

TRI-COUNTY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis (MD&A)		7-15
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	25
Statement of Cash Flows	I	26
Notes to Financial Statements		27-40
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		42
Notes to Required Supplementary Information - Budgetary Reporting		43
Schedule of Funding Progress for the Retiree Health Plan		44
Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	47
Capital Project Accounts:		
Combining Balance Sheet	3	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	4	49
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	50
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	51
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		53-54
Schedule of Findings		55-57

Tri-County Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2011 Election)		
Kelly Tish	President	2011
Berdette Ogden	Vice President	2013
Gary Bates	Board Member	2013
Jody Schroeder	Board Member	2011
Justin Leer	Board Member	2011
(After September 2011 Election)		
Kelly Tish	President	2015
Berdette Ogden	Vice President	2013
Gary Bates	Board Member	2013
Jody Schroeder	Board Member	2015
Justin Leer	Board Member	2015
School Officials		
Benita Gonzales	Superintendent	2012
Rebecca Appleget	District Secretary/ Business Manager	2012
Joanne Bair	District Asst. Treasurer	2012
Brian Gruhn Law Firm	District Attorney	2012

TRI-COUNTY COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Tri-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, 2012, 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, 2012, 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.

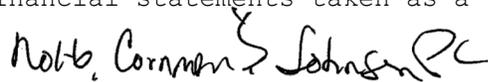
In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2013 on our consideration of Tri-County Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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.

U.S generally accepted accounting principles require Management's Discussion and Analysis and Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7

Member American Institute & Iowa Society of Certified Public Accountants

through 15 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,421,197 in fiscal year 2011 to \$3,432,057 in fiscal year 2012, while General Fund expenditures decreased from \$3,330,030 in fiscal 2011 to \$2,984,108 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$408,963 in fiscal 2011 to \$856,912 in fiscal 2012.

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, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary Information provides detailed information about the nonmajor funds.

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

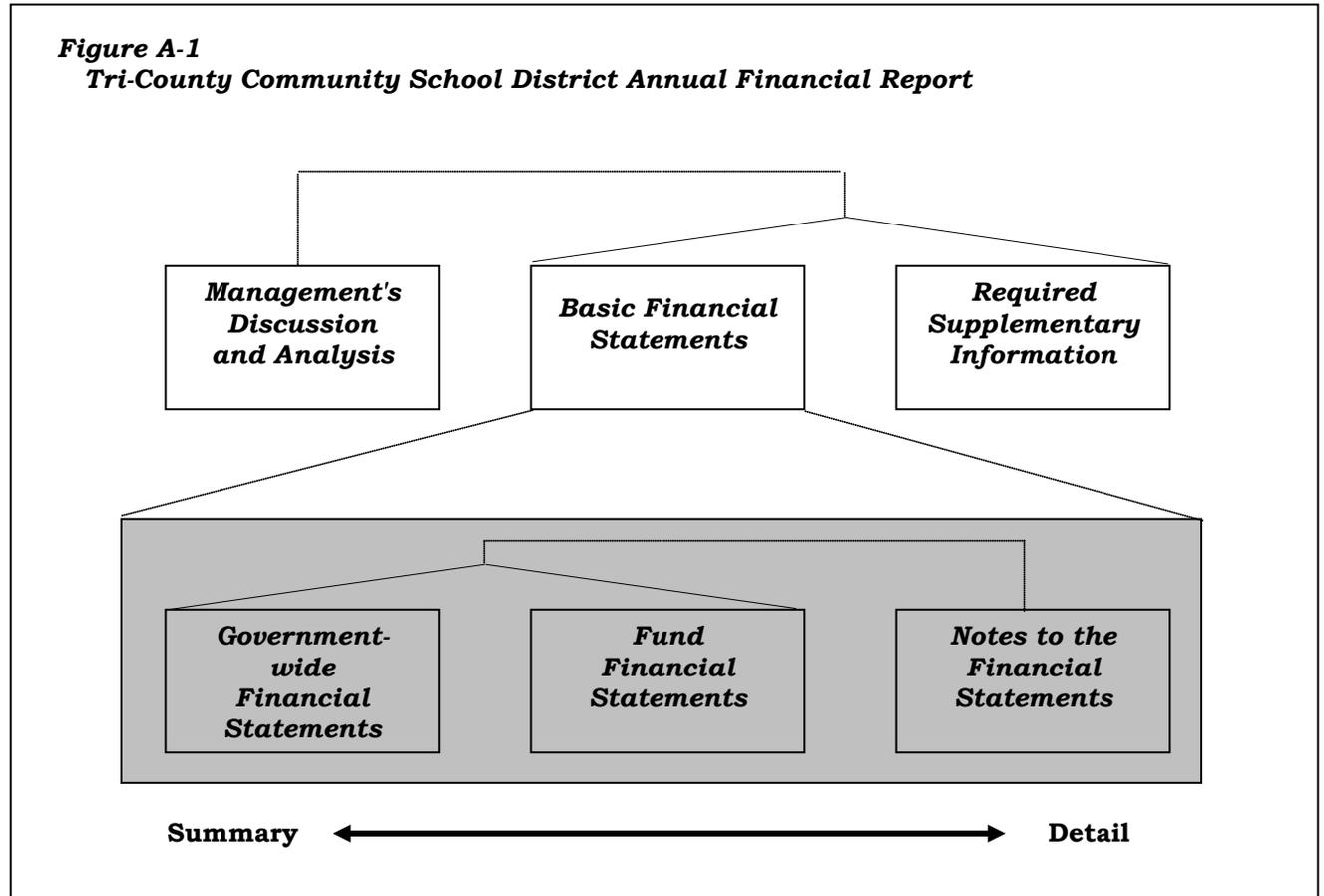


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows
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
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
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

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 two 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 one two Enterprise Funds, the School Nutrition Fund.

