SPIRIT LAKE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Spirit Lake Community School District in Spirit Lake, Iowa.

The District's revenues for governmental funds totaled $12,749,625 for the year ended June 30, 2005 and included $7,337,029 in local tax, $3,439,146 from the state, $740,807 from the federal government and $40,665 in interest on investments. The District also issued 6.8 million in Revenue Bans.

Governmental fund expenditures for the year totaled $13,028,664 and included $7,090,267 for instruction, $2,741,597 for support services and $3,196,800 for other expenditures.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.

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Spirit Lake Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2004 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
	Board of Education (After September 2004 Election)	
Beth Will	President	2007
Ann Goerss	Vice President	2007
Cliff Garvey	Board Member	2005
Julie Nodland	Board Member	2006
Scott Wicks	Board Member	2006
	School Officials	
Timothy Grieves	Superintendent	2005
Joyce Peschon	Board Secretary/Treasurer	2005
James Ladegaard	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spirit Lake Community School District, Spirit Lake, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Spirit Lake Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated November 15, 2005 on our consideration of Spirit Lake Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of these reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 38 are not required parts of the basic financial statements, but are supplementary

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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 15, 2005

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $8,801,836 in fiscal 2004 to $9,712,655 in fiscal 2005, while General Fund expenditures increased from $9,554,982 in fiscal 2004 to $9,715,508 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from $109,976 in fiscal 2004 to a deficit balance of $21,964 in fiscal 2005, a 120% decrease from the prior year.

- The increase in General Fund revenues was attributable to an increase in local and state sources in fiscal 2005. The increase in expenditures was due primarily to an increase in instruction, support services and other expenditures functional areas.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of 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 District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Spirit Lake Community School District Annual Financial Report

