

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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Spirit Lake Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Dr. Craig E. Newell	President	2003
Dr. J. Michael Donohue	Board Member	2003
Beth Will	Board Member	2004
Ann Goerss	Board Member	2004
Cliff Garvey	Board Member	2005
Board of Education (After September 2003 Election)		
Beth Will	President	2004
Ann Goerss	Vice President	2004
Cliff Garvey	Board Member	2005
Julie Nodland	Board Member	2006
Scott Wicks	Board Member	2006
School Officials		
Timothy Grieves	Superintendent	2004
Joyce Peschon	District Secretary/Treasurer and Business Manager	2004
James Ladegaard	Attorney	2004

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Spirit Lake Community School District:

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

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

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

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Spirit Lake Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated November 23, 2004 on our consideration of the Spirit Lake Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Spirit Lake 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 three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

November 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$9,178,160 in fiscal 2003 to \$8,801,836 in fiscal 2004, while General Fund expenditures increased from \$9,048,918 in fiscal 2003 to \$9,554,982 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$951,578 in fiscal 2003 to a balance of \$109,976 in fiscal 2004.
- The decrease in General Fund revenues was attributable to a decrease in local tax revenue and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The General Fund balance decreased because of the combined effect of the increase in expenditures and decrease in revenues.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$10,279 in fiscal year 2003 to \$6,533 in fiscal year 2004.

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 Spirit Lake 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 Spirit Lake 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 Spirit Lake Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