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

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 total net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 3,503,968	2,869,558	7,601	9,977	3,511,569	2,879,535	21.95%
Capital assets	938,568	930,186	22,726	26,923	961,294	957,109	0.44%
Total assets	4,442,536	3,799,744	30,327	36,900	4,472,863	3,836,644	16.58%
Long-term obligations	1,176,819	1,357,805	2,003	1,429	1,178,822	1,359,234	-13.27%
Other liabilities	1,893,020	1,789,214	203	519	1,893,223	1,789,733	5.78%
Total liabilities	3,069,839	3,147,019	2,206	1,948	3,072,045	3,148,967	-2.44%
Net assets:							
Invested in capital assets, net of related debt	127,431	80,186	22,726	26,923	150,157	107,109	40.19%
Restricted	615,056	480,417	0	0	615,056	480,417	28.03%
Unrestricted	630,210	92,122	5,395	8,029	635,605	100,151	534.65%
Total net assets	\$ 1,372,697	652,725	28,121	34,952	1,400,818	687,677	103.70%

The District's combined net assets increased by 103.7% 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 40.19%. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$134,639, or 28.03% over the prior year. The increase in restricted net assets can be attributed to the increase in fund balance of the Capital Projects and Debt Service Funds.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$535,454, or 534.65%. The increase in unrestricted net assets can be attributed to the increase in the fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the years ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4
Changes in Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Revenues :							
Program revenues:							
Charges for services	\$ 192,803	284,462	52,685	59,402	245,488	343,864	-28.61%
Operating grants and contributions and restricted interest	312,475	582,419	74,898	85,104	387,373	667,523	-41.97%
General revenues:							
Property tax	1,641,896	1,407,046	0	0	1,641,896	1,407,046	16.69%
Income surtax	154,851	189,185	0	0	154,851	189,185	-18.15%
Statewide sales, services and use tax	224,812	196,752	0	0	224,812	196,752	14.26%
Nonspecific program federal grants	34,643	56,317	0	0	34,643	56,317	100.00%
Unrestricted state grants	1,526,810	1,071,404	0	0	1,526,810	1,071,404	42.51%
Unrestricted investment earnings	695	1,160	8	9	703	1,169	-39.86%
Other	35,070	29,791	0	382	35,070	30,173	16.23%
Total revenues	4,124,055	3,818,536	127,591	144,897	4,251,646	3,963,433	7.27%
Program expenses:							
Instruction	2,126,295	2,847,162	0	0	2,126,295	2,847,162	-25.32%
Support services	1,026,975	1,214,212	12,571	6,689	1,039,546	1,220,901	-14.85%
Non-instructional programs	0	0	121,851	141,283	121,851	141,283	-13.75%
Other expenses	253,203	247,830	0	0	253,203	247,830	2.17%
Total expenses	3,406,473	4,309,204	134,422	147,972	3,540,895	4,457,176	-20.56%
Change in net assets before extraordinary item	717,582	(490,668)	(6,831)	(3,075)	710,751	(493,743)	-243.95%
Extraordinary item:							
Reorganization settlement	2,390	-	-	-	2,390	-	100.00%
Change in net assets	719,972	(490,668)	(6,831)	(3,075)	713,141	(493,743)	244.44%
Net assets beginning of year	652,725	1,143,393	34,952	38,027	687,677	1,181,420	-41.79%
Net assets end of year	\$ 1,372,697	652,725	28,121	34,952	1,400,818	687,677	103.70%

In fiscal 2012, property tax and unrestricted state grants account for 76.83% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.99% of the revenue from business type activities.

The District's total revenues were approximately \$4.25 million of which \$4.12 million was for governmental activities and \$0.13 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 7.27% in revenues and a decrease of 20.56% in expenses.

Governmental Activities

Revenues for governmental activities were \$4,124,055 and expenses were \$3,406,473.

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		
	2012	2011	Change	2012	2011	Change
			2011-12			2011-12
Instruction	\$ 2,126,295	2,847,162	-25.32%	1,733,859	2,108,210	-17.76%
Support services	1,026,975	1,214,212	-15.42%	1,025,699	1,212,374	-15.40%
Other expenses	253,203	247,830	2.17%	141,637	121,739	16.34%
Totals	<u>\$ 3,406,473</u>	<u>4,309,204</u>	<u>-20.95%</u>	<u>2,901,195</u>	<u>3,442,323</u>	<u>-15.72%</u>

- The cost financed by users of the District's programs was \$192,803.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$312,475.
- The net cost of governmental activities was financed with \$1,641,896 in property tax, \$154,851 in income surtax, \$224,812 in statewide sales, services and use tax, \$34,643 in nonspecific program federal grants, \$1,526,810 in unrestricted state grants, \$695 in interest income and \$35,070 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$127,591 and expenses were \$134,422. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Tri-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 \$1,441,713, compared to last year's ending fund balances of \$895,740. This was primarily a result of the increase in the fund balance of the General Fund.

Governmental Fund Highlights

- The District's increasing General Fund financial position is the product of many factors. With a minimal increase in revenues during the year along with a \$345,922, or 10.39% decrease in expenditures the District was able to increase the General Fund balance from \$408,963 to \$856,912.
- The Capital Projects Fund balance increased from \$283,646 at June 30, 2011, to \$394,779 at June 30, 2012. This was the result of revenues from statewide sales, services and use tax and local taxes in excess of capital expenditures and transfers to the Debt Service Fund for payments on the District's computer leases.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$34,952 at June 30, 2011 to \$28,121 at June 30, 2011, representing a decrease of 19.54%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$695,946 less than budgeted revenues, a variance of 14.03%. 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 practice, The District exceeded its budgeted expenditures in the other expenditures functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$0.96 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 4 to the financial statements. Depreciation expense for the year was \$139,267.

