
Non-instructional programs:			
Nutrition services	317,662	216,035	119,402
Total business-type activities	<u>317,662</u>	<u>216,035</u>	<u>119,402</u>
Total	<u>\$ 6,619,619</u>	<u>1,072,077</u>	<u>855,068</u>

General Revenues:

Local tax for:
 General purposes
 Debt Service
 Capital outlay
 Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Loss on disposal
Sale of equipment

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 12)

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.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,331,496)	0	(1,331,496)
(548,458)	0	(548,458)
(483,846)	0	(483,846)
<u>(2,363,800)</u>	<u>0</u>	<u>(2,363,800)</u>
(210,074)	0	(210,074)
(188,093)	0	(188,093)
(631,440)	0	(631,440)
(567,967)	0	(567,967)
(355,869)	0	(355,869)
<u>(1,953,443)</u>	<u>0</u>	<u>(1,953,443)</u>
(8,907)	0	(8,907)
(122,980)	0	(122,980)
(110,283)	0	(110,283)
0	0	0
(150,836)	0	(150,836)
<u>(384,099)</u>	<u>0</u>	<u>(384,099)</u>
(4,710,249)	0	(4,710,249)
0	17,775	17,775
0	17,775	17,775
<u>(4,710,249)</u>	<u>17,775</u>	<u>(4,692,474)</u>
\$ 1,572,412	0	1,572,412
189,077	0	189,077
44,897	0	44,897
478,750	0	478,750
2,678,993	0	2,678,993
22,708	438	23,146
(9,400)	0	(9,400)
50	0	50
<u>4,977,487</u>	<u>438</u>	<u>4,977,925</u>
267,238	18,213	285,451
3,096,346	75,500	3,171,846
<u>\$ 3,363,584</u>	<u>93,713</u>	<u>3,457,297</u>

TRI CENTER COMMUNITY SCHOOL DISTRICT
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2005

	General	Capital Projects	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments					
ISCAP (Note 4)	\$ 79	0	0	0	79
Other	694,449	509,185	0	58,977	1,262,611
Receivables:					
Property tax:					
Delinquent	15,886	0	479	3,344	19,709
Succeeding year	1,513,172	0	44,601	279,805	1,837,578
Due from other governments	40,866	111,418	0	0	152,284
TOTAL ASSETS	\$ 2,264,452	620,603	45,080	342,126	3,272,261
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 29,493	0	0	325	29,818
Salaries and benefits payable	6,972	0	0	0	6,972
Excess of warrants issued over bank balance	0	0	5,657	0	5,657
Deferred revenue:					
Succeeding year property tax	1,513,172	0	44,601	279,805	1,837,578
Total liabilities	1,549,637	0	50,258	280,130	1,880,025
Fund balances:					
Reserved for:					
Early intervention	30,448	0	0	0	30,448
Talented and gifted	11,713	0	0	0	11,713
Debt service	0	0	0	11,946	11,946
Unreserved:					
General	672,654	0	0	0	672,654
Management	0	0	0	5,555	5,555
Capital Projects	0	620,603	0	0	620,603
Physical plant and equipment levy	0	0	(5,178)	0	(5,178)
Other special revenue purposes	0	0	0	44,495	44,495
Total fund balances	714,815	620,603	(5,178)	61,996	1,392,236
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,264,452	620,603	45,080	342,126	3,272,261

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, 2005

Total fund balances of governmental funds (page 17)	\$ 1,392,236
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,421,516
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.	(5,168)
Long-term liabilities, including general obligation bonds and revenue bonds, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,445,000)</u>
Net assets of governmental activities (page 14)	<u>\$ 3,363,584</u>

SEE NOTES TO FINANCIAL STATEMENTS.