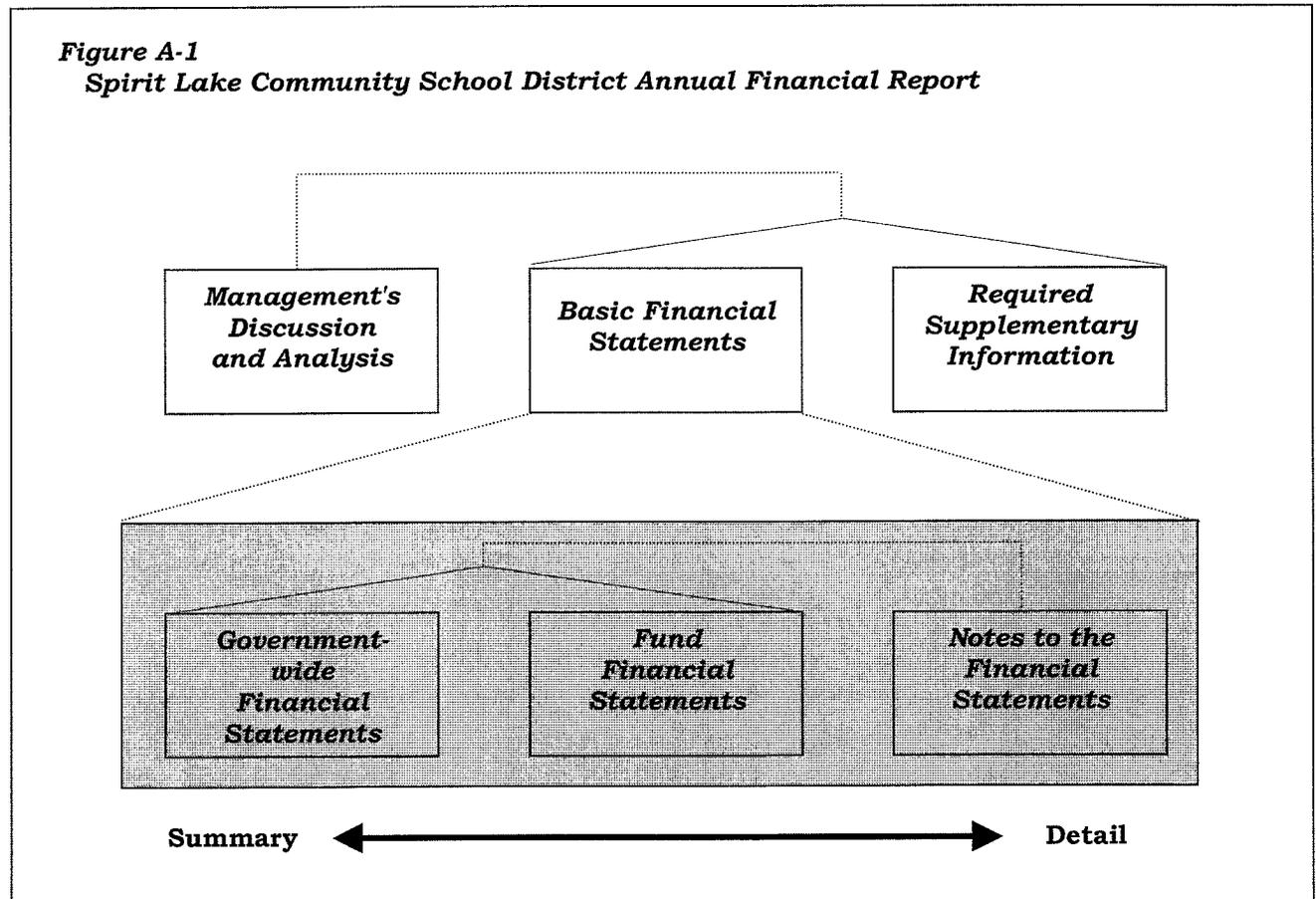


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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 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, Capital Projects, and Debt Service Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Current and other assets	\$ 8,239,892	55,467	8,295,359
Capital assets	13,600,616	11,308	13,611,924
Total assets	<u>21,840,508</u>	<u>66,775</u>	<u>21,907,283</u>
Long-term obligations	6,860,651	0	6,860,651
Other liabilities	6,612,707	9,745	6,622,452
Total liabilities	<u>13,473,358</u>	<u>9,745</u>	<u>13,483,103</u>
Net assets:			
Invested in capital assets, net of related debt	7,843,688	11,308	7,854,996
Restricted	180,104	0	180,104
Unrestricted	343,358	45,722	389,080
Total net assets	<u>\$ 8,367,150</u>	<u>57,030</u>	<u>8,424,180</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 980,204	263,842	1,244,046
Operating grants and contributions and restricted interest	857,993	118,839	976,832
Capital grants and contributions and restricted interest	453,348	0	453,348
General revenues:			
Property tax	5,414,045	0	5,414,045
Local option sales and service tax	1,194,397	0	1,194,397
Unrestricted state grants	2,596,616	0	2,596,616
Other	21,576	180	21,756
Total revenues	11,518,179	382,861	11,901,040
Program expenses:			
Governmental activities:			
Instructional	6,973,752	0	6,973,752
Support services	2,768,965	0	2,768,965
Non-instructional programs	0	352,537	352,537
Other expenses	1,071,589	0	1,071,589
Total expenses	10,814,306	352,537	11,166,843
Changes in net assets	703,873	30,324	734,197
Net assets beginning of year	7,663,277	26,706	7,689,983
Net assets end of year	\$ 8,367,150	57,030	8,424,180

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$11,518,179 and expenses were \$10,814,306.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 6,973,752	5,026,491
Support services	2,768,965	2,768,965
Other expenses	1,071,589	727,305
Totals	\$ 10,814,306	8,522,761

- The cost financed by users of the District's programs was \$980,204.

-
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,311,341.
 - The net cost of governmental activities was financed with \$6,608,442 in local tax, \$2,596,616 in unrestricted state grants, and \$16,714 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$382,861 and expenses were \$352,537. 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 Spirit Lake Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,610,175, compared to last year's ending fund balances of a \$1,387,373.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Decrease in taxes and grants resulted in a decrease in revenues. The decrease in revenues along with the increase expenditures ensured the decrease in the financial position of the District.
- The Management, and Activity Fund combined balance increased from \$265,543 in 2003, to \$279,699 in 2004, due to the controlled spending in both funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$145,988 to \$126,513, due to an increase in total expenditures for the year.
- The Capital Projects fund balance decreased during the current year, from \$558,836 to a deficit balance of \$84,743.
- The Debt Service fund balance increased from \$688,230 to \$955,928.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$26,706 at June 30, 2003 to \$57,030 at June 30, 2004, representing an increase of approximately 114%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,656,826 more than budgeted revenues, a variance of 16.2%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$13.6 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) This amount represents a net increase of less than 6.9% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$586,858.

The original cost of the District's capital assets was \$22,173,473. Governmental funds account for \$22,073,643 with the remainder of \$102,830 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$1,098,023 at June 30, 2004. This increase resulted from the middle school addition that occurred during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Land	\$ 300,000	0	300,000
Construction in progress	1,098,023	0	1,098,023
Buildings	10,337,464	0	10,337,464
Improvements other than buildings	735,213	0	735,213
Machinery and equipment	1,129,916	11,308	1,141,224
Total	<u>\$ 13,600,616</u>	<u>11,308</u>	<u>13,611,924</u>

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$6,860,651 in general obligation bonds, revenue bonds, capital loan notes and early retirement. This represents a decrease of approximately 11.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,720,000 at June 30, 2004.

The District had revenue bonds payable of \$4,415,000, at June 30, 2004.

The District had capital loan notes payable of \$608,881, at June 30, 2004.

The District also had total outstanding early retirement payable of \$116,770 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 1,720,000	2,025,000	-15.1%
Revenue Bonds	4,415,000	4,945,000	-10.7%
Capital loan notes	608,881	678,976	-10.3%
Early retirement	116,770	95,699	22.0%
Total	\$ 6,860,651	7,744,675	-11.4%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

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 Joyce Peschon, District Business Manager, Spirit Lake Community School District, 900 20th Street, Spirit Lake, Iowa, 51360.

