

TRI-COUNTY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Tri-County Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2004 Election)</b>		
Mark McCullough	President	2005
Kelly Tish	Board Member	2005
Lisa Sieren	Board Member	2006
Gary Bates	Board Member	2006
Roger Thomas	Board Member	2004

**Board of Education**

**(After September 2004 Election)**

Mark McCullough	President	2005
Kelly Tish	Vice President	2005
Lisa Sieren	Board Member	2006
Gary Bates	Board Member	2006
Justin Leer	Board Member	2007

**School Officials**

Jody Gray	Superintendent	2005
Rebecca Schmidt	District Secretary	2005
Joanne Bair	District Treasurer	2005
Richard Gaumer	District Attorney	2005

**NOTLE, 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-County 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-County Community School District, Thornburg, Iowa, 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. 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-County Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

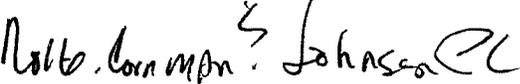
In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2005 on our consideration of Tri-County Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 12 and 35 through 37 are not required parts of the basic financial statements, but are supplementary

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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-County Community School District's basic financial statements. Another auditor 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 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, 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.

December 1, 2005

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Tri-County 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 increased from \$2,771,261 in fiscal year 2004 to \$2,823,840 in fiscal year 2005, while General Fund expenditures increased from \$2,730,910 in fiscal 2004 to \$2,912,095 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$822,150 in fiscal 2004 to \$733,895 in fiscal 2005, a 10.7% decrease from prior year.
- Overall, the District net assets in the governmental activities increased by \$96,607, and the business-type activities decreased by \$1,271, respectively.
- The September 2004 Certified Enrollment count resulted in a decrease of 14.9 students, representing a 4.2% decrease compared to the prior year.

### **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-County 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-County 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-County Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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.

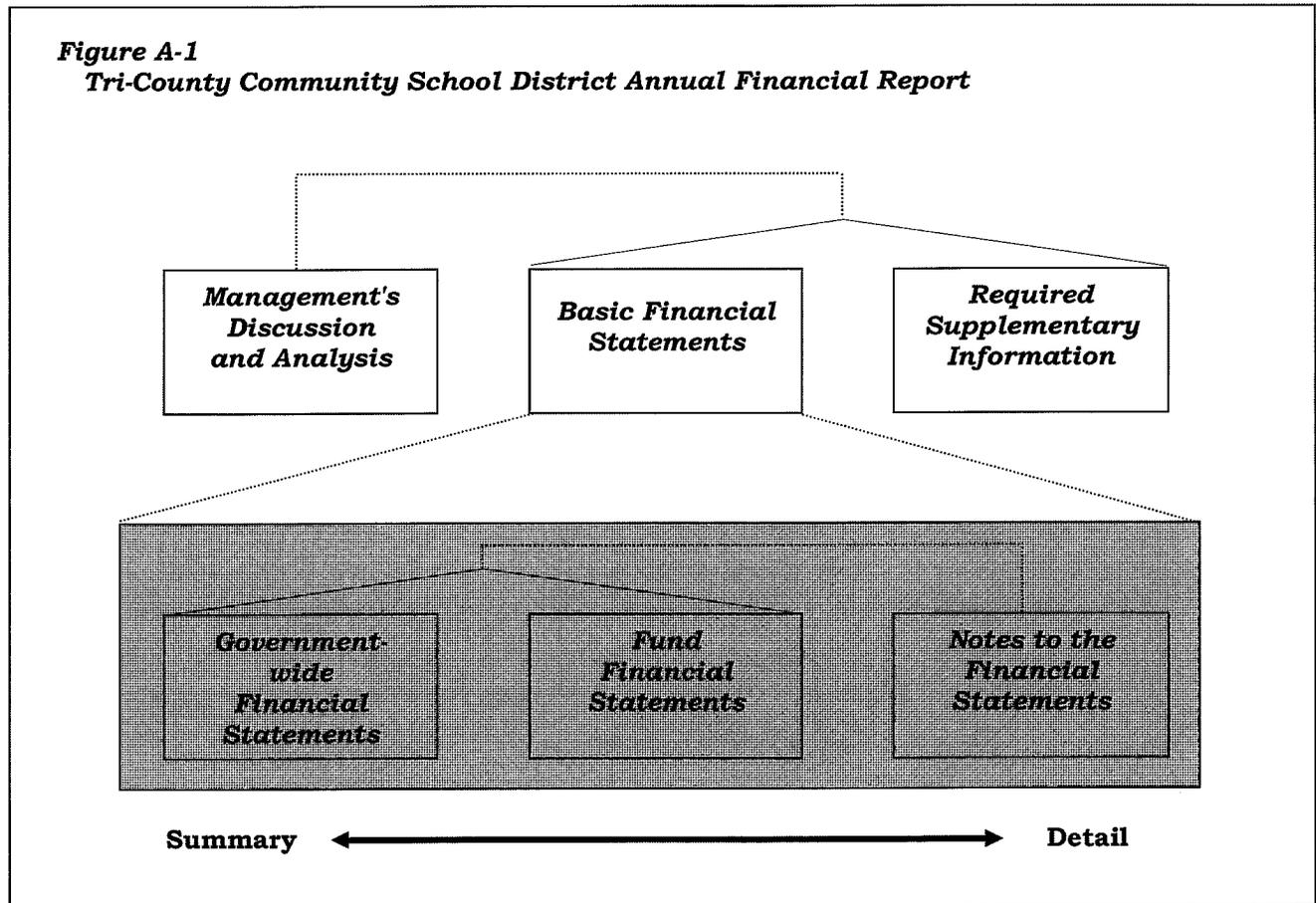


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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 Child Care Fund.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

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 District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include 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.