TRI CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Capital Projects	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,452,308	478,750	44,897	309,181	2,285,136
Tuition	526,330	0	0	0	526,330
Other	87,369	810	175	245,204	333,558
Intermediate sources	18,862	0	0	0	18,862
State sources	3,099,837	0	0	0	3,099,837
Federal sources	314,822	0	0	0	314,822
Total revenues	5,499,528	479,560	45,072	554,385	6,578,545
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,568,679	0	0	13,485	2,582,164
Special instruction	695,169	0	0	0	695,169
Other instruction	277,510	0	0	243,236	520,746
	3,541,358	0	0	256,721	3,798,079
Support services:					
Student services	215,521	0	0	0	215,521
Instructional staff services	188,093	0	0	0	188,093
Administration services	604,368	0	0	27,072	631,440
Operation and maintenance of plant services	547,324	0	0	31,585	578,909
Transportation services	311,284	0	50,953	23,938	386,175
	1,866,590	0	50,953	82,595	2,000,138
Non-instructional programs	5,275	0	0	3,632	8,907
Other expenditures:					
Facilities acquisitions	0	240,274	0	0	240,274
Long-term debt:					
Principal	0	0	0	287,498	287,498
Interest and fiscal charges	0	0	0	114,560	114,560
AEA flowthrough	204,512	0	0	0	204,512
	204,512	240,274	0	402,058	846,844
Total expenditures	5,617,735	240,274	50,953	745,006	6,653,968
Excess(deficiency) of revenues over(under) expenditures	(118,207)	239,286	(5,881)	(190,621)	(75,423)
Other financing sources:					
Operating transfers in	0	0	0	211,746	211,746
Operating transfers out	0	(211,746)	0	0	(211,746)
Sale of equipment	50	0	0	0	50
Proceeds from loan	0	505,000	0	0	505,000
Total other financing sources	50	293,254	0	211,746	505,050
Net change in fund balances	(118,157)	532,540	(5,881)	21,125	429,627
Fund balance beginning of year	832,972	88,063	703	40,871	962,609
Fund balance end of year	\$ 714,815	620,603	(5,178)	61,996	1,392,236

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, 2005

Net change in fund balances - total governmental funds (page 19) \$ 429,627

*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	\$ 340,319	
Depreciation expense	(280,083)	
Loss on disposal	(9,400)	50,836

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities in an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(505,000)	
Repaid	287,498	(217,502)

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.

4,277

Changes in net assets of governmental activities (page 16) \$ 267,238

SEE NOTES TO FINANCIAL STATEMENTS.

TRI CENTER COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2005

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 38,052
Inventories	30,890
Capital assets, net of accumulated depreciation (Note 5)	<u>30,099</u>
TOTAL ASSETS	<u>99,041</u>
LIABILITIES	
Deferred revenue:	
Other	5,328
TOTAL LIABILITIES	<u>5,328</u>
NET ASSETS	
Investment in capital assets, net of related debt	30,099
Unrestricted	63,614
TOTAL NET ASSETS	<u>\$ 93,713</u>

SEE NOTES TO FINANCIAL STATEMENTS.

TRI CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 216,035
TOTAL OPERATING REVENUES	216,035
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	148,103
Benefits	23,761
Supplies	141,297
Depreciation	4,501
TOTAL OPERATING EXPENSES	317,662
OPERATING LOSS	(101,627)
NON-OPERATING REVENUES:	
State sources	4,720
Federal sources	114,682
Interest on investments	438
TOTAL NON-OPERATING REVENUES	119,840
Change in net assets	18,213
Net assets beginning of year	75,500
Net assets end of year	\$ 93,713

SEE NOTES TO FINANCIAL STATEMENTS.

TRI CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 213,629
Cash received from miscellaneous	4,152
Cash payments to employees for services	(171,864)
Cash payments to suppliers for goods or services	(114,801)
Net cash used in operating activities	(68,884)
Cash flows from non-capital financing activities:	
State grants received	4,720
Federal grants received	84,230
Net cash provided by non-capital financing activities	88,950
Cash flows from capital and related financing activities:	
Purchase of capital assets	(11,618)
Net cash used in capital and related financing activities	(11,618)
Cash flows from investing activities:	
Interest on investments	438
Net cash provided by investing activities	438
Net increase in cash and cash equivalents	8,886
Cash and cash equivalents at beginning of year	29,166
Cash and cash equivalents at end of year	\$ 38,052
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (101,627)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	30,452
Depreciation	4,501
Increase in inventories	(3,956)
Decrease in accounts receivable	80
Increase in deferred revenue	1,666
Net cash provided by (used in) operating activities	\$ (68,884)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 38,052
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2005, the District received Federal commodities valued at \$30,452.