The original cost of the District's capital assets was \$4,620,519. Governmental funds account for \$4,549,552 with the remainder of \$70,967 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 \$329,739 at June 30, 2011 compared to \$282,245 at June 30, 2012. This decrease is due to depreciation expense during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 23,205	23,205	0	0	23,205	23,205	0.00%
Buildings	575,381	517,746	0	0	575,381	517,746	11.13%
Land improvements	80,463	86,419	0	0	80,463	86,419	-6.89%
Machinery and equipment	259,519	302,816	22,726	26,923	282,245	329,739	-14.40%
Total	\$ 938,568	930,186	22,726	26,923	961,294	957,109	0.44%

Long-Term Debt

At June 30, 2012, the District had \$1,178,822 in general obligation and other long-term debt outstanding. This represents a decrease of 13.27% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$695,000 from the Debt Service Fund at June 30, 2012.

The District had outstanding capital loan note payable of \$116,137 from the Capital Projects: Physical Plant and Equipment Levy Fund at June 30, 2012.

The District had total outstanding computer lease payable of \$300,710 at June 30, 2012.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$6,460.

The District had net OPEB liability payable of \$60,515 at June 30, 2012.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
General obligation bonds	\$ 695,000	850,000	0	0	695,000	850,000	-18.24%
Capital loan notes	116,137	0	0	0	116,137	0	100.00%
Computer leases	300,710	416,115	0	0	300,710	416,115	-27.73%
Early retirement	6,460	40,639	0	0	6,460	40,639	-84.10%
Compensated absences	0	9,301	0	0	0	9,301	-100.00%
Net OPEB liability	58,512	41,750	2,003	1,429	60,515	43,179	40.15%
Total	\$ 1,176,819	1,357,805	2,003	1,429	1,178,822	1,359,234	-13.27%

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 salaries and benefits for the employees are always a concern for the District.
- The District continues to have issues with the uncertainty of its enrollment. This will impact the state funding received by 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.
- Throughout the state, rural communities are experiencing a decrease in population as people are moving to more urban areas. This has the potential to greatly effect enrollment in the coming years.

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 Sue Huls, District Secretary/Business Manager, Tri-County Community School District, 3003 Hwy. 22, P.O. Box 17, Thornburg, Iowa, 50255.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business type Activities	Total
Assets			
Cash and pooled investments	\$ 1,438,019	6,643	1,444,662
Receivables:			
Property tax:			
Delinquent	31,149	0	31,149
Succeeding year	1,702,250	0	1,702,250
Income surtax	174,343	0	174,343
Due from other governments	158,207	0	158,207
Inventories	0	958	958
Capital assets, net of accumulated depreciation	938,568	22,726	961,294
Total Assets	4,442,536	30,327	4,472,863
Liabilities			
Accounts payable	185,492	150	185,642
Accrued interest payable	5,108	0	5,108
Deferred revenue:			
Succeeding year property tax	1,702,250	0	1,702,250
Other	170	0	170
Unearned revenues	0	53	53
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	165,000	0	165,000
Capital loan note payable	27,205	0	27,205
Computer lease payable	118,681	0	118,681
Early retirement payable	1,615	0	1,615
Portion due after one year:			
General obligation bonds payable	530,000	0	530,000
Capital loan note payable	88,932	0	88,932
Computer lease payable	182,029	0	182,029
Early retirement payable	4,845	0	4,845
Net OPEB liability	58,512	2,003	60,515
Total Liabilities	3,069,839	2,206	3,072,045
Net Assets			
Invested in capital assets, net of related debt	127,431	22,726	150,157
Restricted for:			
Categorical funding	36,618	0	36,618
Debt Service	63,144	0	63,144
Management levy purposes	45,728	0	45,728
Student activities	74,787	0	74,787
Physical plant and equipment	143,386	0	143,386
School infrastrucutre	251,393	0	251,393
Unrestricted	630,210	5,395	635,605
Total Net Assets	\$ 1,372,697	28,121	1,400,818