BASIC FINANCIAL STATEMENTS

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,036,151	47,383	2,083,534
Receivables:			
Property tax:			
Delinquent	269,944	0	269,944
Succeeding year	5,565,153	0	5,565,153
Income surtax	250,557	0	250,557
Accounts	17,920	0	17,920
Due from other governments	100,167	0	100,167
Inventories	0	8,084	8,084
Capital assets, net of accumulated depreciation (Note 5)	13,600,616	11,308	13,611,924
TOTAL ASSETS	21,840,508	66,775	21,907,283
LIABILITIES			
Accounts payable	136,617	101	136,718
Interest payable	10,745	0	10,745
Salaries and benefits payable	900,192	9,644	909,836
Deferred revenue:			
Succeeding year property tax	5,565,153	0	5,565,153
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	325,000	0	325,000
Revenue bonds	550,000	0	550,000
Capital loan notes	72,424	0	72,424
Early retirement	116,770	0	116,770
Portion due after one year:			
General obligation bonds	1,395,000	0	1,395,000
Revenue bonds	3,865,000	0	3,865,000
Capital loan notes	536,457	0	536,457
TOTAL LIABILITIES	13,473,358	9,745	13,483,103
NET ASSETS			
Investment in capital assets, net of related debt	7,843,688	11,308	7,854,996
Restricted for:			
Talented and gifted	8,808	0	8,808
Teacher quality	294	0	294
Early intervention	8,073	0	8,073
Management levy	71,616	0	71,616
Other special revenue purposes	91,313	0	91,313
Unrestricted	343,358	45,722	389,080
TOTAL NET ASSETS	\$ 8,367,150	57,030	8,424,180

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 4,683,413	505,908	513,709	453,348
Special instruction	1,798,941	183,450	0	0
Other instruction	491,398	290,846	0	0
	6,973,752	980,204	513,709	453,348
Support services:				
Student services	190,887	0	0	0
Instructional staff services	460,203	0	0	0
Administration services	922,402	0	0	0
Operation and maintenance of plant services	871,703	0	0	0
Transportation services	323,770	0	0	0
	2,768,965	0	0	0
Other expenditures:				
Long-term debt interest	321,670	0	0	0
AEA flowthrough	344,284	0	344,284	0
Depreciation (unallocated) *	405,635	0	0	0
	1,071,589	0	344,284	0
Total governmental activities	10,814,306	980,204	857,993	453,348
Business-Type activities:				
Non-instructional programs:				
Nutrition services	352,537	263,842	118,839	0
Total business-type activities	352,537	263,842	118,839	0
Total	\$ 11,166,843	1,244,046	976,832	453,348

General Revenues:

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

Total general revenues

Changes in net assets

Net assets beginning of year, as restated Note 10

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,210,448)	0	(3,210,448)
(1,615,491)	0	(1,615,491)
(200,552)	0	(200,552)
(5,026,491)	0	(5,026,491)
(190,887)	0	(190,887)
(460,203)	0	(460,203)
(922,402)	0	(922,402)
(871,703)	0	(871,703)
(323,770)	0	(323,770)
(2,768,965)	0	(2,768,965)
(321,670)	0	(321,670)
0	0	0
(405,635)	0	(405,635)
(727,305)	0	(727,305)
(8,522,761)	0	(8,522,761)
0	30,144	30,144
0	30,144	30,144
(8,522,761)	30,144	(8,492,617)
\$ 4,845,794	0	4,845,794
385,515	0	385,515
182,736	0	182,736
1,194,397	0	1,194,397
2,596,616	0	2,596,616
16,714	180	16,894
4,862	0	4,862
9,226,634	180	9,226,814
703,873	30,324	734,197
7,663,277	26,706	7,689,983
\$ 8,367,150	57,030	8,424,180

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 870,141	161,271	566,523	438,216	2,036,151
Receivables:					
Property tax					
Delinquent	33,142	230,982	2,818	3,002	269,944
Succeeding year	4,717,694	0	401,613	445,846	5,565,153
Income surtax	250,557	0	0	0	250,557
Interfund	7,938	0	386,587	0	394,525
Accounts	17,410	76	0	434	17,920
Due from other governments	100,167	0	0	0	100,167
TOTAL ASSETS	\$ 5,997,049	392,329	1,357,541	887,498	8,634,417
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 0	386,587	0	7,938	394,525
Accounts payable	18,630	90,485	0	27,502	136,617
Salaries and benefits payable	900,192	0	0	0	900,192
Deferred revenue:					
Succeeding year property tax	4,717,694	0	401,613	445,846	5,565,153
Income surtax	250,557	0	0	0	250,557
Total liabilities	5,887,073	477,072	401,613	481,286	7,247,044
Fund balances:					
Reserved for:					
Debt service	0	0	955,928	0	955,928
Talented and gifted	8,808	0	0	0	8,808
Teacher quality	294	0	0	0	294
Early intervention	8,073	0	0	0	8,073
Unreserved:					
Designated					
Special purpose by the board	84,969	0	0	0	84,969
Undesignated	7,832	(84,743)	0	406,212	329,301
Total fund balances	109,976	(84,743)	955,928	406,212	1,387,373
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,997,049	392,329	1,357,541	887,498	8,634,417