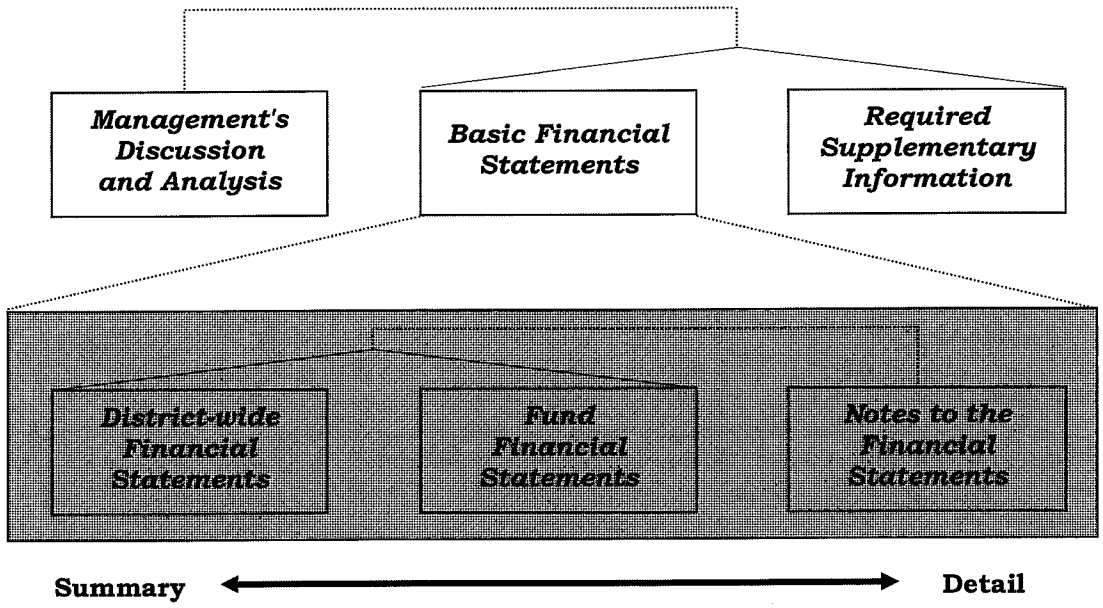

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• 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, Debt Service Fund and Capital Projects Fund.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	$ 16,089,673	8,239,892	29,393	55,467	16,119,066	8,295,359	94.31%
Capital assets	14,564,261	13,600,616	30,018	11,308	14,594,279	13,611,924	7.22%
Total assets	30,653,934	21,840,508	59,411	66,775	30,713,345	21,907,283	40.20%
Long-term obligations	12,677,790	6,860,651	0	0	12,677,790	6,860,651	84.79%
Other liabilities	7,870,381	6,612,707	11,150	9,745	7,881,531	6,622,452	19.01%
Total liabilities	20,548,171	13,473,358	11,150	9,745	20,559,321	13,483,103	52.48%
Net assets:							
Invested in capital assets, net of related debt	9,879,466	7,843,688	30,018	11,308	9,909,484	7,854,996	26.16%
Restricted	226,297	180,104	0	0	226,297	180,104	25.65%
Unrestricted	0	343,358	18,243	45,722	18,243	389,080	-95.31%
Total net assets	$ 10,105,763	8,367,150	48,261	57,030	10,154,024	8,424,180	20.53%

The District's combined net assets increased by 20.53%, or $1,729,844, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased $46,193, or 25.65% over the prior year. The increase was primarily a result of the District's increase in monies designated by the board.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased $370,837, or 95.31%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance as well as the other non-major governmental funds.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	$ 1,191,978	980,204	275,848	263,842	1,467,826	1,244,046	17.99%
Operating grants and contributions and restricted interest	877,315	857,993	117,018	118,839	994,333	976,832	1.79%
Capital grants and contributions and restricted interest	500,361	453,348	0	0	500,361	453,348	10.37%
General revenues:							
Property tax	5,859,719	5,414,045	0	0	5,859,719	5,414,045	8.23%
Local option sales and services tax	1,458,615	1,194,397	0	0	1,458,615	1,194,397	22.12%
Unrestricted state grants	2,802,277	2,596,616	0	0	2,802,277	2,596,616	7.92%
Other	250,484	21,576	676	180	251,160	21,756	1054.44%
Total revenues	12,940,749	11,518,179	393,542	382,861	13,334,291	11,901,040	12.04%
Program expenses:							
Governmental activities:							
Instructional	7,166,486	6,973,752	0	0	7,166,486	6,973,752	2.76%
Support services	2,719,524	2,768,965	0	0	2,719,524	2,768,965	-1.79%
Non-instructional programs	14,933	0	411,613	352,537	426,546	352,537	20.99%
Other expenses	1,301,193	1,071,589	0	0	1,301,193	1,071,589	21.43%
Total expenses	11,202,136	10,814,306	411,613	352,537	11,613,749	11,166,843	4.00%
Changes in net assets	1,738,613	703,873	(18,071)	30,324	1,720,542	734,197	134.34%
Beginning net assets	8,367,150	7,663,277	66,332	26,706	8,433,482	7,689,983	9.67%
Ending net assets	$ 10,105,763	8,367,150	48,261	57,030	10,154,024	8,424,180	20.53%

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

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

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

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. The District saw an overall greater increase in revenues than the increase in expenditures, demonstrating an increase in the financial position for the year.

Governmental Activities

Revenues for governmental activities were $12,940,749 and expenses were $11,202,136. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$ 7,166,486	5,445,155
Support services	2,719,524	2,719,524
Non-instructional programs	14,933	14,933
Other expenses	1,301,193	452,870
Totals	$ 11,202,136	8,632,482

- The cost financed by users of the District's programs was $1,191,978.
- Federal and state governments subsidized certain programs with grants and contributions totaling $1,377,676.
- The net cost of governmental activities was financed with $5,859,719 in property tax, $1,458,615 in local option sales and services tax, $2,802,277 in state foundation aid and $40,665 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $393,542 and expenses were $411,613. 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 $8,118,153, above last year's ending fund balances of a $1,387,373. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to the issuance of revenue bond anticipatory notes.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors:
    - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.