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	\$ 2,633,265	2,980,207	\$ 1,898	10,586	\$ 2,635,163	2,990,793	-11.89%
Capital assets	1,404,812	1,482,949	9,991	3,247	1,414,803	1,486,196	-4.80%
Total assets	<u>4,038,077</u>	<u>4,463,156</u>	<u>11,889</u>	<u>13,833</u>	<u>4,049,966</u>	<u>4,476,989</u>	<u>-9.54%</u>
Long-term obligations	1,741,130	1,848,372	0	0	1,741,130	1,848,372	-5.80%
Other liabilities	1,476,765	1,891,209	1,378	2,051	1,478,143	1,893,260	-21.93%
Total liabilities	<u>3,217,895</u>	<u>3,739,581</u>	<u>1,378</u>	<u>2,051</u>	<u>3,219,273</u>	<u>3,741,632</u>	<u>-13.96%</u>
Net assets:							
Invested in capital assets, net of related debt	(165,181)	(347,051)	9,991	3,247	(155,190)	(343,804)	54.86%
Restricted	231,966	293,143	0	0	231,966	293,143	-20.87%
Unrestricted	753,397	777,483	520	8,535	753,917	786,018	-4.08%
Total net assets	<u>\$ 820,182</u>	<u>723,575</u>	<u>\$ 10,511</u>	<u>11,782</u>	<u>\$ 830,693</u>	<u>735,357</u>	<u>12.96%</u>

The District's combined net assets increased by nearly 13% over the prior year. The District's net assets, which are invested in capital assets (e.g., land, buildings and equipment), less the related debt, increased by nearly 55%. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent 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 approximately 21% over the prior year. The decrease was primarily a result of reclassifying the Debt Service fund balances from prior year to the invested in capital assets line.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- decreased approximately 4% over the prior year.

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

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 311,715	322,069	84,738	90,771	396,453	412,840	-3.97%
Operating grants and contributions and restricted interest	368,418	108,892	57,200	55,735	425,618	164,627	158.53%
<b>General revenues:</b>							
Property tax	1,462,474	1,301,036	0	0	1,462,474	1,301,036	12.41%
Local option sales and service tax	157,528	13,504	0	0	157,528	13,504	0.00%
Unrestricted state grants	1,202,567	1,267,323	0	0	1,202,567	1,267,323	-5.11%
Other	9,324	280,537	16	55	9,340	280,592	-96.67%
<b>Total revenues</b>	<b>3,512,026</b>	<b>3,293,361</b>	<b>141,954</b>	<b>146,561</b>	<b>3,653,980</b>	<b>3,439,922</b>	<b>6.22%</b>
<b>Program expenses:</b>							
<b>Governmental activities:</b>							
Instructional	2,084,924	2,016,131	0	0	2,084,924	2,016,131	3.41%
Support services	948,618	867,158	0	0	948,618	867,158	9.39%
Non-instructional programs	32,054	23,742	151,746	159,957	183,800	183,699	0.05%
Other expenses	349,823	409,460	0	0	349,823	409,460	-14.56%
<b>Total expenses</b>	<b>3,415,419</b>	<b>3,316,491</b>	<b>151,746</b>	<b>159,957</b>	<b>3,567,165</b>	<b>3,476,448</b>	<b>2.61%</b>
Excess(deficiency) of revenues over(under) expenses before capital contributions	96,607	(23,130)	(9,792)	(13,396)	86,815	(36,526)	-337.68%
Capital contributions	0	0	8,521	0	8,521	0	100.00%
<b>Change in net assets</b>	<b>96,607</b>	<b>(23,130)</b>	<b>(1,271)</b>	<b>(13,396)</b>	<b>95,336</b>	<b>(36,526)</b>	<b>-361.01%</b>
Net assets beginning of year	723,575	746,705	11,782	25,178	735,357	771,883	-4.73%
<b>Net assets end of year</b>	<b>\$ 820,182</b>	<b>723,575</b>	<b>10,511</b>	<b>11,782</b>	<b>830,693</b>	<b>735,357</b>	<b>12.96%</b>

Property tax, local option sales and services tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$3,512,026 and expenses were \$3,415,419.

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	\$ 2,084,924	1,511,477
Support services	948,618	948,618
Non-instructional	32,054	32,054
Other expenses	349,823	243,137
Totals	\$ 3,415,419	2,735,286

- The cost financed by users of the District’s programs was \$311,715.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$368,418.
- The net cost of governmental activities was financed with \$1,462,474 in property tax, \$157,528 in local option sales and services tax, \$1,202,567 in unrestricted state grants and \$9,324 in interest income.

**Business-Type Activities**

Revenues of the District’s business-type activities were \$141,954 and expenses were \$151,746. The District’s business-type activities include the School Nutrition Fund and Child Care 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-County 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 balances of \$1,046,629, below last year’s ending fund balances of \$1,088,981.

**Governmental Fund Highlights**

- The District’s deteriorating General Fund financial position is the product of many factors. Increase in the tax levy, as well as, state and federal grants during the year, resulted in an increase in revenues. The increase in expenditures was enough to offset the District’s increase in revenues ensuring the decrease of the Districts financial position.
- This was the Districts first full year of local option sales and service tax. With these additional revenues the Capital Projects fund balance was capable of increasing \$107,528 to an ending balance of \$135,546.
- The Special Revenue, Management Levy fund balance increased from a deficit fund balance of \$2,269 to a positive balance of \$8,506 due to an increase in revenues during the year.
- The Special Revenue, Physical Plant and Equipment Levy fund balance decreased \$31,682 to an ending balance of \$81,252. Even though expenditures decreased, they still exceeded revenues; allowing the fund balance to decrease.