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 17)	\$	1,387,373
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		13,600,616
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		250,557
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(10,745)
Long-term liabilities, including bonds payable, capital loan notes payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(6,860,651)
Net assets of governmental activites (page 14)	\$	8,367,150

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 4,557,535	0	385,515	403,051	5,346,101
LCST	0	1,194,397	0	0	1,194,397
Tuition	689,358	0	0	0	689,358
Other	100,401	7,236	157	199,321	307,115
Intermediate sources	445	0	0	0	445
State sources	3,213,772	0	241	271	3,214,284
Federal sources	240,325	453,348	0	0	693,673
Total revenues	8,801,836	1,654,981	385,913	602,643	11,445,373
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	4,609,837	0	0	93,273	4,703,110
Special instruction	1,798,261	0	0	0	1,798,261
Other instruction	291,442	0	0	195,676	487,118
	6,699,540	0	0	288,949	6,988,489
Support services:					
Student services	190,887	0	0	0	190,887
Instructional staff services	454,653	0	0	0	454,653
Administration services	802,949	0	0	76,357	879,306
Operation and maintenance of plant services	861,420	0	0	47,766	909,186
Transportation services	201,249	0	0	111,945	313,194
	2,511,158	0	0	236,068	2,747,226
Other expenditures:					
Facilities acquisitions	0	1,170,590	0	82,945	1,253,535
Long-term debt:					
Principal	0	0	905,095	0	905,095
Interest and fiscal charges	0	0	434,408	0	434,408
AEA flowthrough	344,284	0	0	0	344,284
	344,284	1,170,590	1,339,503	82,945	2,937,322
Total expenditures	9,554,982	1,170,590	1,339,503	607,962	12,673,037
Excess (deficiency) of revenues over (under) expenditures	(753,146)	484,391	(953,590)	(5,319)	(1,227,664)
Other financing sources (uses):					
Transfers in	0	0	1,221,288	0	1,221,288
Transfers out	(93,318)	(1,127,970)	0	0	(1,221,288)
Sale of equipment and materials	4,862	0	0	0	4,862
Total other financing sources (uses)	(88,456)	(1,127,970)	1,221,288	0	4,862
Net change in fund balances	(841,602)	(643,579)	267,698	(5,319)	(1,222,802)
Fund balance beginning of year	951,578	558,836	688,230	411,531	2,610,175
Fund balance end of year	\$ 109,976	(84,743)	955,928	406,212	1,387,373

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE 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, 2004

Net change in fund balances - total governmental funds (page 19) \$ (1,222,802)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 1,416,254	
Depreciation expense	(554,285)	861,969

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. 905,095

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. 112,738

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 fund.

Early retirement (21,071)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 67,944

Changes in net assets of governmental activities (page 16) \$ 703,873

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 47,383
Inventories	8,084
Capital assets, net of accumulated depreciation	11,308
TOTAL ASSETS	66,775
LIABILITIES	
Accounts payable	101
Salaries and benefits payable	9,644
TOTAL LIABILITES	9,745
NET ASSETS	
Invested in capital assets, net of related debt	11,308
Unrestricted	45,722
TOTAL NET ASSETS	\$ 57,030

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 203,663
A la carte	13,900
Adults	44,637
Miscellaneous	1,642
TOTAL OPERATING REVENUES	263,842
OPERATING EXPENSES:	
Food service operations:	
Salaries	142,923
Benefits	19,114
Services	2,422
Supplies	184,426
Depreciation	3,652
TOTAL OPERATING EXPENSES	352,537
OPERATING LOSS	(88,695)
NON-OPERATING REVENUES:	
Interest	180
State sources	4,792
Federal sources	114,047
TOTAL NON-OPERATING REVENUES	119,019
Net income	30,324
Net assets beginning of year, as restated Note 10	26,706
Net assets end of year	\$ 57,030

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 256,210
Cash received from miscellaneous operating activities	1,642
Cash payments to employees for services	(161,390)
Cash payments to suppliers for goods or services	(160,831)
Net cash used in operating activities	(64,369)
Cash flows from non-capital financing activities:	
State grants received	4,792
Federal grants received	89,551
Net cash provided by non-capital financing activities	94,343
Cash flows from investing activities:	
Interest on investments	180
Net cash provided by investing activities	180
Cash flows from capital financing activities:	
Purchase of assets	(793)
Net cash used in financing activities	(793)
Net increase in cash and cash equivalents	29,361
Cash and cash equivalents at beginning of year	18,022
Cash and cash equivalents at end of year	\$ 47,383
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (88,695)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	24,496
Depreciation	3,652
Decrease in inventories	1,420
Increase in accounts payable	101
Increase in salaries and benefits payable	647
Decrease in deferred revenue	(5,990)
Net cash used in operating activities	\$ (64,369)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 47,383
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$24,496.