- The Capital Projects Fund balance increased from a deficit $84,743 in fiscal 2004 to $6,636,929 in fiscal 2005. This was primarily due to the issuance of revenue bond anticipatory notes.

- The Debt Service Fund balance increased from $955,928 in fiscal 2004 to $1,163,339 in fiscal 2005. This increase was partially due to the increase in property tax monies.

Proprietary Fund Highlights

The Proprietary Fund net assets decreased from $66,332 at June 30, 2004 to $48,261 at June 30, 2005, representing a decrease of 27%. For fiscal 2005, the District had a large increase in supplies expense.

BUDGETARY HIGHLIGHTS

The District's revenues were $1,705,301 more than budgeted revenues, a variance of 15.33%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

The certified budget was exceeded in the support services, non-instructional programs and other expenditures functional areas.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested $14,594,279, 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 6.67% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was $525,173.

The original cost of the District's capital assets was $23.7 million. Governmental funds account for $23.6 million with the remainder of $.1 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled $953,541 at June 30, 2005, compared to $1,098,023 reported at June 30, 2004. This decrease resulted from the continued construction being finished.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	$ 300,000	300,000	0	0	300,000	300,000	0.00%
Construction in progress	953,541	1,098,023	0	0	953,541	1,098,023	-15.15%
Buildings	11,432,728	10,337,464	0	0	11,432,728	10,337,464	9.58%
Land improvements	815,469	735,213	0	0	815,469	735,213	9.84%
Machinery and equipment	1,062,523	1,129,916	30,018	20,610	1,092,541	1,150,526	-5.31%
Total	$ 14,564,261	13,600,616	30,018	20,610	14,594,279	13,621,226	6.67%

Long-Term Debt

At June 30, 2005, the District had $12,677,790 in general obligation and other long-term debt outstanding. This represents an increase of 84.8% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of $1,395,000 at June 30, 2005.

The District had outstanding revenue bonded indebtedness at June 30, 2005 of $3,865,000.

The District issued $6,800,000 in revenue bond anticipatory notes during the year ended June 30, 2005.

The District had capital loan notes payable of $499,334 at June 30, 2005.

The District had total outstanding Early Retirement payable of $118,456 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2005	2004	Change
General obligation bonds	$ 1,395,000	1,720,000	-18.9%
Revenue bonds	3,865,000	4,415,000	-12.5%
Revenue BANS	6,800,000	0	100.0%
Capital loan notes	499,334	608,881	-18.0%
Early Retirement	118,456	116,770	1.4%
Totals	$ 12,677,790	6,860,651	84.8%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- 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 the 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

Exhibit A

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	$ 8,743,817	24,457	8,768,274
Receivables:			
Property tax:			
Delinquent	47,501	0	47,501
Succeeding year	6,013,684	0	6,013,684
Income surtax	231,862	0	231,862
Interfund	393,433	0	393,433
Accounts	15,392	233	15,625
Due from other governments	643,984	0	643,984
Inventories	0	4,703	4,703
Capital assets, net of accumulated depreciation(Note 5)	14,564,261	30,018	14,594,279
TOTAL ASSETS	30,653,934	59,411	30,713,345
LIABILITIES			
Interfund payable	393,433	0	393,433
Accounts payable	384,266	0	384,266
Salaries and benefits payable	948,275	11,150	959,425
Accrued interest payable	130,723	0	130,723
Deferred revenue:			
Succeeding year property tax	6,013,684	0	6,013,684
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	345,000	0	345,000
Revenue bonds payable	575,000	0	575,000
Capital loan notes	37,751	0	37,751
Early retirement payable	118,456	0	118,456
Portion due after one year:			
General obligation bonds payable	1,050,000	0	1,050,000
Revenue bonds payable	3,290,000	0	3,290,000
Revenue bans payable	6,800,000	0	6,800,000
Capital loan notes	461,583	0	461,583
TOTAL LIABILITIES	20,548,171	11,150	20,559,321
NET ASSETS			
Investment in capital assets, net of related debt	9,879,466	30,018	9,909,484
Restricted for:			
Talented and gifted	4,904	0	4,904
Management levy	50,723	0	50,723
Other special revenue purposes	170,670	0	170,670
Unrestricted	0	18,243	18,243
TOTAL NET ASSETS	$ 10,105,763	48,261	10,154,024