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 1,245,829	72,550	57,674	(1,115,605)	0	(1,115,605)
Special	272,964	0	39,686	(233,278)	0	(233,278)
Other	607,502	120,253	102,273	(384,976)	0	(384,976)
	<u>2,126,295</u>	<u>192,803</u>	<u>199,633</u>	<u>(1,733,859)</u>	<u>0</u>	<u>(1,733,859)</u>
Support services:						
Student	3,115	0	0	(3,115)	0	(3,115)
Instructional staff	41,423	0	1,276	(40,147)	0	(40,147)
Administration	342,077	0	0	(342,077)	0	(342,077)
Operation and maintenance of plant	384,835	0	0	(384,835)	0	(384,835)
Transportation	255,525	0	0	(255,525)	0	(255,525)
	<u>1,026,975</u>	<u>0</u>	<u>1,276</u>	<u>(1,025,699)</u>	<u>0</u>	<u>(1,025,699)</u>
Long-term debt interest	49,864	0	0	(49,864)	0	(49,864)
Other expenses:						
AEA flowthrough	111,566	0	111,566	0	0	0
Depreciation (unallocated) *	91,773	0	0	(91,773)	0	(91,773)
	<u>203,339</u>	<u>0</u>	<u>111,566</u>	<u>(91,773)</u>	<u>0</u>	<u>(91,773)</u>
Total governmental activities	<u>3,406,473</u>	<u>192,803</u>	<u>312,475</u>	<u>(2,901,195)</u>	<u>0</u>	<u>(2,901,195)</u>
Business Type activities:						
Support services:						
Administration	12,571	0	0	0	(12,571)	(12,571)
Non-instructional programs:						
Food service operations	121,851	52,685	74,898	0	5,732	5,732
Total business type activities	<u>134,422</u>	<u>52,685</u>	<u>74,898</u>	<u>0</u>	<u>(6,839)</u>	<u>(6,839)</u>
Total	<u>\$ 3,540,895</u>	<u>245,488</u>	<u>387,373</u>	<u>(2,901,195)</u>	<u>(6,839)</u>	<u>(2,908,034)</u>
General Revenues:						
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,379,201	0	1,379,201
Capital outlay				50,160	0	50,160
Debt service				212,535	0	212,535
Income surtax				154,851	0	154,851
Statewide sales, services and use tax				224,812	0	224,812
Nonspecific program federal grants				34,643	0	34,643
Unrestricted state grants				1,526,810	0	1,526,810
Unrestricted investment earnings				695	8	703
Other				35,070	0	35,070
Total general revenues				<u>3,618,777</u>	<u>8</u>	<u>3,618,785</u>
Changes in net assets before extraordinary item				717,582	(6,831)	710,751
Extraordinary item:						
Reorganization settlement				2,390	0	2,390
Changes in net assets				719,972	(6,831)	713,141
Net assets beginning of year				652,725	34,952	687,677
Net assets end of year				<u>\$ 1,372,697</u>	<u>28,121</u>	<u>1,400,818</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	Nonmajor			Total
	General	Capital Projects	Governmental Funds	
Assets				
Cash and pooled investments	\$ 962,416	290,427	185,176	1,438,019
Receivables:				
Property tax:				
Delinquent	25,242	1,061	4,846	31,149
Succeeding year	1,331,294	55,041	315,915	1,702,250
Income surtax	130,757	43,586	0	174,343
Due from other governments	54,916	103,291	0	158,207
Total Assets	\$ 2,504,625	493,406	505,937	3,503,968
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 185,492	0	0	185,492
Deferred revenue:				
Succeeding year property tax	1,331,294	55,041	315,915	1,702,250
Income surtax	130,757	43,586	0	174,343
Other	170	0	0	170
Total liabilities	1,647,713	98,627	315,915	2,062,255
Fund balances:				
Restricted for:				
Categorical funding	36,618	0	0	36,618
School infrastructure	0	251,393	0	251,393
Physical plant and equipment	0	143,386	0	143,386
Management levy purposes	0	0	52,188	52,188
Student activities	0	0	74,787	74,787
Debt service	0	0	63,144	63,144
Unassigned:				
General	820,294	0	0	820,294
Student activities	0	0	(97)	(97)
Total fund balances	856,912	394,779	190,022	1,441,713
Total Liabilities and Fund Balances	\$ 2,504,625	493,406	505,937	3,503,968

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances of governmental funds (page 20) \$ 1,441,713

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

Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in the governmental funds. 938,568

Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. 174,343

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (5,108)

Long-term liabilities, including general obligation bonds payable, capital loan note payable, computer lease payable, early retirement payable and net OPEB liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (1,176,819)

Net assets of governmental activities (page 18) \$ 1,372,697

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,454,748	316,886	262,730	2,034,364
Tuition	20,591	0	0	20,591
Other	82,480	126	125,671	208,277
State sources	1,697,115	0	0	1,697,115
Federal sources	176,513	0	0	176,513
Total revenues	<u>3,431,447</u>	<u>317,012</u>	<u>388,401</u>	<u>4,136,860</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	1,219,928	0	37,139	1,257,067
Special	270,907	0	0	270,907
Other	490,125	0	116,773	606,898
	<u>1,980,960</u>	<u>0</u>	<u>153,912</u>	<u>2,134,872</u>
Support services:				
Student	3,115	0	0	3,115
Instructional staff	39,340	0	0	39,340
Administration	342,572	0	0	342,572
Operation and maintenance of plant	277,713	0	95,990	373,703
Transportation	228,842	0	0	228,842
	<u>891,582</u>	<u>0</u>	<u>95,990</u>	<u>987,572</u>
Capital outlay	<u>0</u>	<u>157,699</u>	<u>0</u>	<u>157,699</u>
Long-term debt:				
Principal	0	0	297,720	297,720
Interest and fiscal charges	0	0	47,300	47,300
	<u>0</u>	<u>0</u>	<u>345,020</u>	<u>345,020</u>
Other expenditures:				
AEA flowthrough	111,566	0	0	111,566
Total expenditures	<u>2,984,108</u>	<u>157,699</u>	<u>594,922</u>	<u>3,736,729</u>
Excess(deficiency) of revenues over(under) expenditures	447,339	159,313	(206,521)	400,131
Other financing sources(uses):				
Reorganization settlement	610	1,764	16	2,390
Proceeds from capital loan note	0	143,452	0	143,452
Transfer in	0	0	193,396	193,396
Transfer out	0	(193,396)	0	(193,396)
Total other financing sources(uses)	<u>610</u>	<u>(48,180)</u>	<u>193,412</u>	<u>145,842</u>
Net change in fund balances	447,949	111,133	(13,109)	545,973
Fund balances beginning of year	<u>408,963</u>	<u>283,646</u>	<u>203,131</u>	<u>895,740</u>
Fund balance end of year	<u>\$ 856,912</u>	<u>394,779</u>	<u>190,022</u>	<u>1,441,713</u>

SEE NOTES TO 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, 2012

Net change in fund balances - total governmental funds (page 22) \$ 545,973

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities 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	\$ 143,452	
Depreciation expense	<u>(135,070)</u>	8,382

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(12,805)
---	--	----------

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Issued	(143,452)	
Repaid	<u>297,720</u>	154,268