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

The Spirit Lake Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Spirit Lake, Iowa, and the predominate agricultural territory in Dickinson 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, Spirit Lake Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Spirit Lake Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

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

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

Asset Class	Estimated Useful Live (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-30 years

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

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

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

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

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

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$1,078,986 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
Debt Service	Capital Projects	\$ 386,587
General	Management	7,938
Total		\$ 394,525

(4) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 1,127,970
Debt Service	General	93,318
Total		\$ 1,221,288

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

(5) Capital Assets

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

	Balance Beginning of Year, as Restated Note 10	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 300,000	0	0	300,000
Construction in progress	0	1,098,023	0	1,098,023
Total capital assets not being depreciated	300,000	1,098,023	0	1,398,023
Capital assets being depreciated:				
Buildings	16,382,930	226,056	0	16,608,986
Land improvements	1,688,200	18,630	0	1,706,830
Machinery and equipment	2,346,065	73,545	62,806	2,356,804
Total capital assets being depreciated	20,417,195	318,231	62,806	20,672,620
Less accumulated depreciation for:				
Buildings	5,945,455	326,067	0	6,271,522
Land improvements	892,049	79,568	0	971,617
Machinery and equipment	1,141,044	148,650	62,806	1,226,888
Total accumulated depreciation	7,978,548	554,285	62,806	8,470,027
Total capital assets being depreciated, net	12,438,647	(236,054)	0	12,202,593
Governmental activities capital assets, net \$	12,738,647	861,969	0	13,600,616

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 102,037	793	0	102,830
Less accumulated depreciation	87,870	3,652	0	91,522
Business-type activities capital assets, net	\$ 14,167	(2,859)	0	11,308

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 35,746
Special		680
Other		4,280
Support services:		
Instructional staff services		5,550
Administration services		2,010
Operation and maintenance of plant services		39,483
Transportation		60,901
		148,650
Unallocated depreciation		434,556
Total governmental activities depreciation expense		\$ 583,206
Business-type activities:		
Food services		\$ 3,652

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,025,000	0	305,000	1,720,000	325,000
Revenue bonds	4,945,000	0	530,000	4,415,000	550,000
Capital loan notes	678,976	0	70,095	608,881	72,424
Early retirement	95,699	105,046	83,975	116,770	116,770
Total	\$ 7,744,675	105,046	989,070	6,860,651	1,064,194

General Obligation Bonds Payable

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue May 1, 2001		
		Principal	Interest	Total
2005	4.250 %	\$ 325,000	76,612	401,612
2006	4.375	345,000	62,800	407,800
2007	4.500	335,000	47,706	382,706
2008	4.500	350,000	32,632	382,632
2009	4.625	365,000	16,882	381,882
Total		\$ 1,720,000	236,632	1,956,632

Revenue Bonds Payable

Details of the District's June 30, 2004 revenue bonded indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond Issue of May 1, 2001		
		Principal	Interest	Total
2005	4.450 %	\$ 550,000	199,590	749,590
2006	4.450	575,000	175,115	750,115
2007	4.450	600,000	149,527	749,527
2008	4.450	630,000	122,828	752,828
2009	4.550	655,000	94,792	749,792
2010	4.600	685,000	64,990	749,990
2011	4.650	720,000	33,480	753,480
Total		\$ 4,415,000	840,322	5,255,322

Capital Loan Notes

During the year ended June 30, 2002, the District issued Energy Management Capital Loan Notes to build a wind turbine. Details of the District's June 30, 2004 capital loan notes indebtedness are as follows:

Year Ending June 30,	Interest Rate	Bond issue July 2, 2001		
		Principal	Interest	Total
2005	5.100 %	\$ 72,424	20,894	93,318
2006	5.100	74,874	18,444	93,318
2007	5.100	77,450	15,868	93,318
2008	5.100	80,159	13,159	93,318
2009	5.100	82,998	10,310	93,308
2010	5.100	86,004	7,314	93,318
2011	5.100	89,155	4,163	93,318
2012	5.100	45,817	849	46,666
Total		\$ 608,881	91,001	699,882

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is equal to percentage (based on age of employee) of the difference between the employee's last year's teaching salary, the base salary and years of service. Early retirement benefits paid for the year ended June 30, 2004 totaled \$83,975.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a

publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$356,182, \$344,371 and \$335,152, respectively, equal to the required contributions for each year.