## Proprietary Funds Highlights

The School Nutrition Fund net assets decreased from \$13,833 at June 30, 2004 to \$9,899 at June 30, 2005, representing a decrease of 28.4%. The Child Care Fund net assets increased from a deficit \$2,051 to a positive \$612, representing an increase of 129.8%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$351,053 less than budgeted revenues, a variance of 9%. The most significant variance resulted from the District receiving less in state 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 District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, the District had invested \$1.4 million, 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 capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$300,323.

The original cost of the District's capital assets was \$3,854,822. Governmental funds account for \$3,802,208 with the remainder of \$52,614 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$138,840 at June 30, 2004 compared to \$185,784 at June 30, 2005. This increase is due the purchases paid during the year.

Figure A-6

	Capital Assets, Net of Depreciation							
	Governmental		Business-type		Total		Total	Change
	Activities		Activities		School District		2004-05	
	2005	2004	2005	2004	2005	2004	2004-05	
Land	\$ 23,205	23,205	\$ 0	0	\$ 23,205	23,205	0.00%	
Buildings	1,192,037	1,324,151	0	0	1,192,037	1,324,151	-11.08%	
Improvements other than buildings	13,777	0	0	0	13,777	0	100.00%	
Machinery and equipment	175,793	135,593	9,991	3,247	185,784	138,840	25.27%	
Total	<u>\$ 1,404,812</u>	<u>1,482,949</u>	<u>\$ 9,991</u>	<u>3,247</u>	<u>\$ 1,414,803</u>	<u>1,486,196</u>	<u>-5.05%</u>	

### Long-Term Debt

At June 30, 2005, the District had \$1,746,130 in other long-term debt outstanding. This represents a decrease of 5.5% 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 bonded indebtedness payable of \$1,705,000 at June 30, 2005.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$36,248, which is an increase of 97.3% from the prior year.

The District also had compensated absences of \$4,882 at June 30, 2005.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 1,705,000	1,830,000	-6.8%
Early retirement	36,248	18,372	97.3%
Compensated absences	4,882	0	100.0%
Totals	<u>\$ 1,746,130</u>	<u>1,848,372</u>	<u>-5.5%</u>

## **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:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of the District passed the Local Option Sales and Services in 2004. This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment.
- The District hired Bill Cox as the new Superintendent; starting in the 2005-06 fiscal year.

## **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 Beckie Schmidt, District Secretary and Business Manager, Tri-County Community School District, 3003 Hwy. 22, P.O. Box 17, Thornburg, Iowa, 50255.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 180,844	0	180,844
Other	898,651	0	898,651
Receivables:			
Property tax:			
Delinquent	32,174	0	32,174
Succeeding year	1,284,324	0	1,284,324
Income surtax	119,860	0	119,860
Accrued ISCAP interest (Note 4)	39	0	39
Due from other governments	117,373	0	117,373
Inventories	0	1,898	1,898
Capital assets, net of accumulated depreciation (Note 5)	1,404,812	9,991	1,414,803
<b>TOTAL ASSETS</b>	<b>4,038,077</b>	<b>11,889</b>	<b>4,049,966</b>
<b>LIABILITIES</b>			
Excess of warrants issued			
bank balance	0	60	60
Accounts payable	0	1,318	1,318
Accrued interest payable	4,989	0	4,989
ISCAP warrants payable (Note 4)	180,000	0	180,000
ISCAP accrued interest payable (Note 4)	35	0	35
ISCAP premiums payable	2,417	0	2,417
Deferred revenue:			
Succeeding year property tax	1,284,324	0	1,284,324
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	130,000	0	130,000
Early retirement payable	10,924	0	10,924
Compensated absences payable	4,882	0	4,882
Portion due after one year:			
General obligation bonds payable	1,575,000	0	1,575,000
Early retirement payable	25,324	0	25,324
<b>TOTAL LIABILITIES</b>	<b>3,217,895</b>	<b>1,378</b>	<b>3,219,273</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	(165,181)	9,991	(155,190)
Restricted for:			
Phase III	6,749	0	6,749
Early intervention	46,408	0	46,408
Talented and gifted	14,577	0	14,577
Physical plant and equipment levy	81,252	0	81,252
Other special revenue purposes	82,980	0	82,980
Unrestricted	753,397	520	753,917
<b>TOTAL NET ASSETS</b>	<b>\$ 820,182</b>	<b>10,511</b>	<b>830,693</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,281,038	83,664	244,166
Special instruction	411,429	0	17,566
Other instruction	392,457	228,051	0
	<u>2,084,924</u>	<u>311,715</u>	<u>261,732</u>
Support services:			
Student services	55,533	0	0
Instructional staff services	25,097	0	0
Administration services	385,381	0	0
Operation and maintenance of plant services	279,692	0	0
Transportation services	202,915	0	0
	<u>948,618</u>	<u>0</u>	<u>0</u>
Non-instructional programs:			
Community service operations	32,054	0	0
Other expenditures:			
Facilities acquisitions	54,543	0	0
Long-term debt interest	70,257	0	0
AEA flowthrough	106,686	0	106,686
Depreciation (unallocated)*	118,337	0	0
	<u>349,823</u>	<u>0</u>	<u>106,686</u>
Total governmental activities	3,415,419	311,715	368,418
Business-Type activities:			
Non-instructional programs:			
Nutrition services	140,411	70,740	57,200
Child care	11,335	13,998	0
Total business-type activities	<u>151,746</u>	<u>84,738</u>	<u>57,200</u>
Total	<u>\$ 3,567,165</u>	<u>396,453</u>	<u>425,618</u>