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	$ 4,830,047	855,774	474,815	0
Special instruction	1,243,321	336,204	54,538	0
Other instruction	1,093,118	0	0	0
	7,166,486	1,191,978	529,353	0
Support services:				
Student services	208,887	0	0	0
Instructional staff services	453,087	0	0	0
Adminstration services	895,000	0	0	0
Operation and maintenance of plant services	849,273	0	0	0
Transportation services	313,277	0	0	0
	2,719,524	0	0	0
Non-instructional programs:				
Food service operations	14,933	0	0	0
Other expenditures:				
Facilities and acquisitions	201,355	0	0	500,361
Long-term debt interest	327,415	0	0	0
AEA flowthrough	347,962	0	347,962	0
Depreciation(unallocated)*	424,461	0	0	0
	1,301,193	0	347,962	500,361
Total governmental activities	11,202,136	1,191,978	877,315	500,361
Business-Type activities:				
Non-instructional programs:				
Nutrition services	411,613	275,848	117,018	0
Total business-type activities	411,613	275,848	117,018	0
Total	$ 11,613,749	1,467,826	994,333	500,361
General Revenues:				
Local tax for:				
General purposes				
Debt Service				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Premium on bonds				
Gain on sale of equipment				
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
(3,499,458)	0	(3,499,458)
(852,579)	0	(852,579)
(1,093,118)	0	(1,093,118)
(5,445,155)	0	(5,445,155)
(208,887)	0	(208,887)
(453,087)	0	(453,087)
(895,000)	0	(895,000)
(849,273)	0	(849,273)
(313,277)	0	(313,277)
(2,719,524)	0	(2,719,524)
(14,933)	0	(14,933)
299,006	0	299,006
(327,415)	0	(327,415)
0	0	0
(424,461)	0	(424,461)
(452,870)	0	(452,870)
(8,632,482)	0	(8,632,482)
0	(18,747)	(18,747)
0	(18,747)	(18,747)
(8,632,482)	(18,747)	(8,651,229)
$ 5,264,461	0	5,264,461
402,831	0	402,831
192,427	0	192,427
1,458,615	0	1,458,615
2,802,277	0	2,802,277
40,665	0	40,665
198,930	0	198,930
10,889	676	11,565
10,371,095	676	10,371,771
1,738,613	(18,071)	1,720,542
8,367,150	66,332	8,433,482
$ 10,105,763	48,261	10,154,024

Exhibit C

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 552,155	7,073,582	773,487	344,593	8,743,817
Receivables:					
Property tax:					
Delinquent	40,496	0	3,265	3,740	47,501
Succeeding year	5,224,221	0	407,800	381,663	6,013,684
Income surtax	231,862	0	0	0	231,862
Interfund	6,846	0	386,587	0	393,433
Accounts	14,913	0	0	479	15,392
Due from other governments	312,065	331,919	0	0	643,984
TOTAL ASSETS	$ 6,382,558	7,405,501	1,571,139	730,475	16,089,673
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	$ 0	386,587	0	6,846	393,433
Accounts payable	218	381,985	0	2,063	384,266
Salaries and benefits payable	948,221	0	0	54	948,275
Deferred revenue:					
Succeeding year property tax	5,224,221	0	407,800	381,663	6,013,684
Income surtax	231,862	0	0	0	231,862
Total liabilities	6,404,522	768,572	407,800	390,626	7,971,520
Fund balances:					
Reserved for:					
Talented and gifted	4,904	0	0	0	4,904
Debt service	0	0	1,163,339	0	1,163,339
Special purposes by the Board	47,789	0	0	0	47,789
Other	47,754	0	0	0	47,754
Unreserved:					
General	(122,411)	0	0	0	(122,411)
Management	0	0	0	169,179	169,179
Capital Projects	0	6,636,929	0	0	6,636,929
Physical plant and equipment levy	0	0	0	68,944	68,944
Other special revenue purposes	0	0	0	101,726	101,726
Total fund balances	(21,964)	6,636,929	1,163,339	339,849	8,118,153
TOTAL LIABILITIES AND FUND BALANCES	$ 6,382,558	7,405,501	1,571,139	730,475	16,089,673