(8) Risk Management

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$344,284 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

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

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 7,628,870	258,032
Intermediate sources	817	0
State sources	3,204,283	4,792
Federal sources	651,695	114,047
Total receipts	<u>11,485,665</u>	<u>376,871</u>
Disbursements:		
Instruction	6,751,508	0
Support services	2,811,997	0
Non-instructional programs	0	347,510
Other expenditures	2,900,724	0
Total disbursements	<u>12,464,229</u>	<u>347,510</u>
Excess(deficiency) of receipts over(under) disbursements	(978,564)	29,361
Other financing sources, net	<u>4,862</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(973,702)	29,361
Balance beginning of year	<u>3,009,853</u>	<u>18,022</u>
Balance end of year	<u>\$ 2,036,151</u>	<u>47,383</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
7,886,902	6,629,028	6,629,028	1,257,874
817	0	0	817
3,209,075	3,375,144	3,375,144	(166,069)
765,742	201,538	201,538	564,204
11,862,536	10,205,710	10,205,710	1,656,826
6,751,508	9,253,383	9,253,383	2,501,875
2,811,997	1,394,000	1,394,000	(1,417,997)
347,510	485,613	485,613	138,103
2,900,724	1,077,638	1,077,638	(1,823,086)
12,811,739	12,210,634	12,210,634	(601,105)
(949,203)	(2,004,924)	(2,004,924)	1,055,721
4,862	600,000	600,000	1,204,862
(944,341)	(1,404,924)	(1,404,924)	2,260,583
3,027,875	4,497,265	4,497,265	(1,469,390)
2,083,534	3,092,341	3,092,341	791,193

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

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 11,485,665	(40,292)	11,445,373
Expenses	12,464,229	208,808	12,673,037
Net	(978,564)	(249,100)	(1,227,664)
Other financing sources, net	4,862	0	4,862
Beginning fund balances	3,009,853	(399,678)	2,610,175
Ending fund balances	\$ 2,036,151	(648,778)	1,387,373

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 376,871	5,990	382,861
Expenses	347,510	5,027	352,537
Net	29,361	963	30,324
Beginning retained earnings	18,022	8,684	26,706
Ending retained earnings	\$ 47,383	9,647	57,030

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

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

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

During the year ended June 30, 2004, disbursements in the support services and other expenditures functional program areas exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
ASSETS				
Cash and pooled investments	\$ 194,658	151,597	91,961	438,216
Receivables:				
Property tax:				
Current year delinquent	1,666	1,336	0	3,002
Succeeding year	254,000	191,846	0	445,846
Accounts	0	0	434	434
TOTAL ASSETS	\$ 450,324	344,779	92,395	887,498
LIABILITIES AND FUND EQUITY				
Liabilities:				
Interfund payable	\$ 7,938	0	0	7,938
Accounts payable	0	26,420	1,082	27,502
Deferred revenue:				
Succeeding year property tax	254,000	191,846	0	445,846
	261,938	218,266	1,082	481,286
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	188,386	126,513	91,313	406,212
Total fund balances	188,386	126,513	91,313	406,212
TOTAL LIABILITIES AND FUND EQUITY	\$ 450,324	344,779	92,395	887,498

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
REVENUES:				
Local sources:				
Local tax	\$ 220,315	182,736	0	403,051
Other	309	1,791	197,221	199,321
State sources	157	114	0	271
TOTAL REVENUES	220,781	184,641	197,221	602,643
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	93,273	0	0	93,273
Other instruction	0	0	195,676	195,676
	93,273	0	195,676	288,949
Support services:				
Administration services	76,357	0	0	76,357
Operation and maintenance of plant services	21,346	26,420	0	47,766
Transportation services	17,194	94,751	0	111,945
	114,897	121,171	0	236,068
Other expenditures:				
Facilities acquisition	0	82,945	0	82,945
TOTAL EXPENDITURES	208,170	204,116	195,676	607,962
Excess(deficiency) of revenues over (under) expenditures	12,611	(19,475)	1,545	(5,319)
Fund balance beginning of year	175,775	145,988	89,768	411,531
Fund balance end of year	\$ 188,386	126,513	91,313	406,212