**General Revenues:**

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

Total general revenues

Excess (deficiency) of revenues over (under) expenditures  
before capital contributions

Capital contributions

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(953,208)	0	(953,208)
(393,863)	0	(393,863)
(164,406)	0	(164,406)
<u>(1,511,477)</u>	<u>0</u>	<u>(1,511,477)</u>
(55,533)	0	(55,533)
(25,097)	0	(25,097)
(385,381)	0	(385,381)
(279,692)	0	(279,692)
(202,915)	0	(202,915)
<u>(948,618)</u>	<u>0</u>	<u>(948,618)</u>
(32,054)	0	(32,054)
(54,543)	0	(54,543)
(70,257)	0	(70,257)
0	0	0
(118,337)	0	(118,337)
<u>(243,137)</u>	<u>0</u>	<u>(243,137)</u>
(2,735,286)	0	(2,735,286)
0	(12,471)	(12,471)
0	2,663	2,663
0	(9,808)	(9,808)
<u>(2,735,286)</u>	<u>(9,808)</u>	<u>(2,745,094)</u>
\$ 1,247,308	0	1,247,308
112,198	0	112,198
102,968	0	102,968
157,528	0	157,528
1,202,567	0	1,202,567
9,324	16	9,340
<u>2,831,893</u>	<u>16</u>	<u>2,831,909</u>
96,607	(9,792)	86,815
0	8,521	8,521
96,607	(1,271)	95,336
723,575	11,782	735,357
<u>\$ 820,182</u>	<u>10,511</u>	<u>830,693</u>

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 180,844	0	0	180,844
Other	688,903	39,315	170,433	898,651
Receivables:				
Property tax				
Delinquent	25,419	0	6,755	32,174
Succeeding year	966,212	0	318,112	1,284,324
Income surtax	87,897	0	31,963	119,860
Accrued ISCAP interest(Note 4)	39	0	0	39
Due from other governments	21,142	96,231	0	117,373
<b>TOTAL ASSETS</b>	<b>\$ 1,970,456</b>	<b>135,546</b>	<b>527,263</b>	<b>2,633,265</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
ISCAP warrants payable(Note 4)	\$ 180,000	0	0	180,000
ISCAP accrued interest payable(Note 4)	35	0	0	35
ISCAP premiums payable	2,417	0	0	2,417
Deferred revenue:				
Succeeding year property tax	966,212	0	318,112	1,284,324
Income surtax	87,897	0	31,963	119,860
<b>Total liabilities</b>	<b>1,236,561</b>	<b>0</b>	<b>350,075</b>	<b>1,586,636</b>
Fund balances:				
Reserved for:				
Phase III	6,749	0	0	6,749
Early intervention	46,408	0	0	46,408
Talented and gifted	14,577	0	0	14,577
Debt service	0	0	4,450	4,450
Designated for cash flow	350,000	0	0	350,000
Unreserved:				
General	316,161	0	0	316,161
Capital projects	0	135,546	0	135,546
Management levy	0	0	8,506	8,506
Physical plant and equipment levy	0	0	81,252	81,252
Other special revenue purposes	0	0	82,980	82,980
<b>Total fund balances</b>	<b>733,895</b>	<b>135,546</b>	<b>177,188</b>	<b>1,046,629</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,970,456</b>	<b>135,546</b>	<b>527,263</b>	<b>2,633,265</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2005

<b>Total fund balances of governmental funds (page 16)</b>	\$	1,046,629
 <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 reported as assets in the governmental funds.		1,404,812
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		119,860
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.		(4,989)
Long-term liabilities, including general obligation bonds payable, compensated absences and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(1,746,130)
		<u>820,182</u>
<b>Net assets of governmental activities (page 13)</b>	<b>\$</b>	<b><u>820,182</u></b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,059,813	0	282,801	1,342,614
Local option sales and service tax	0	157,528	0	157,528
Tuition	83,664	0	0	83,664
Other	109,378	0	127,997	237,375
State sources	1,464,820	0	0	1,464,820
Federal sources	106,165	0	0	106,165
Total revenues	<u>2,823,840</u>	<u>157,528</u>	<u>410,798</u>	<u>3,392,166</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,229,547	0	33,615	1,263,162
Special instruction	411,429	0	0	411,429
Other instruction	263,105	0	129,352	392,457
	<u>1,904,081</u>	<u>0</u>	<u>162,967</u>	<u>2,067,048</u>
Support services:				
Student services	55,533	0	0	55,533
Instructional staff services	25,097	0	0	25,097
Administration services	380,622	0	0	380,622
Operation and maintenance of plant services	211,009	0	83,161	294,170
Transportation services	197,013	0	31,484	228,497
	<u>869,274</u>	<u>0</u>	<u>114,645</u>	<u>983,919</u>
Non-instruction:				
Community service operations	32,054	0	0	32,054
Other expenditures:				
Facilities acquisitions	0	0	54,543	54,543
Long-term debt:				
Principal	0	0	125,000	125,000
Interest and fiscal charges	0	0	65,268	65,268
AEA flowthrough	106,686	0	0	106,686
	<u>106,686</u>	<u>0</u>	<u>244,811</u>	<u>351,497</u>
Total expenditures	<u>2,912,095</u>	<u>0</u>	<u>522,423</u>	<u>3,434,518</u>
Excess(deficiency) of revenues over(under) expenditures	(88,255)	157,528	(111,625)	(42,352)
Other financing sources(uses):				
Transfer in	0	0	50,000	50,000
Transfer out	0	(50,000)	0	(50,000)
Total other financing sources(uses)	<u>0</u>	<u>(50,000)</u>	<u>50,000</u>	<u>0</u>
Net change in fund balances	(88,255)	107,528	(61,625)	(42,352)
Fund balance beginning of year	822,150	28,018	238,813	1,088,981
Fund balance end of year	<u>\$ 733,895</u>	<u>135,546</u>	<u>177,188</u>	<u>1,046,629</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2005