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.		(2,564)
--	--	---------

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	34,179	
Compensated absences	9,301	
Net OPEB liability	<u>(16,762)</u>	<u>26,718</u>

Changes in net assets of governmental activities (page 19) \$ 719,972

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

	School Nutrition
Assets	
Cash and pooled investments	\$ 6,643
Inventories	958
Capital assets, net of accumulated depreciation	22,726
Total Assets	30,327
Liabilities	
Accounts payables	150
Unearned revenue	53
Net OPEB liability	2,003
Total Liabilities	2,206
Net Assets	
Invested in capital assets	22,726
Unrestricted	5,395
Total Net Assets	\$ 28,121

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 52,685
OPERATING EXPENSES:	
Support services:	
Administration:	
Salaries	8,178
Benefits	4,393
	12,571
Non-instructional programs:	
Food service operations:	
Salaries	45,521
Benefits	13,829
Services	5,343
Supplies	52,961
Depreciation	4,197
	121,851
TOTAL OPERATING EXPENSES	134,422
OPERATING LOSS	(81,737)
NON-OPERATING REVENUES:	
State sources	1,238
Federal sources	73,660
Interest income	8
TOTAL NON-OPERATING REVENUES	74,906
Changes in net assets	(6,831)
Net assets beginning of year	34,952
Net assets end of year	\$ 28,121

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 52,219
Cash payments to employees for services	(71,347)
Cash payments to suppliers for goods or services	(51,185)
Net cash used in operating activities	(70,313)
Cash flows from non-capital financing activities:	
State grants received	1,238
Federal grants received	66,919
Net cash provided by non-capital financing activities	68,157
Cash flows from investing activities:	
Interest on investment	8
Net decrease in cash and cash equivalents	(2,148)
Cash and cash equivalents at beginning of year	8,791
Cash and cash equivalents at end of year	\$ 6,643
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (81,737)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	6,741
Depreciation	4,197
Decrease in inventories	228
Increase in accounts payable	150
Decrease in unearned revenue	(466)
Increase in other postemployment benefits	574
Net cash used in operating activities	\$ (70,313)

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR

During the year ended June 30, 2012 the District received Federal commodities valued at \$6,741.

SEE NOTES TO FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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 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. Combining schedules are also included for the Capital Project Fund Accounts.

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 and other capital assets.

The District reports the following nonmajor proprietary funds:

The District's proprietary fund is the School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less restrictive classifications - committed, assigned and then unassigned fund balances.

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 Balances

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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 and intangibles 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
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Capital assets 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
Intangibles	5-10 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.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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, 2012. 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, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

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, 2012, the expenditures in the other expenditures functional area exceeded the certified budget.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2012 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.

At June 30, 2012 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$164,855 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

(3) Transfers

The detail of transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
	Capital Projects:	
	Statewide Sales,	
Debt Service	Services and Use Tax	\$ 161,475
	Capital Projects:	
	Physical Plant and	
Debt Service	Equipment Levy	31,921
		<u>\$ 193,396</u>

The transfer from Capital Projects: Statewide Sales, Services and Use Tax and the Capital Projects: Physical Plant and Equipment Levy Funds to the Debt Service fund was needed to make the payments on the District's computer lease and capital loan indebtedness.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 70,967	0	0	70,967
Less accumulated depreciation	44,044	4,197	0	48,241
Business type activities capital assets, net	<u>\$ 26,923</u>	<u>(4,197)</u>	<u>0</u>	<u>22,726</u>

	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	<u>23,205</u>	<u>0</u>	<u>0</u>	<u>23,205</u>
Capital assets being depreciated:				
Buildings	3,121,358	143,452	0	3,264,810
Land improvements	229,220	0	0	229,220
Machinery and equipment	1,032,317	0	0	1,032,317
Total capital assets being depreciated	<u>4,382,895</u>	<u>143,452</u>	<u>0</u>	<u>4,526,347</u>
Less accumulated depreciation for:				
Buildings	2,603,612	85,817	0	2,689,429
Land improvements	142,801	5,956	0	148,757
Machinery and equipment	729,501	43,297	0	772,798
Total accumulated depreciation	<u>3,475,914</u>	<u>135,070</u>	<u>0</u>	<u>3,610,984</u>
Total capital assets being depreciated, net	<u>906,981</u>	<u>8,382</u>	<u>0</u>	<u>915,363</u>
Governmental activities capital assets, net	<u>\$ 930,186</u>	<u>8,382</u>	<u>0</u>	<u>938,568</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 13,480
Support services:	
Instructional	1,900
Administration	1,520
Transportation	26,397
	<u>43,297</u>
Unallocated depreciation	<u>91,773</u>
Total governmental activities depreciation expense	<u>\$ 135,070</u>
Business type activities:	
Food service operations	<u>\$ 4,197</u>

(5) **Long-Term Liabilities**

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 850,000	0	155,000	695,000	165,000
Capital loan note	0	143,452	27,315	116,137	27,205
Computer lease	416,115	0	115,405	300,710	118,681
Early retirement	40,639	0	34,179	6,460	1,615
Compensated absences	9,301	0	9,301	0	0
Net OPEB liability	41,750	16,762	0	58,512	0
Total	\$ 1,357,805	160,214	341,200	1,176,819	312,501
Business type activities:					
Net OPEB liability	\$ 1,429	574	0	2,003	0

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 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, 2012, totaled \$34,179. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

General Obligation Bonds Payable

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of August 1, 2003		
		Principal	Interest	Total
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
Subtotal		\$ 695,000	66,027	761,027

Capital Loan Note Payable

During the year ended June 30, 2012, the District issued \$143,452 of capital loan notes to finance a new roof.