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
MS drama	\$ 737	552	536	753
HS drama	1,470	922	1,386	1,006
MS vocal	271	721	364	628
HS vocal	397	6,427	6,824	0
MS instrument music	2,941	5,673	4,448	4,166
HS instrument music	624	11,990	12,614	0
Co-ed athletics	1,453	35,832	36,543	742
Cross country	0	923	923	0
Boys basketball	0	4,469	4,469	0
Boys football	0	12,185	12,185	0
Boys soccer	0	1,323	1,323	0
Boys baseball	0	2,266	2,049	217
Boys track	0	2,123	2,123	0
Boys golf	(81)	140	59	0
Boys wrestling	0	3,063	3,063	0
Girls basketball	0	4,134	4,134	0
Girls volleyball	0	3,661	3,661	0
Girls softball	0	5,874	5,657	217
Girls track	0	2,756	2,756	0
Towel	225	0	0	225
Class of 2003	798	0	798	0
Class of 2004	935	96	425	606
Class of 2005	2,385	1,045	2,076	1,354
Class of 2006	1,005	704	0	1,709
Class of 2007	400	721	0	1,121
Class of 2008	300	100	0	400
Class of 2009	200	100	0	300
Class of 2010	100	100	0	200
Class of 2011	0	100	0	100
Pictures	1,934	2,239	2,506	1,667
Interest	33,765	688	6,148	28,305
Student ins	63	0	0	63
Mexico club	13,510	25,151	36,823	1,838
Russian club	46	0	0	46
Pan Am club	1,329	3,258	3,575	1,012
Video club	346	252	73	525
VICA	1,300	901	1,444	757
Annual	7,714	11,409	9,559	9,564
Academic decatholan	0	20	20	0
HS quiz bowl	2,077	780	480	2,377
Classes	275	5,889	6,079	85
MS SAC	7,275	24,754	21,024	11,005
HS SAC	1,343	3,964	4,240	1,067
MOC	267	2,054	1,643	678
Elementary parents	1,452	1,377	(10,963)	13,792
Culinary arts	2,884	6,951	5,557	4,278
Peer helper	28	331	331	28
Due other funds	0	(797)	(1,279)	482
Total	\$ 89,768	197,221	195,676	91,313

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 5,346,101	5,589,269	4,832,510	4,554,870
Tuition	689,358	658,805	709,038	656,330
Other	1,501,512	1,686,729	1,561,555	865,483
Intermediate sources	445	1,383	37,098	217
State sources	3,214,284	3,327,968	3,737,756	3,687,934
Federal sources	693,673	252,925	296,099	230,016
Total	\$ 11,445,373	11,517,079	11,174,056	9,994,850
Expenditures:				
Instruction:				
Regular instruction	\$ 4,703,110	4,401,150	4,296,842	4,240,239
Special instruction	1,798,261	1,484,307	1,399,381	1,253,236
Other instruction	487,118	656,684	655,845	662,325
Support services:				
Student services	190,887	201,786	200,983	210,931
Instructional staff services	454,653	395,621	388,613	410,773
Administration services	879,306	796,378	764,132	691,977
Operation and maintenance of plant services	909,186	810,144	649,243	794,469
Transportation services	313,194	243,171	266,683	190,656
Central services	0	0	90,050	0
Other expenditures:				
Facilities acquisitions	1,253,535	1,952,221	5,489,798	350,397
Long Term Debt:				
Principal	905,095	857,880	863,144	260,000
Interest	434,408	369,272	331,964	161,422
AEA flow-through	344,284	361,532	363,407	369,071
Total	\$ 12,673,037	12,530,146	15,760,085	9,595,496

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ 24,496
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	10,937
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	78,614
			89,551
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6120-G	93,426
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 03	1,310
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 04	6,210
			7,520
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 04	2,343
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 04	37,868
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 03	5,440
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 04	7,560
			13,000
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)			
	84.215	FY 04	709,732
STAR SCHOOLS			
	84.203	FY 04	2,974
GOALS 2000			
	84.276	FY 04	848
EDUCATION FOR HOMELESS CHILDREN AND YOUTH			
	84.196	FY 04	20,452
ENHANCING EDUCATION THROUGH TECHNOLOGY			
	84.318	FY 04	678
TECH-PREP EDUCATION			
	84.243	FY 04	2,750

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 03	3,303
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	7,243
			10,546
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 04	1,356
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	43,308
TOTAL			\$ 1,060,848

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Spirit Lake Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
Spirit Lake Community School District:

We have audited the financial statements of Spirit Lake Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 23, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Spirit Lake 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 grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved, except for IV-B-04.

Internal Control Over Financial Reporting

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

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

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item II-A-04 and II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Spirit Lake Community School District and other parties to whom Spirit Lake Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spirit Lake 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.

A handwritten signature in black ink, appearing to read "Nolte Cornman & Johnson, P.C.", with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

November 23, 2004

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

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education of
Spirit Lake Community School District

Compliance

We have audited the compliance of Spirit Lake Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Spirit Lake Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Spirit Lake Community School District's management. Our responsibility is to express an opinion on Spirit Lake Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spirit Lake Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Spirit Lake Community School District's compliance with those requirements.

In our opinion, Spirit Lake Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Spirit Lake Community School District's ability to administer a major

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federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 and III-B-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulation, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weaknesses. However, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Spirit Lake Community School District and other parties to whom Spirit Lake Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

November 23, 2004

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.215 - Fund for the Improvement of Education (Iowa Demonstration Grant)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Spirit Lake Community School District did not qualify as a low-risk auditee.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We have added additional staff in order to improve on our internal control.

Conclusion - Response accepted.

II-B-04 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

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

Response - We are working on it and will try to improve in the future.