<b>Net change in fund balances - total governmental funds (page 18)</b>		\$ (42,352)
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
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 current depreciation and capital outlay expenditures in the current year, are as follows:		
Capital outlays	\$ 220,409	
Depreciation expense	<u>(298,563)</u>	(78,154)
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		119,860
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.		
Early Retirement	\$ (17,876)	
Compensated absences	<u>(4,882)</u>	(22,758)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		125,000
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.		
		<u>(4,989)</u>
<b>Changes in net assets of governmental activities (page 15)</b>		<u>\$ 96,607</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2005

	School Nutrition	Child Care	Total
<b>ASSETS</b>			
Current assets:			
Cash and pooled investments	\$ 0	612	612
Inventories	1,898	0	1,898
Capital assets, net of accumulated depreciation (Note 5)	9,991	0	9,991
<b>TOTAL ASSETS</b>	<b>11,889</b>	<b>612</b>	<b>12,501</b>
<b>LIABILITIES</b>			
Excess of warrants issued over bank balance	672	0	672
Accounts payable	1,318	0	1,318
<b>TOTAL LIABILITIES</b>	<b>1,990</b>	<b>0</b>	<b>1,990</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	9,991	0	9,991
Unrestricted	(92)	612	520
<b>Total net assets</b>	<b>\$ 9,899</b>	<b>612</b>	<b>10,511</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	School Nutrition	Child Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for service	\$ 70,740	13,998	84,738
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	57,162	9,169	66,331
Benefits	13,719	2,128	15,847
Services	562	0	562
Supplies	66,511	38	66,549
Depreciation	1,777	0	1,777
Other	680	0	680
TOTAL OPERATING EXPENSES	140,411	11,335	151,746
OPERATING INCOME (LOSS)	(69,671)	2,663	(67,008)
NON-OPERATING REVENUES:			
State sources	1,797	0	1,797
Federal sources	55,403	0	55,403
Interest income	16	0	16
TOTAL NON-OPERATING REVENUES	57,216	0	57,216
Income(loss) before capital contributions	(12,455)	2,663	(9,792)
Capital contributions	8,521	0	8,521
Changes in net assets	(3,934)	2,663	(1,271)
Net assets beginning of year	13,833	(2,051)	11,782
Net assets end of year	\$ 9,899	612	10,511

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2005

	School Nutrition	Child Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 70,356	0	70,356
Cash received from miscellaneous operating activities	384	13,998	14,382
Cash payments to employees for services	(70,881)	(11,297)	(82,178)
Cash payments to suppliers for goods or services	(59,321)	(38)	(59,359)
Net cash provided by (used in) operating activities	<u>(59,462)</u>	<u>2,663</u>	<u>(56,799)</u>
Cash flows from non-capital financing activities:			
State grants received	1,797	0	1,797
Federal grants received	48,833	0	48,833
Net cash provided by non-capital financing activities	<u>50,630</u>	<u>0</u>	<u>50,630</u>
Cash flows from investing activities:			
Interest on investment	16	0	16
Net cash provided by investing activities	<u>16</u>	<u>0</u>	<u>16</u>
Net increase (decrease) in cash and cash equivalents	(8,816)	2,663	(6,153)
Cash and cash equivalents at beginning of year	8,144	(2,051)	6,093
Cash and cash equivalents at end of year	<u>\$ (672)</u>	<u>612</u>	<u>(60)</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (69,671)	2,663	(67,008)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Commodities consumed	6,570	0	6,570
Depreciation	1,777	0	1,777
Decrease in inventories	544	0	544
Increase in accounts payable	1,318	0	1,318
Net cash provided by (used in) operating activities	<u>\$ (59,462)</u>	<u>2,663</u>	<u>(56,799)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and investments	<u>\$ (672)</u>	<u>612</u>	<u>(60)</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2005, the District received Federal commodities valued at \$6,570.			
During the year ended June 30, 2005, the District received capital contributions valued at \$8,521.			

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<u>Agency</u>
ASSETS	
Cash and pooled investments	<u>\$ 2,436</u>
LIABILITIES	
Due to other groups	<u>\$ 2,436</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005

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

The Tri-County 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 Keswick, Gibson, Thornburg and What Cheer, Iowa, and the predominate agricultural territory in Iowa, Keokuk, Mahaska and Poweshiek County. 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-County Community School District has included all funds, organizations, 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-County 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 does 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 Iowa, Keokuk, Mahaska and Poweshiek County Assessor's 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 District's proprietary funds are the School Nutrition Fund and the Child Care Fund. The Nutrition Fund is used to account for the food service operations of the District. The Child Care Fund is used to account for child care services.