Details of the District's June 30, 2012 capital loan note indebtedness are as follows:

Year Ending June 30,	Loan Note of July 15, 2011				
	Interest Rates	Principal	Interest	Total	
2013	4.25 %	\$ 27,205	4,716	31,921	
2014	4.25	28,390	3,531	31,921	
2015	4.25	29,627	2,294	31,921	
2016	4.25	30,915	1,006	31,921	
Subtotal		\$ 116,137	11,547	127,684	

Computer Lease Payable

Details of the District's June 30, 2012 computer lease indebtedness are as follows:

Year Ending June 30,	Computer lease of October 26, 2010			Computer lease of November 23, 2010		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2013	1.88 %	\$ 18,003	773	2.81 %	\$ 97,210	6,964
2014	1.88	18,343	434	2.81	99,942	4,232
2015	1.88	9,301	87	2.81	50,664	1,423
Total		\$ 45,647	1,294		\$ 247,816	12,619

Year Ending June 30,	Computer lease of January 6, 2011			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2013	8.99 %	\$ 3,468	651	\$ 118,681	8,388	127,069
2014	8.99	3,779	340	122,064	5,006	127,070
2015		-	-	59,965	1,510	61,475
Total		\$ 7,247	991	\$ 300,710	14,904	315,614

(6) 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 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$145,903, \$137,470, and \$128,071 respectively, equal to the required contributions for each year.

(7) **Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 38 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Districts OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$	32,000
Interest on net OPEB obligation		1,943
Adjustment to annual required contribution		(1,607)
Annual OPEB cost		<u>32,336</u>
Contributions made		(15,000)
Increase in net OPEB obligation		<u>17,336</u>
Net OPEB obligation beginning of year		<u>43,179</u>
Net OPEB obligation end of year	\$	<u>60,515</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 32,000	28.13%	\$ 23,000
2011	32,179	37.29%	43,179
2012	32,336	46.39%	60,515

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$215,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$215,000. The covered payroll (annual payroll of active employees covered by the plan) was \$1,807,973, and the ratio of the UAAL to covered payroll was 11.89%. As of June 30, 2012 there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of event far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon national termination studies performed by the Society of Actuaries.

Projected claim costs of the medical plan range from \$371.98 for single to \$1005.40 for retiree & spouse under Plan \$100 deductible, \$337.12 for single to \$911.16 for retiree & spouse under Plan \$500 deductible, \$316.44 for single to \$855.28 for retiree & spouse under Plan \$750 deductible for retirees less than age 65. Upon retirement, the retired participant is assumed to pay 100% of the required premium.

The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(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 \$111,566 for the year ended June 30, 2012 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 budget appropriations at the functional area level. During the year ended June 30, 2012, the expenditures in the other expenditures functional area exceeded the certified budget.

(11) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

Program	Amount
Statewide voluntary preschool	\$ 16,857
Beginning teacher mentoring	1,968
Teacher salary supplement	4,638
Core curriculum	3,283
Professional development	9,872
Total	<u>\$ 36,618</u>

(12) Extraordinary Item

On September 16, 2008 Deep-River Millersburg Community School District voted to reorganize with English Valleys Community School District, as of July 1, 2009. As a part of the reorganization 1.1% of Deep-River Millersburg Community School District's assessed valuation is added to Tri-County Community School District's assessed valuation. During the year ended June 30, 2012 English Valleys Community School District agreed to pay \$2,390 to Tri-County Community School District as part of the merger.

The breakout of the payment from English Valleys Community School District is as follows:

Fund	Amount Received
General	\$ 610
Capital Projects: Statewide Sales, Services and Use Tax	201
Capital Projects: Physical Plant & Equipment Levy	1,563
Debt Service	16
	<u>\$ 2,390</u>

(13) Deficit Unassigned Balance

The District had a deficit unassigned balance of \$97 in the Student Activity Fund at June 30, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 2,263,232	52,693	2,315,925	2,499,049	2,499,049	(183,124)
State sources	1,697,115	1,238	1,698,353	2,246,348	2,246,348	(547,995)
Federal sources	176,513	73,660	250,173	215,000	215,000	35,173
Total revenues	<u>4,136,860</u>	<u>127,591</u>	<u>4,264,451</u>	<u>4,960,397</u>	<u>4,960,397</u>	<u>(695,946)</u>
Expenditures/Expenses:						
Instruction	2,134,872	0	2,134,872	2,624,407	2,624,407	489,535
Support services	987,572	12,571	1,000,143	1,871,668	1,871,668	871,525
Non-instructional programs	0	121,851	121,851	137,192	137,192	15,341
Other expenditures	614,285	0	614,285	532,931	532,931	(81,354)
Total expenditures/expenses	<u>3,736,729</u>	<u>134,422</u>	<u>3,871,151</u>	<u>5,166,198</u>	<u>5,166,198</u>	<u>1,295,047</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	400,131	(6,831)	393,300	(205,801)	(205,801)	599,101
Other financing sources, net	<u>145,842</u>	<u>0</u>	<u>145,842</u>	<u>0</u>	<u>0</u>	<u>145,842</u>
Excess(Deficiency) of revenues and other financing sources(uses) over(under) expenditures/expenses	545,973	(6,831)	539,142	(205,801)	(205,801)	744,943
Balance beginning of year	<u>895,740</u>	<u>34,952</u>	<u>930,692</u>	<u>509,637</u>	<u>509,637</u>	<u>421,055</u>
Balance end of year	<u>\$ 1,441,713</u>	<u>28,121</u>	<u>1,469,834</u>	<u>303,836</u>	<u>303,836</u>	<u>1,165,998</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012