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2005

	Private Purpose Trust
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 41,180
Total assets	<u>41,180</u>
Liabilities	
Total liabilities	<u>0</u>
Net assets	
Reserved for scholarships	<u>\$ 41,180</u>

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-CENTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Private Purpose Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Interest income	\$ 993
Total additions	<u>993</u>
Deductions:	
Instruction:	
Scholarships awarded	<u>1,000</u>
Change in net assets	(7)
Net assets beginning of year	<u>41,187</u>
Net assets end of year	<u>\$ 41,180</u>

SEE NOTES TO FINANCIAL STATEMENTS.

TRI CENTER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

(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 cities 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Physical Plant & Equipment Levy (PPEL) Fund is used to account for machinery and equipment expenditures as well as the improvements to capital facilities.

The District's proprietary funds is the School Nutrition Fund. The 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 funds include 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 and proprietary 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and

reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2005 balances of interfund accounts receivable or payable have been recorded.

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, furniture, 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
Other machinery and equipment	1,000

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

Asset Class	Estimated 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 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, 2005, disbursements in the instruction and other expenditures functional areas exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits 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 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 and the Treasurer of the State of Iowa; 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.

At June 30, 2005, the District had investments in certificates of deposit as follows:

	<u>Amortized Cost</u>
Certificates of deposit	<u>\$ 10,000</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

(3) Transfers

The detail of transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 211,746
Total		<u>\$ 211,746</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 corporation 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. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2004-05A	6/30/04	6/30/05	\$ 79	0	0	0
Total			<u>\$ 79</u>	<u>0</u>	<u>0</u>	<u>0</u>

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 on 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 during the year ended June 30, 2005.

The warrants bear interest and the available proceeds of the warrants are 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, 2005 is as follows:

	Balance Beginning of Year, as restated (Note 12)	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	4,573,523	58,777	0	4,632,300
Land improvements	1,098,087	58,517	0	1,156,604
Machinery and equipment	1,508,143	223,025	242,000	1,489,168
Total capital assets being depreciated	7,179,753	340,319	242,000	7,278,072
Less accumulated depreciation for:				
Buildings	1,765,600	92,646	0	1,858,246
Land improvements	114,315	58,190	0	172,505
Machinery and equipment	941,827	129,247	232,600	838,474
Total accumulated depreciation	2,821,742	280,083	232,600	2,869,225
Total capital assets being depreciated, net	4,358,011	60,236	9,400	4,408,847
Governmental activities capital assets, net	\$ 4,370,680	60,236	9,400	4,421,516
Business-type activities:				
Machinery and equipment	\$ 52,903	11,618	0	64,521
Less accumulated depreciation	29,921	4,501	0	34,422
Business-type activities capital assets, net	\$ 22,982	7,117	0	30,099

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 41,520
Other	5,910
Support services:	
Student	1,581
Operation and maintenance of plant	2,515
Transportation	77,721
Unallocated depreciation	129,247
	150,836
Total governmental activities depreciation expense	\$ 280,083
Business-type activities:	
Food service operations	\$ 4,501
Total business-type activities depreciation expense	\$ 4,501

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,870,000	0	115,000	1,755,000	150,000
Revenue bonds	270,000	505,000	85,000	690,000	90,000
HVAC loan	87,498	0	87,498	0	0
Total	\$ 2,227,498	505,000	287,498	2,445,000	240,000