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 Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

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 funds are 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.

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	\$ 5,000
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

Asset Class	Estimated Useful Life (In Years)
Buildings	20 years
Land improvements	20-50 years
Machinery and equipment	5-15 years

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.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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, expenditures in the other expenditures functional area exceeded the amount budgeted.

#### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or 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; 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 investments in the Iowa Schools Joint Investment Trust as follows:

Type	Amortized Cost
Diversified portfolio	<u>\$ 391,279</u>

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

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

**(3) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital projects	<u>\$ 50,000</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 Schools 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. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005 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	\$ 47	0	0	0
2005-06A	6/28/05	6/28/06	180,797	39	180,000	35
			<u>\$ 180,844</u>	<u>39</u>	<u>180,000</u>	<u>35</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, and 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. No ISCAP advance activity was noted in the General Fund for the year ended June 30, 2005.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2005-06A	3.500%	3.903%

**(5) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 23,205	0	0	23,205
Total capital assets not being depreciated	23,205	0	0	23,205
Capital assets being depreciated:				
Buildings	3,079,376	0	27,336	3,052,040
Land improvements	0	142,439	0	142,439
Machinery and equipment	1,394,766	77,970	888,212	584,524
Total capital assets being depreciated	4,474,142	220,409	915,548	3,779,003
Less accumulated depreciation for:				
Buildings	1,755,225	132,114	27,336	1,860,003
Land improvements	0	128,662	0	128,662
Machinery and equipment	1,259,173	37,770	888,212	408,731
Total accumulated depreciation	3,014,398	298,546	915,548	2,397,396
Total capital assets being depreciated, net	1,459,744	(78,137)	0	1,381,607
Governmental activities capital assets, net	\$ 1,482,949	(78,137)	0	1,404,812

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 3,247	49,367	0	52,614
Less accumulated depreciation	0	42,623	0	42,623
Business-type activities capital assets, net	\$ 3,247	6,744	0	9,991

Depreciation expense was charged by the District as follows:

Governmental activities:	
Support services:	
Administration	\$ 3,016
Operation and maintenance of plant	6,366
Transportation	28,388
	<u>37,770</u>
Unallocated depreciation	260,776
	<u>298,546</u>
	<u>\$ 298,546</u>
Business-type activities:	
Food services	\$ 1,777
	<u>1,777</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term debt 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	\$ 1,830,000	0	125,000	1,705,000	130,000
Early retirement	18,372	24,000	6,124	36,248	10,924
Compensated absences	0	4,882	0	4,882	4,882
Total	<u>\$ 1,848,372</u>	<u>28,882</u>	<u>131,124</u>	<u>1,746,130</u>	<u>145,806</u>

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of August 1, 2003				
	Interest Rates	Principal	Interest	Total	
2006	2.00	\$ 55,000	47,282	102,282	
2007	2.00	55,000	46,182	101,182	
2008	2.50	50,000	45,084	95,084	
2009	2.65	145,000	43,834	188,834	
2010	3.00	150,000	39,990	189,990	
2011	3.20	155,000	35,490	190,490	
2012	3.30	155,000	30,530	185,530	
2013	3.40	165,000	25,415	190,415	
2014	3.60	170,000	19,805	189,805	
2015	3.75	175,000	13,685	188,685	
2016	3.85	185,000	7,122	192,122	
Total		<u>\$ 1,460,000</u>	<u>354,419</u>	<u>1,814,419</u>	

Year Ending June 30,	Bond Issue of September 1, 1996				
	Interest Rates	Principal	Interest	Total	
2006	5.10 %	\$ 75,000	12,586	87,586	
2007	5.10	80,000	8,760	88,760	
2008	5.20	90,000	4,680	94,680	
Subtotal		<u>\$ 245,000</u>	<u>26,026</u>	<u>271,026</u>	
Total		<u>\$ 1,705,000</u>	<u>380,445</u>	<u>2,085,445</u>	

## Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed twenty years of continuous service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based on 100% of the difference between the BA Step 0 and the employee's position on the salary scale as of the start of the following school year. In addition, if the employee has more than 25 consecutive years, they will be entitled to an additional \$1,500 for five years. Early retirement benefits paid during the year ended June 30, 2005, totaled \$6,124. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

### **(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, 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 \$99,982, \$94,508 and \$90,626 respectively, equal to the required contributions for each year.

### **(8) Risk Management**

The 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 \$106,686 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(10) Budget Overexpenditure**

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

**(11) Deficit Net Assets**

The School Nutrition Fund had deficit unrestricted net assets of \$92 at June 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 1,821,181	84,754
State sources	1,464,820	1,797
Federal sources	106,165	55,403
Total revenues	<u>3,392,166</u>	<u>141,954</u>
Expenditures:		
Instruction	2,067,048	0
Support services	983,919	0
Non-instructional programs	32,054	151,746
Other expenditures	351,497	0
Total expenditures	<u>3,434,518</u>	<u>151,746</u>
Excess(deficiency) of revenues over(under) expenditures	(42,352)	(9,792)
Other financing sources, net	<u>0</u>	<u>8,521</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(42,352)	(1,271)
Balance beginning of year	<u>1,088,981</u>	<u>11,782</u>
Balance end of year	<u>\$ 1,046,629</u>	<u>10,511</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,905,935	1,939,788	1,939,788	(33,853)
1,466,617	1,655,385	1,655,385	(188,768)
161,568	290,000	290,000	(128,432)
<u>3,534,120</u>	<u>3,885,173</u>	<u>3,885,173</u>	<u>(351,053)</u>
2,067,048	3,561,331	3,561,331	1,494,283
983,919	1,420,358	1,420,358	436,439
183,800	203,822	203,822	20,022
351,497	218,210	218,210	(133,287)
<u>3,586,264</u>	<u>5,403,721</u>	<u>5,403,721</u>	<u>1,817,457</u>
(52,144)	(1,518,548)	(1,518,548)	1,466,404
<u>8,521</u>	<u>0</u>	<u>0</u>	<u>8,521</u>
(43,623)	(1,518,548)	(1,518,548)	1,474,925
<u>1,100,763</u>	<u>1,213,500</u>	<u>1,213,500</u>	<u>(112,737)</u>
<u>1,057,140</u>	<u>(305,048)</u>	<u>(305,048)</u>	<u>1,362,188</u>