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, 2012, the expenditures in the other expenditures functional area exceeded the certified budget.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)			
2010	July 1, 2009	\$ 0	\$ 215,000	\$ 215,000	0.00%	\$ 2,736,818	7.86%
2011	July 1, 2009	0	215,000	215,000	0.00%	1,977,984	10.87%
2012	July 1, 2009	0	215,000	215,000	0.00%	1,807,973	11.89%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Revenue			Debt Service	Total Nonmajor Governmental Funds
	Management Levy	Student Activity	Total		
Assets					
Cash and pooled investments	\$ 51,267	74,690	125,957	59,219	185,176
Receivables:					
Property tax:					
Delinquent		921	0	921	3,925
Succeeding year	125,000	0	125,000	190,915	315,915
Total Assets	\$ 177,188	74,690	251,878	254,059	505,937
Liabilities and Fund Balances					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	\$ 125,000	0	125,000	190,915	315,915
Fund balances:					
Restricted for:					
Management levy purposes	52,188	0	52,188	0	52,188
Student activities	0	74,787	74,787	0	74,787
Debt service	0	0	0	63,144	63,144
Unassigned	0	(97)	(97)	0	(97)
Total fund balances	52,188	74,690	126,878	63,144	190,022
Total Liabilities and Fund Balances	\$ 177,188	74,690	251,878	254,059	505,937

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2012

	Special Revenue			Total	
	Management Levy	Student Activity	Total	Debt Service	Nonmajor Governmental Funds
Revenues:					
Local sources:					
Local tax	\$ 50,195	0	50,195	212,535	262,730
Other	5,337	120,253	125,590	81	125,671
Total revenues	55,532	120,253	175,785	212,616	388,401
Expenditures:					
Current:					
Instruction:					
Regular	37,139	0	37,139	0	37,139
Other	0	116,773	116,773	0	116,773
Support services:					
Operation and maintenance of plant	95,990	0	95,990	0	95,990
Long-term debt:					
Principal	0	0	0	297,720	297,720
Interest	0	0	0	47,300	47,300
Total expenditures	133,129	116,773	249,902	345,020	594,922
Excess(Deficiency) of revenues over(under) expenditures	(77,597)	3,480	(74,117)	(132,404)	(206,521)
Other financing sources:					
Reorganization settlement	0	0	0	16	16
Transfer in	0	0	0	193,396	193,396
Total other financing sources	0	0	0	193,412	193,412
Net change in fund balances	(77,597)	3,480	(74,117)	61,008	(13,109)
Fund balances beginning of the year	129,785	71,210	200,995	2,136	203,131
Fund balances end of year	\$ 52,188	74,690	126,878	63,144	190,022

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 148,102	142,325	290,427
Receivables:			
Property tax:			
Delinquent	0	1,061	1,061
Succeeding year	0	55,041	55,041
Income surtax	0	43,586	43,586
Due from other governments	103,291	0	103,291
Total Assets	\$ 251,393	242,013	493,406
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 0	55,041	55,041
Income surtax	0	43,586	43,586
Total liabilities	0	98,627	98,627
Fund balances:			
Restricted for:			
School infrastructure	251,393	0	251,393
Physical plant and equipment	0	143,386	143,386
Total fund balances	251,393	143,386	394,779
Total Liabilities and Fund Balances	\$ 251,393	242,013	493,406

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 224,812	92,074	316,886
Other	0	126	126
Total revenues	224,812	92,200	317,012
Expenditures:			
Capital outlay	12,735	144,964	157,699
Excess (Deficiency) of revenues over (under) expenditures	212,077	(52,764)	159,313
Other financing sources (uses)			
Reorganization settlement	201	1,563	1,764
Proceeds from capital loan note	0	143,452	143,452
Transfer out	(161,475)	(31,921)	(193,396)
Total other financing sources (uses)	(161,274)	113,094	(48,180)
Net change in fund balances	50,803	60,330	111,133
Fund balances beginning of year	200,590	83,056	283,646
Fund balances end of year	\$ 251,393	143,386	394,779

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, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance Change	Balance End of Year
Drama	\$ 4,024	1,370	2,661	0	2,733
Inst/vocal trip	6,048	300	2,055	0	4,293
High school vocal fund	(97)	0	0	0	(97)
Future business leaders of America	625	0	0	0	625
Athletic resale	2,132	12,571	10,537	0	4,166
Athletic non resale	(7,653)	21,148	32,055	27,000	8,440
Athletic gate receipts	13,728	20,713	330	(27,000)	7,111
P.C. fund	627	126	0	0	753
Cross country	0	0	0	0	0
Student interest	0	94	88	0	6
Student petty cash	46	0	0	0	46
Home ec resale	383	0	301	0	82
Student council	1,990	1,334	1,154	0	2,170
TAG	1,330	0	0	0	1,330
Cheerleading	1,428	6,357	4,747	0	3,038
Dance squad	130	1,778	1,703	0	205
National honor society	1,507	1,779	1,550	0	1,736
Spanish club	1,589	0	0	0	1,589
Athletics candy fundraiser	132	0	0	0	132
JH miscellaneous	1,882	133	131	0	1,884
Annual 2008-09	1,007	0	0	0	1,007
Class of 2012	5,231	11,110	15,655	0	686
Class of 2013	2,373	5,272	4,310	0	3,335
Class of 2014	1,003	3,956	0	0	4,959
Class of 2015	311	244	131	0	424
FCCLA	0	1,541	941	0	600
Trojan annual	4,176	6,910	6,932	0	4,154
FFA	11,213	16,277	19,749	0	7,741
Horticulture	2,906	1,986	3,600	0	1,292
Instrument resale	2,237	210	731	0	1,716
Shop resale	651	0	251	0	400
Elementary Trojans	1,565	1,030	1,422	0	1,173
Elementary fund raisers	8,686	4,014	5,739	0	6,961
Total	\$ 71,210	120,253	116,773	0	74,690