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of April 1, 2003			
	Interest Rates	Principal	Interest	Total
2006	3.85	\$ 150,000	\$ 54,805	204,805
2007	3.75	150,000	51,430	201,430
2008	3.85	160,000	47,680	207,680
2009	3.75	165,000	43,280	208,280
2010	3.85	170,000	38,165	208,165
2011	3.75	175,000	32,725	207,725
2012	3.85	185,000	27,125	212,125
2013	3.75	190,000	21,020	211,020
2014	3.85	200,000	14,560	214,560
2015	3.75	210,000	7,560	217,560
Total		\$ 1,755,000	338,350	2,093,350

Revenue Bonds

Details of the District's June 30, 2005 revenue bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of 2002			Bond Issue of 2005			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2006	3.85	90,000	7,218	3.20		15,172	90,000	22,390	112,390
2007	3.95	95,000	3,752	3.20	505,000	16,160	600,000	19,912	619,912
Total		\$ 185,000	10,970		\$ 505,000	31,332	690,000	42,302	732,302

(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 covered salary and the District 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 District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$197,364, \$190,734, and \$191,433 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 \$204,512 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Fund Balance

The Physical Plant and Equipment Levy (PPEL) Fund had a deficit undesignated fund balance of \$5,178 at June 30, 2005.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, disbursements in the instruction and other expenditures functional program areas exceeded the amounts budgeted.

(12) Accounting Restatement

This restatement is due to asset listing errors. The restatement of the capital assets and net assets are as follows:

	Balance 6/30/2004 as Previously Reported	Increases	Decreases	Balance 7/1/2004 as restated
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,669	0	0	12,669
Total capital assets not being depreciated	<u>12,669</u>	<u>0</u>	<u>0</u>	<u>12,669</u>
Capital assets being depreciated:				
Buildings	4,625,000	0	51,477	4,573,523
Land improvements	1,062,508	35,579	0	1,098,087
Machinery and equipment	730,140	778,003	0	1,508,143
Total capital assets being depreciated	<u>6,417,648</u>	<u>813,582</u>	<u>51,477</u>	<u>7,179,753</u>
Less accumulated depreciation for:				
Buildings	1,765,600	0	0	1,765,600
Land improvements	114,315	0	0	114,315
Machinery and equipment	411,374	530,453	0	941,827
Total accumulated depreciation	<u>2,291,289</u>	<u>530,453</u>	<u>0</u>	<u>2,821,742</u>
Total capital assets being depreciated, net	<u>4,126,359</u>	<u>283,129</u>	<u>51,477</u>	<u>4,358,011</u>
Governmental activities capital assets, net	<u>\$ 4,139,028</u>	<u>283,129</u>	<u>51,477</u>	<u>4,370,680</u>

The effect of the adjustment to restate the capital assets results in a change to the previously reported governmental activities, net assets as follows:

Net assets, June 30, 2004, as previously reported	\$ 2,864,694
Capital assets adjustment, net	<u>231,652</u>
Net assets, July 1, 2004, as restated	<u>\$ 3,096,346</u>

REQUIRED SUPPLEMENTAL INFORMATION

TRI CENTER COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON 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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 3,218,511	218,219
State sources	3,095,400	4,720
Federal sources	345,352	114,682
Total revenues	<u>6,659,263</u>	<u>337,621</u>
Disbursements:		
Instruction	3,810,095	0
Support services	1,989,662	0
Non-instructional programs	8,906	328,735
Other expenditures	846,520	0
Total expenditures	<u>6,655,183</u>	<u>328,735</u>
Excess(deficiency) of receipts over(under) disbursements	4,080	8,886
Other financing sources, net	<u>505,050</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	509,130	8,886
Balance beginning of year	<u>747,824</u>	<u>29,166</u>
Balance end of year	<u>\$ 1,256,954</u>	<u>38,052</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,436,650	3,160,277	3,160,277	276,373
3,100,120	3,144,238	3,144,238	(44,118)
460,114	260,000	260,000	200,114
<u>6,996,884</u>	<u>6,564,515</u>	<u>6,564,515</u>	<u>432,369</u>
3,810,095	3,764,230	3,764,230	(45,865)
1,989,662	2,243,000	2,243,000	253,338
337,641	365,000	365,000	27,359
846,520	757,134	757,134	(89,386)
<u>6,983,918</u>	<u>7,129,364</u>	<u>7,129,364</u>	<u>145,446</u>
12,966	(564,849)	(564,849)	(577,815)
<u>505,050</u>	<u>2,000</u>	<u>2,000</u>	<u>(503,050)</u>
518,016	(562,849)	(562,849)	(1,080,865)
<u>776,990</u>	<u>628,504</u>	<u>628,504</u>	<u>148,486</u>
<u>1,295,006</u>	<u>65,655</u>	<u>65,655</u>	<u>1,229,351</u>