Conclusion - Response accepted.

II-C-04 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest, a picture and a towel account.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts. The towel account should be more appropriately run through the General Fund or closed out. In the picture account, the commission collected from the picture company should more appropriately be receipted into the General Fund.

Response - We will comply.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.215: Fund for the Improvement of Education (Iowa Demonstration Grant)
Federal Award Year: 2004
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We have added additional staff in order to improve on our internal control.

Conclusion - Response accepted.

III-B-04 Davis Bacon Requirements - The District received a grant that is subject to the Davis Bacon and Related Acts whose testing and documentation requirements were not met. The District did obtain records for testing, but only after the year-end.

Recommendation - The District must test the wages paid by contractors to the prevailing wage rate for the District as set by the Department of Labor. Also, the District must retain this documentation for testing.

Response - We thought our Construction Manager was doing the necessary testing related to the Davis Bacon and Related Acts requirements. The Construction Manager has since been replaced and we will implement internal procedures to comply with the Davis Bacon requirements in the future.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

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

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the support services and other expenditures program area.

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

Response - We are working on it and will amend as needed in the future.

Conclusion - Response accepted.

IV-C-04 Questionable Disbursements - We noted during our audit that there where food items and babysitting service purchased out of the Activity Fund which may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review these types of expenditures and document the public purpose served. The District may consider adopting a policy directed to requirements in meeting public purpose criteria. If no public purpose is identified, these types of expenditures should be added to the individuals W-2's or the District should be reimbursed by the individuals who received the benefits of these items.

Response - We will review our procedures and comply as necessary.

Conclusion - Response accepted.

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

IV-E-04 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Eileen Nation, Teacher Spouse owns Atlas Stamp and Steal	Supplies	\$184
Kim Kirschbaum, Bus Driver Spouse owns Bob's Repair and Tow	Parts and Supplies	\$11,029
Jean Boekout, High School Office Mgr. Spouse owns Wally's Refrigeration	Repairs	\$174

In accordance with Attorney General's opinion dated November 9, 1976, the transactions with the spouses of the employees do not appear to be a conflict of interest.

The District currently has a program whereby employees of the District are allowed to purchase computers with the District paying the original cost and the employees reimbursing the District via payroll deduction. Current year activity by employees in this is as follows:

	Beginning Receivable	Computer Purchased	Amount Received	Ending Receivable
Bernholtz, Carmen	\$ 599	0	599	0
Block, Chris	215	0	215	0
Bruinsma, Terry	0	1,699	566	1,133
Caughey, Sheryl	0	1,809	905	904
Corcoran, Thomas	191	0	191	0
Daniels, Matthew	86	0	0	86
Dean, Kara	0	776	215	560
DeGroot, Leka	610	0	431	179
Duffy, Chad	95	0	95	0
Faber, Sheryl	1,062	0	1,062	0
Ficken, Jill	62	0	62	0
Fliss, Peggy	1,152	0	692	461
Greer, Elaine	0	3,130	1,174	1,956
Grimmius, Brad	901	0	901	0
Hanneman, Carol	318	0	318	0
Hanson, Sandy	526	0	526	0
Hardin, Melinda	837	0	529	308
Horsman, Tami	790	0	790	0
Jerge, Cindy	276	0	276	0
Johnson, Julie	307	1,975	718	1,564
Jones, Kelly	0	1,435	538	897
Keenan, Angie	243	0	243	0
Kirchner, Bob	0	1,675	1,047	628
Kirschbaum, Kim	328	0	328	0
Laven, Sara	0	1,191	280	912
Lenertz, Alan	695	0	596	99
Loerch, Randy	562	0	562	0
Markley, Jerry	0	1,191	347	844
Matuska, Vicki	477	0	477	0
Miller, Terry	0	1,002	334	668
Nation, Eileen	779	0	779	0
Newman, Robbie	121	0	121	0
Overman, Bethany	846	0	508	338
Petty, Scott	0	1,100	229	871
Peyton, Melode	941	0	807	134
Rosdail, Mona	276	0	276	0
Sipma, Ranae	1,072	0	757	315
Smook, Barb	108	0	108	0
Spangler, Marie	436	0	281	156
Thatcher, Carrie	546	0	546	0
Thompson, Kathy	0	798	133	665
Toews, Marcy	0	1,952	407	1,546
Tritle, Caroline	438	0	438	0
Wilson, Wendy	2,300	0	1,200	1,100
	<u>\$ 18,195</u>	<u>19,734</u>	<u>21,604</u>	<u>16,324</u>

The above transactions do not appear to represent a conflict of interest per a letter by the District's legal council.

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

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

Response - We will comply.

Conclusion - Response accepted.

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

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

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

IV-K-04 Financial Condition - The District had a deficit unreserved fund balance of \$84,743 in the Capital Projects fund.

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

Response - We will investigate alternatives.

Conclusion - Response accepted.