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, 2005

Total fund balances of governmental funds(page 17)	$	8,118,153
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		14,564,261
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		231,862
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(130,723)
Long-term liabilities, including early retirement, general obligation bonds, revenue bonds and capital loan notes, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(12,677,790)
Net assets of governmental activites(page 14)	$	10,105,763

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

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

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	$ 5,027,163	1,458,615	402,831	448,420	7,337,029
Tuition	884,949	0	0	0	884,949
Other	120,951	24,327	413	202,003	347,694
State sources	3,439,146	0	0	0	3,439,146
Federal sources	240,446	500,361	0	0	740,807
Total revenues	9,712,655	1,983,303	403,244	650,423	12,749,625
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	4,667,587	0	0	86,241	4,753,828
Special instruction	1,243,321	0	0	0	1,243,321
Other instruction	904,473	0	0	188,645	1,093,118
	6,815,381	0	0	274,886	7,090,267
Support services:					
Student services	208,887	0	0	0	208,887
Instructional staff services	453,087	0	0	0	453,087
Administration services	785,026	0	0	145,103	930,129
Operation and maintenance of plant services	851,327	0	0	25,110	876,437
Transportation services	253,838	0	0	19,219	273,057
	2,552,165	0	0	189,432	2,741,597
Other expenditures:					
Facilities acquisitions	0	1,404,386	0	252,468	1,656,854
Long-term debt:					
Principal	0	0	984,547	0	984,547
Interest and fiscal charges	0	0	207,437	0	207,437
AEA flowthrough	347,962	0	0	0	347,962
	347,962	1,404,386	1,191,984	252,468	3,196,800
Total expenditures	9,715,508	1,404,386	1,191,984	716,786	13,028,664
Excess(deficiency) of revenues over(under) expenditures	(2,853)	578,917	(788,740)	(66,363)	(279,039)
Other financing sources(uses):					
Operating transfers in	0	0	996,151	0	996,151
Operating transfers out	(139,976)	(856,175)	0	0	(996,151)
Revenue bans issued	0	6,800,000	0	0	6,800,000
Premium on bans	0	198,930	0	0	198,930
Sale of equipment	10,889	0	0	0	10,889
Total other financing sources	(129,087)	6,142,755	996,151	0	7,009,819
Net change in fund balances	(131,940)	6,721,672	207,411	(66,363)	6,730,780
Fund balance beginning of year	109,976	(84,743)	955,928	406,212	1,387,373
Fund balance end of year	$ (21,964)	6,636,929	1,163,339	339,849	8,118,153

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005

Net change in fund balances - total governmental funds (page 19)		$ 6,730,780
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 1,479,704	
Depreciation expense	(516,059)	963,645
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:		
Issued	(6,800,000)	
Repaid	984,547	(5,815,453)
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.		(119,978)
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(18,695)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early retirement		(1,686)
Changes in net assets of governmental activities (page 16)		$ 1,738,613