TRI CENTER COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 6,659,263	(80,718)	6,578,545
Expenditures	6,655,183	(1,215)	6,653,968
Net	4,080	(79,503)	(75,423)
Other financing sources, net	505,050	0	505,050
Beginning fund balances	747,824	214,785	962,609
Ending fund balances	\$ 1,256,954	135,282	1,392,236

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 337,621	(1,746)	335,875
Expenses	328,735	(11,073)	317,662
Net	8,886	9,327	18,213
Other financing sources, net	0	0	0
Beginning fund balances	29,166	46,334	75,500
Ending fund balances	\$ 38,052	55,661	93,713

TRI CENTER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

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 ended June 30, 2005, disbursements in the instruction and other expenditures functional areas exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

TRI CENTER COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	
ASSETS						
Cash and pooled investments	\$ 4,243	43,979	516	48,738	10,239	58,977
Receivables:						
Property tax:						
Current year delinquent	1,312	0	0	1,312	2,032	3,344
Succeeding year	125,000	0	0	125,000	154,805	279,805
TOTAL ASSETS	\$ 130,555	43,979	516	175,050	167,076	342,126
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 0	0	0	0	325	325
Deferred revenue:						
Succeeding year property tax	125,000	0	0	125,000	154,805	279,805
	125,000	0	0	125,000	155,130	280,130
Fund equity:						
Fund balances:						
Reserved for:						
For Debt Service	0	0	0	0	11,946	11,946
Unreserved:						
Undesignated	5,555	43,979	516	50,050	0	50,050
Total fund balances	5,555	43,979	516	50,050	11,946	61,996
TOTAL LIABILITIES AND FUND EQUITY	\$ 130,555	43,979	516	175,050	167,076	342,126

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, 2005

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 120,104	0	0	120,104	189,077	309,181
Other	1,052	243,897	0	244,949	255	245,204
TOTAL REVENUES	121,156	243,897	0	365,053	189,332	554,385
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	13,485	0	0	13,485	0	13,485
Other instruction	0	243,236	0	243,236	0	243,236
Support services:						
Administration services	27,072	0	0	27,072	0	27,072
Operation and maintenance of plant services	31,585	0	0	31,585	0	31,585
Student transportation	23,938	0	0	23,938	0	23,938
Non-instructional programs:						
Food service operation	3,632	0	0	3,632	0	3,632
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	287,498	287,498
Interest and fiscal charges	0	0	0	0	114,560	114,560
TOTAL EXPENDITURES	99,712	243,236	0	342,948	402,058	745,006
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	21,444	661	0	22,105	(212,726)	(190,621)
OTHER FINANCING SOURCES:						
Transfer in	0	0	0	0	211,746	211,746
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	21,444	661	0	22,105	(980)	21,125
FUND BALANCE BEGINNING OF YEAR	(15,889)	43,318	516	27,945	12,926	40,871
FUND BALANCE END OF YEAR	\$ 5,555	43,979	516	50,050	11,946	61,996