TRI-COUNTY 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 Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons 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 GAAP basis. Encumbrances are not recognized on the GAAP 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 functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. 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, expenditures in the other expenditures programs exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2005

	Special Revenue Funds					
	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
<b>ASSETS</b>						
Cash and pooled investments	\$ 5,824	79,952	82,980	168,756	1,677	170,433
Receivables:						
Property tax:						
Current year delinquent	2,682	1,300	0	3,982	2,773	6,755
Succeeding year	118,000	48,330	0	166,330	151,782	318,112
Income surtax	0	31,963	0	31,963	0	31,963
<b>TOTAL ASSETS</b>	<b>\$ 126,506</b>	<b>161,545</b>	<b>82,980</b>	<b>371,031</b>	<b>156,232</b>	<b>527,263</b>
<b>LIABILITIES AND FUND EQUITY</b>						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 118,000	48,330	0	166,330	151,782	318,112
Income surtax	0	31,963	0	31,963	0	31,963
	118,000	80,293	0	198,293	151,782	350,075
Fund equity:						
Fund balances:						
Reserved:						
Debt service	0	0	0	0	4,450	4,450
Unreserved:						
Undesignated	8,506	81,252	82,980	172,738	0	172,738
Total fund balances	8,506	81,252	82,980	172,738	4,450	177,188
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 126,506</b>	<b>161,545</b>	<b>82,980</b>	<b>371,031</b>	<b>156,232</b>	<b>527,263</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Physical Plant and Management Levy	Equipment	Student Activity	Total Special Revenue Funds	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 99,598	80,235	0	179,833	102,968	282,801
Other	930	1,133	125,710	127,773	224	127,997
TOTAL REVENUES	<u>100,528</u>	<u>81,368</u>	<u>125,710</u>	<u>307,606</u>	<u>103,192</u>	<u>410,798</u>
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	6,592	27,023	0	33,615	0	33,615
Other instruction	0	0	129,352	129,352	0	129,352
Support services:						
Operation and maintenance of plant services	83,161	0	0	83,161	0	83,161
Transportation services	0	31,484	0	31,484	0	31,484
Other expenditures:						
Facilities acquisitions	0	54,543	0	54,543	0	54,543
Long-term debt:						
Principal	0	0	0	0	125,000	125,000
Interest and fiscal charges	0	0	0	0	65,268	65,268
TOTAL EXPENDITURES	<u>89,753</u>	<u>113,050</u>	<u>129,352</u>	<u>332,155</u>	<u>190,268</u>	<u>522,423</u>
Excess(deficiency) of revenues over(under) expenditures	10,775	(31,682)	(3,642)	(24,549)	(87,076)	(111,625)
OTHER FINANCING SOURCES:						
Transfer in	0	0	0	0	50,000	50,000
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	10,775	(31,682)	(3,642)	(24,549)	(37,076)	(61,625)
FUND BALANCES BEGINNING OF YEAR	(2,269)	112,934	86,622	197,287	41,526	238,813
FUND BALANCES END OF YEAR	<u>\$ 8,506</u>	<u>81,252</u>	<u>82,980</u>	<u>172,738</u>	<u>4,450</u>	<u>177,188</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY 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	\$ 1,164	700	575	1,289
Inst/vocal trip	3,519	3,401	2,500	4,420
Vocal miscellaneous	39	0	39	0
High school vocal fund	484	257	701	40
High school band	461	601	680	382
Future business leaders of America	0	0	(132)	132
Welcome baby	0	0	(66)	66
Athletic resale	336	8,921	9,381	(124)
Athletic non resale	742	4,803	6,220	(675)
Athletic improvement	483	0	80	403
Athletic clinics	109	50	159	0
Athletic gate receipts	11,000	18,733	18,428	11,305
Basketball	17	0	0	17
Football camp	189	0	0	189
P.C. fund	1,288	0	0	1,288
Athletic auction	129	0	0	129
Cross country	413	0	0	413
Softball	0	540	0	540
Student interest	12,168	731	0	12,899
Student petty cash	25	0	0	25
Miscellaneous student resale	368	68	150	286
Home ec resale	146	0	(3)	149
Pop machine	92	1,494	35	1,551
Character counts	121	0	0	121
Student council	1,291	1,410	920	1,781
TAG	457	83	382	158
School pictures	404	212	404	212
Cheerleading	1,016	222	476	762
Dance squad	388	4,661	3,498	1,551
National honor society	165	132	28	269
Spanish club	1,137	0	0	1,137
Padlock resale	618	150	120	648
Stage curtain improvement	224	0	92	132
Athletics candy fundraiser	9,412	6,896	7,853	8,455
JH miscellaneous	1,806	116	382	1,540
Grad class fund	1,241	0	(658)	1,899
Class of 2004	658	0	658	0
Class of 2005	5,363	13,716	18,583	496
Class of 2006	2,664	2,437	1,334	3,767
Class of 2007	299	1,599	25	1,873
Class of 2008	0	20	0	20
School insurance	222	0	0	222
Trojan annual	0	6,841	6,129	712
FFA	5,644	19,445	17,932	7,157
Horticulture	426	1,497	596	1,327
Activity tickets	468	0	0	468
Golf	638	0	10	628