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	School Nutrition
ASSETS	
Cash and pooled investments	$ 24,457
Accounts receivable	233
Inventories	4,703
Capital assets, net of accumulated depreciation(Note 5)	30,018
TOTAL ASSETS	59,411
LIABILITIES	
Salaries and benefits payable	11,150
TOTAL LIABILITIES	11,150
NET ASSETS	
Investment in capital assets, net of related debt	30,018
Unrestricted	18,243
TOTAL NET ASSETS	$ 48,261

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	$ 275,848
TOTAL OPERATING REVENUES	275,848
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	157,975
Benefits	20,991
Services	28,447
Supplies	199,794
Depreciation	4,406
TOTAL OPERATING EXPENSES	411,613
OPERATING LOSS	(135,765)
NON-OPERATING REVENUES:	
State sources	4,679
Federal sources	112,339
Interest on investments	676
TOTAL NON-OPERATING REVENUES	117,694
Change in net assets	(18,071)
Net assets beginning of year, as restated (Note 10)	66,332
Net assets end of year	$ 48,261

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	$ 275,848
Cash payments to employees for services	(177,460)
Cash payments to suppliers for goods or services	(206,701)
Net cash used in operating activities	(108,313)
Cash flows from non-capital financing activities:	
State grants received	4,679
Federal grants received	93,846
Net cash provided by non-capital financing activities	98,525
Cash flows from capital and related financing activities:	
Purchase of capital assets	(13,814)
Net cash used in capital and related financing activities	(13,814)
Cash flows from investing activities:	
Interest on investments	676
Net cash provided by investing activities	676
Net decrease in cash and cash equivalents	(22,926)
Cash and cash equivalents at beginning of year	47,383
Cash and cash equivalents at end of year	$ 24,457
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (135,765)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	18,260
Depreciation	4,406
Decrease in inventories	3,381
Decrease in accounts payable	(101)
Increase in salaries and benefits payable	1,506
Net cash provided by(used in) operating activities	$ (108,313)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	$ 24,457

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at $18,260.

SEE NOTES TO FINANCIAL STATEMENTS.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

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

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

Asset Class	Amount
Land	$ 2,500
Buildings	2,500
Land improvements	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 Lives (In Years)
Buildings	50 years
Land improvements	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, 2005, disbursements in the support services, non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	$ 5,804,067

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

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	Management	$ 6,846
Debt Service	Capital Projects	386,587
Total		$ 393,433

(4) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	General	$ 139,976
Debt Service	Capital Projects	856,175
Total		$ 996,151

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, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 300,000	0	0	300,000
Construction in progress	1,098,023	953,541	1,098,023	953,541
Total capital assets not being depreciated	1,398,023	953,541	1,098,023	1,253,541
Capital assets being depreciated:				
Buildings	16,608,986	1,446,038	0	18,055,024
Land improvements	1,706,830	153,943	0	1,860,773
Machinery and equipment	2,356,804	34,660	10,455	2,381,009
Total capital assets being depreciated	20,672,620	1,634,641	10,455	22,296,806
Less accumulated depreciation for:				
Buildings	6,271,522	350,774	0	6,622,296
Land improvements	971,617	73,687	0	1,045,304
Machinery and equipment	1,226,888	96,306	4,708	1,318,486
Total accumulated depreciation	8,470,027	520,767	4,708	8,986,086
Total capital assets being depreciated, net	12,202,593	1,113,874	5,747	13,310,720
Governmental activities capital assets, net	$ 13,600,616	2,067,415	1,103,770	14,564,261

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 123,388	13,814	3,750	133,452
Less accumulated depreciation	102,778	4,406	3,750	103,434
Business-type activities capital assets, net	$ 20,610	9,408	0	30,018

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 18,700
Support services:	
Administration	17,682
Operation and maintenance of plant	11,464
Transportation	48,460
	96,306
Unallocated depreciation	424,461
Total governmental activities depreciation expense	$ 520,767
Business-type activities:	
Food services	$ 4,406
Total business-type activities depreciation expense	$ 4,406