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, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 9	716	414	311
Cross Country	418	1,083	946	555
Boys Basketball	3,169	9,088	9,555	2,702
Football	398	9,222	8,901	719
Soccer	0	5,121	4,941	180
Baseball	147	8,437	7,763	821
Boys Track	(1,181)	6,662	5,242	239
Golf	20	462	410	72
Wrestling	190	7,055	6,304	941
Girls Basketball	1,410	23,876	24,637	649
Volleyball	502	14,023	13,142	1,383
Summer Softball	0	6,457	5,853	604
Girls Track	0	3,908	3,775	133
General Activity	1,980	23,377	24,642	715
Class of 2006	10	14,934	13,038	1,906
Class of 2007	4,242	1,891	6,133	0
Leadership	5,131	5,165	8,413	1,883
Yearbook	1,810	9,019	9,918	911
Student Council-Persia	679	900	1,579	0
Student Council	154	7,820	7,497	477
Elementary Student Council	1,596	5,027	5,407	1,216
Musicals	7,514	6,799	2,963	11,350
High School Cheerleaders	995	1,315	2,400	(90)
Drill Team	155	4,919	4,143	931
Elementary Art Club	1,535	3,138	3,370	1,303
National Honor Society	572	582	875	279
Astra	1,653	702	1,914	441
FFA	10,033	20,518	19,576	10,975
Vending	117	37,105	36,679	543
Misc Athletics	0	3,700	2,806	894
Music Boosters	60	876	0	936
Total	\$ 43,318	243,897	243,236	43,979

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 2,285,136	2,398,384	2,195,895	2,028,203
Tuition	526,330	471,937	343,337	309,464
Other	333,558	334,713	336,894	497,277
Intermediate sources	18,862	0	0	0
State sources	3,099,837	2,945,893	2,972,311	2,783,970
Federal sources	314,822	397,216	126,689	104,045
Total	\$ 6,578,545	6,548,143	5,975,126	5,722,959
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,582,164	2,506,651	2,260,818	2,226,494
Special instruction	695,169	606,173	555,558	541,438
Other instruction	520,746	564,314	570,743	654,652
Support services:				
Student services	215,521	272,872	185,498	174,694
Instructional staff services	188,093	158,631	149,241	134,261
Administration services	631,440	576,396	620,671	517,764
Operation and maintenance of plant services	578,909	553,285	566,132	500,256
Transportation services	386,175	418,434	348,912	342,918
Non-instructional programs	8,907	11,095	9,259	5,096
Other expenditures:				
Facilities acquisitions	240,274	168,144	259,728	281,985
Long-term debt:				
Principal	287,498	273,521	259,866	76,145
Interest	114,560	127,779	144,480	227,279
AEA flow-through	204,512	206,915	219,029	213,203
Total	\$ 6,653,968	6,444,210	6,149,935	5,896,185

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 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 Education of the
Tri Center Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Tri Center Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 19, 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.

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Part I of 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

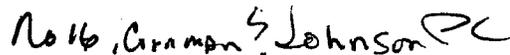
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri Center Community School District'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 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. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District'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 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.

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, 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 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.

October 19, 2005

TRI CENTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-05 Authorized Check Signatures - We noted during our audit that the Board President and Board Secretary were not signing all checks written by the District.

Recommendation - The Board President and Board Secretary are to sign all checks written by the District to be in compliance with Chapter 291.1 of the Code of Iowa. However, the Board President can designate an authorized signer annually, only upon approval in the board minutes.

Response - We will ask for the Board President to designate an authorized signer at the annual meeting and have such designation approved in the board minutes.

Conclusion - Response accepted.

I-C-05 Credit Card Receipts - We noted during our audit that when a credit card was used for purchases, there was not a detailed receipt that was used for supporting documentation.

Recommendation - The District should review procedures in place when reimbursing credit card purchases. The District should adopt a policy that would require detailed supporting documentation for purchases.

Response - We will comply.

Conclusion - Response accepted.

TRI CENTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

- II-A-05 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, 2005.
- II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amended certified budget amounts in the instruction and other expenditures 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 - New account codes caused certified budget expenditure amounts to be exceeded.
- Conclusion - Response accepted.
- II-C-05 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-05 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-05 Business Transactions - No business transactions between the District and District officials were noted.
- II-F-05 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-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-05 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-05 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-05 Financial Condition - The District had a deficit undesignated fund balance of \$5,178 in the Physical Plant and Equipment Levy (PPEL) Fund.

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

Response - We will comply.

Conclusion - Response accepted.