TRI-COUNTY 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
Instrument resale	28	397	0	425
Vo Ag resale	111	0	0	111
Ind arts resale	0	1,458	1,458	0
Shop glasses	0	115	64	51
HS vending	1,792	1,760	1,729	1,823
Elementary wrestling	739	1,308	1,068	979
Elementary fund raisers	10,298	20,501	23,952	6,847
Elementary library books	196	0	0	196
Elementary vending machines	612	0	0	612
Elementary school pictures	1,164	435	0	1,599
Elementary book club	186	0	0	186
Athletic uniforms	3,662	0	3,570	92
<b>Total</b>	<b>\$ 86,622</b>	<b>125,710</b>	<b>129,352</b>	<b>82,980</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2005

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Assets:				
Cash and other investments	\$ 2,171	374	109	2,436
Liabilities:				
Due to other groups	\$ 2,171	374	109	2,436

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY 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
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,500,142	1,301,036	1,282,717	1,144,425
Tuition	83,664	82,026	77,185	43,827
Other	237,375	374,256	384,450	361,666
State sources	1,464,820	1,389,719	1,682,761	1,443,835
Federal sources	106,165	146,322	123,855	85,538
Total	<u>\$ 3,392,166</u>	<u>3,293,359</u>	<u>3,550,968</u>	<u>3,079,291</u>
<b>Expenditures:</b>				
Instruction:				
Regular instruction	\$ 1,263,162	1,187,384	1,156,560	1,226,888
Special instruction	411,429	466,193	390,515	391,895
Other instruction	392,457	366,542	353,074	348,149
Support services:				
Student services	55,533	53,985	52,064	50,301
Instructional staff services	25,097	21,535	22,398	44,436
Administration services	380,622	364,691	320,105	294,373
Operation and maintenance of plant services	294,170	271,571	251,794	249,194
Transportation services	228,497	211,904	168,468	180,681
Non-instructional programs	32,054	23,742	16,805	21,454
Other expenditures:				
Facilities acquisition	54,543	56,246	64,222	52,420
Long-term debt:				
Principal	125,000	130,000	95,000	90,000
Interest and other charges	65,268	61,134	103,043	107,663
AEA flowthrough	106,686	108,892	118,712	109,364
Total	<u>\$ 3,434,518</u>	<u>3,323,819</u>	<u>3,112,760</u>	<u>3,166,818</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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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-County 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-County 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 December 1, 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-County 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 is a material weakness.

#### Compliance and Other Matters

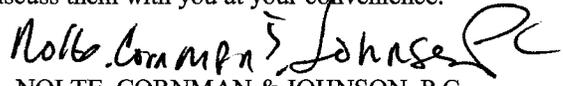
As part of obtaining reasonable assurance about whether Tri-County Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have 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 such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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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-County Community School District and other parties to Tri-County 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-County 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.

December 1, 2005

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
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 receipt 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 - The District will review its procedures.

Conclusion - Response accepted.

I-B-05 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - The District will review the procedures that are currently in place and make the necessary changes.

Conclusion - Response accepted.

I-C-05 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - With the assistance of the new chart of accounts, the District is correcting this process.

Conclusion - Response accepted.

I-D-05 Interest in Student Activity Fund - We noted during our audit that the District did not record interest in the Student Activity Fund.

Recommendation - Interest should be recorded and allocated out among the Student Activity accounts at year end.

Response - The interest will be allocated out at year end among the various Student Activity accounts.

Conclusion - Response accepted.

I-E-05 Check Signatures - We noted during our audit, instances of unauthorized signatures on the District's checks. Chapter 291.1 and 291.8 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - The District will make the necessary changes.

Conclusion - Response accepted.

I-F-05 Capital Asset Policy - We noted during our audit that the District had not implemented a capital asset policy that states the capitalization thresholds to be used for the accounting of the capital assets.

Recommendation - The District should review the policies in place and update the necessary capital asset policies.

Response - The District will adopt a policy.

Conclusion - Response accepted.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
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 expenditures for the year ended June 30, 2005, exceeded the amount budgeted in the other expenditures functional area.

Recommendation -The 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 - The District will amend the budget in the future, is necessary.

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. However, we noted during our audit that the District overpaid certified staff \$3,847 in salary and benefits. The overpayment did not appear to be authorized by the Board of the District.

Recommendation - The District should collect the monies back from the employees or have the Board approve the unauthorized overpayment. In addition, the District should review procedures in place for identifying and correcting payroll mistakes.

Response - The Board has approved this overpayment.

Conclusion - Response accepted.

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 - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Penny Krumm, Teacher Spouse conducted training	Software training	\$125

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transaction with the spouse of Penny Krumm does not appear to represent a conflict of interest.

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. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The District will publish the minutes in a timely manner in the future.

Conclusion - Response accepted.

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 - During our audit we noted that the District had a deficit unrestricted fund balance of \$92 in the School Nutrition Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - The District is going to look into alternatives to eliminate this deficit.

Conclusion - Response accepted.