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	$ 1,720,000	0	325,000	1,395,000	345,000
Revenue bonds	4,415,000	0	550,000	3,865,000	575,000
Revenue BANS	0	6,800,000	0	6,800,000	0
Capital loan notes	608,881	0	109,547	499,334	37,751
Early Retirement	116,770	118,456	116,770	118,456	118,456
Total	$ 6,860,651	6,918,456	1,101,317	12,677,790	1,076,207

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of May 1, 2001			
	Interest Rates	Principal	Interest	Total
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		$ 1,395,000	160,020	1,555,020

Revenue Bonds Payable

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

Year Ending June 30,	Bond Issue of May 1, 2001 Interest Rates	Principal	Interest	Total
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		$ 3,865,000	640,732	4,505,732

Revenue BANS Payable

During the year ended June 30, 2005, the District issued $6,800,000 of revenue bond anticipatory notes. Details of the District's June 30, 2005 revenue bans indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 1, 2005 Interest Rates	Principal	Interest	Bond Issue of June 1, 2005 Interest Rates	Principal	Interest	Total Principal	Total Interest	Total
2006			285,000			41,250		326,250	326,250
2007			285,000			41,250		326,250	326,250
2008	5.00	5,700,000	285,000	3.75	1,100,000	41,250	6,800,000	326,250	7,126,250
Total		$ 5,700,000	855,000		$ 1,100,000	123,750	6,800,000	978,750	7,778,750

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, 2005 capital loan notes indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 2, 2001 Interest Rates	Principal	Interest	Total
2006	5.100	$ 37,751	$ 18,444	56,195
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		$ 499,334	70,107	569,441

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, 2005 totaled $116,770.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were $371,668, $356,182, and $344,371 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 $347,962 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Capital Asset Restatement

Beginning capital assets for business-type activities of $102,830 were restated to $123,388. The restatement primarily added assets that were not previously recognized by the District.

The effects of the restatement in the business-type activities is summarized as follows:

	Fund School Nutrition
Net assets, June 30, 2004, as previously reported	$ 57,030
Addition of capital assets previously not reported, net of accumulated depreciation	9,302
Net assets, July 1, 2004 as restated for proprietary funds	$ 66,332

(11) Deficit Fund Balance

The General Fund had a deficit undesignated fund balance of $122,411 at June 30, 2005.

(12) Budget Overexpenditure

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

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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	$ 8,371,777	276,524
Intermediate sources	0	0
State sources	3,426,751	4,679
Federal sources	634,317	112,106
Total receipts	12,432,845	393,309
Disbursements:		
Instruction	6,967,258	0
Support services	2,836,020	0
Non-instructional programs	0	416,235
Other expenditures	2,931,720	0
Total disbursements	12,734,998	416,235
Excess(deficiency) of receipts over(under) disbursements	(302,153)	(22,926)
Other financing sources, net	7,009,819	0
Excess(deficiency) of receipts over(under) disbursements	6,707,666	(22,926)
Balance beginning of year	2,036,151	47,383
Balance end of year	$ 8,743,817	24,457

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
8,648,301	7,341,660	7,341,660	1,306,641
0	1,000	1,000	(1,000)
3,431,430	3,465,193	3,465,193	(33,763)
746,423	313,000	313,000	433,423
12,826,154	11,120,853	11,120,853	1,705,301
6,967,258	7,271,000	7,271,000	303,742
2,836,020	2,521,000	2,521,000	(315,020)
416,235	350,000	350,000	(66,235)
2,931,720	1,078,683	1,078,683	(1,853,037)
13,151,233	11,220,683	11,220,683	(1,930,550)
(325,079)	(99,830)	(99,830)	225,249
7,009,819	0	0	(7,009,819)
6,684,740	(99,830)	(99,830)	(6,784,570)
2,083,534	1,954,722	1,954,722	128,812
8,768,274	1,854,892	1,854,892	6,913,382