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 NINE YEARS

	Modified Accrual Basis								
	Years Ended June 30								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 2,034,364	1,799,952	1,710,225	1,589,720	1,480,082	1,558,501	1,505,041	1,500,142	1,301,036
Tuition	20,591	114,737	55,460	45,330	99,472	71,744	97,048	83,664	82,026
Other	208,277	200,676	210,029	239,005	235,323	292,229	271,836	237,375	374,256
State sources	1,697,115	1,516,565	1,419,810	1,757,254	1,685,116	1,579,975	1,602,663	1,464,820	1,389,719
Federal sources	176,513	193,575	289,583	139,586	122,882	126,530	133,778	106,165	146,322
Total	\$ 4,136,860	3,825,505	3,685,107	3,770,895	3,622,875	3,628,979	3,610,366	3,392,166	3,293,359
Expenditures:									
Instruction:									
Regular	\$ 1,257,067	1,742,665	1,359,485	1,358,594	1,378,382	1,273,126	1,159,799	1,263,162	1,187,384
Special	270,907	362,728	406,540	404,524	489,216	485,136	491,618	411,429	466,193
Other	606,898	680,156	619,654	584,454	368,264	378,135	340,554	392,457	366,542
Support services:									
Student	3,115	3,200	5,138	1,754	18,750	31,031	57,696	55,533	53,985
Instructional staff	39,340	28,838	47,860	49,453	57,315	62,312	65,420	25,097	21,535
Administration	342,572	403,479	300,081	368,835	383,751	323,994	335,427	380,622	364,691
Operation and maintenance of plant	373,703	407,071	375,102	358,536	364,777	330,843	316,066	294,170	271,571
Transportation	228,842	236,129	241,110	234,187	219,808	272,527	200,568	228,497	211,904
Non-instructional programs	0	0	150	0	7,608	19,554	20,641	32,054	23,742
Capital outlay	157,699	92,659	76,121	217,403	190,462	157,535	92,957	54,543	56,246
Long-term debt:									
Principal	297,720	155,000	150,000	145,000	140,000	135,000	130,000	125,000	130,000
Interest and fiscal charges	47,300	35,940	40,390	44,392	50,563	55,743	59,867	65,268	61,134
Other expenditures:									
AEA flowthrough	111,566	126,091	126,997	119,869	114,659	110,869	106,737	106,686	108,892
Total	\$ 3,736,729	4,273,956	3,748,628	3,887,001	3,783,555	3,635,805	3,377,350	3,434,518	3,323,819

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT

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

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

To the Board of Education of the
Tri-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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 26, 2013. 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

The management of Tri-County Community School District is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Tri-County Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Tri-County Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Tri-County Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Finding as item I-A-12 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Finding as items I-B-12 and I-C-12 to be significant deficiencies.

Members American Institute & Iowa Society of Certified Public Accountants

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.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 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.

Tri-County Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Tri-County Community School District's responses and, accordingly, we express no opinion on them.

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 whom Tri-County Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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.

March 26, 2013

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 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. Also vouchers are processed, disbursements are recorded and checks are prepared by the same person. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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-12 Supporting Documents for Payments Made - We noted during our audit that four out of thirty-one invoices selected for testing in the General Fund were paid without any supporting invoice or other documentation to support the payment.

Recommendation - The District should review its procedures to ensure that all payments made have supporting documentation to support the purchase.

Response - The District will review procedures and communicate to employees that invoices for all items ordered need to be forward to the Business Office.

Conclusion - Response accepted.

I-C-12 Commodity Pricing - We noted during the audit that the commodity food listing was not priced out using commodity values provided by the Department of Education and therefore the amount of inventory was under reported on the Balance Sheet.

Recommendation - The District should review their procedures to ensure that the commodity food is priced out correctly.

Response - The District will ensure that the proper prices are used in the future to calculate the ending inventory.

Conclusion - Response accepted.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 exceeded the certified amounts in the other expenditures functional area.

Recommendation - In the future the certified budget should be amended to an amount greater than expenditures in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The budget will be amended before expenditures are allowed to exceeded the originally budget amounts in the future.

Conclusion - Response accepted.

II-B-12 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-12 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-D-12 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jody Schroeder, Board Member		
Spouse owns Schroeder's Service	Repairs	\$1,855
Father-in-law owns Schroeder Frame	Repairs	\$257
Bardette Ogden, Board Member		
Spouse owns Ogden Oil Company	Fuel	\$54,783

In accordance with the Attorney General’s opinion dated November 9, 1976, the above transactions with the relatives of Jody Schroeder and Bardette Ogden do not appear to represent a conflict of interest.

II-E-12 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-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-12 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.

- II-I-12 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-12 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely. However, we noted no significant deficiencies in the amounts reported.
- Recommendation - The District should submit the Certified Annual Report in a timely manner in the future.
- Response - The District went before the School Budget Review Committee in December 2012 and presented a plan, that going forward will allow for the District to file its Certified Annual Report timely.
- Conclusion - Response accepted.
- II-K-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	200,590
Revenues:			
Sales tax revenues	\$	224,812	
Reorganization settlement		201	225,013
			<u>425,603</u>
Expenditures/transfers out:			
School infrastructure		12,735	
Transfers to other funds:			
Debt service fund		161,475	174,210
			<u>174,210</u>
Ending balance		\$	<u><u>251,393</u></u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

- II-M-12 Financial Condition - The District Student Activity Fund had a deficit unassigned fund balance of \$97.
- Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit fund balances.
- Response - The District will communicate to the sponsor of this activity that expenditures should not be incurred if there is not adequate funding to make the payment.
- Conclusion - Response accepted.