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

	Governmental Funds		
	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis
Revenues	$ 12,432,845	316,780	12,749,625
Expenditures	12,734,998	293,666	13,028,664
Net	(302,153)	23,114	(279,039)
Other financing sources, net	7,009,819	0	7,009,819
Beginning fund balances	2,036,151	(648,778)	1,387,373
Ending fund balances	$ 8,743,817	(625,664)	8,118,153

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis
Revenues	$ 393,309	233	393,542
Expenditures	416,235	(4,622)	411,613
Net	(22,926)	4,855	(18,071)
Beginning fund balances	47,383	18,949	66,332
Ending fund balances	$ 24,457	23,804	48,261

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

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

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

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

During the year ended June 30, 2005, disbursements in the support services, non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

Schedule 1

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue Funds			
	Manage-ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
ASSETS				
Cash and pooled investments	$ 173,845	103,364	67,384	344,593
Receivables:				
Property tax:				
Current year delinquent	2,180	0	1,560	3,740
Succeeding year	185,000	0	196,663	381,663
Accounts	0	479	0	479
TOTAL ASSETS	$ 361,025	103,843	265,607	730,475
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	$ 0	2,063	0	2,063
Salaries and benefits payable	0	54	0	54
Interfund payable	6,846	0	0	6,846
Deferred revenue:				
Succeeding year property tax	185,000	0	196,663	381,663
	191,846	2,117	196,663	390,626
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	169,179	101,726	68,944	339,849
Total fund balances	169,179	101,726	68,944	339,849
TOTAL LIABILITIES AND FUND EQUITY	$ 361,025	103,843	265,607	730,475

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	Special Revenue Funds			
	Manage-ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
REVENUES:				
Local sources:				
Local tax	$ 255,993	0	192,427	448,420
Other	473	199,058	2,472	202,003
TOTAL REVENUES	256,466	199,058	194,899	650,423
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	86,241	0	0	86,241
Other instruction	0	188,645	0	188,645
Support services:				
Administration services	145,103	0	0	145,103
Operation and maintenance of plant services	25,110	0	0	25,110
Student transportation	19,219	0	0	19,219
Other expenditures:				
Facilities acquisitions	0	0	252,468	252,468
TOTAL EXPENDITURES	275,673	188,645	252,468	716,786
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(19,207)	10,413	(57,569)	(66,363)
FUND BALANCE BEGINNING OF YEAR	188,386	91,313	126,513	406,212
FUND BALANCE END OF YEAR	$ 169,179	101,726	68,944	339,849

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
MS Drama	$ 753	940	660	1,033
HS Drama	1,006	1,593	1,853	746
Speech	0	3,062	3,062	0
MS Vocal	628	285	802	111
HS Vocal	0	7,390	6,266	1,124
MS Instrumental Music	4,166	7,952	5,036	7,082
HS Instrumental Music	0	21,729	19,984	1,745
Co-Ed Athletics	742	42,868	34,190	9,420
Cross Country	0	780	780	0
Boys Basketball	0	3,212	3,212	0
Boys Football	0	9,216	9,216	0
Boys Soccer	0	5,913	5,913	0
Boys Baseball	217	3,482	3,598	101
Boys Track	0	1,828	1,828	0
Boys Tennis	0	616	616	0
Boys Golf	0	1,046	1,046	0
Boys Wrestling	0	2,126	2,126	0
Girls Basketball	0	3,365	3,365	0
Girls Volleyball	0	5,185	5,185	0
Girls Softball	217	3,851	3,967	101
Girls Track	0	2,916	2,916	0
Girls Tennis	0	220	220	0
Girls Golf	0	371	371	0
Towels	225	0	225	0
Class of 2004	606	0	606	0
Class of 2005	1,354	563	307	1,610
Class of 2006	1,709	1,209	1,909	1,009
Class of 2007	1,121	1,356	0	2,477
Class of 2008	400	1,068	0	1,468
Class of 2009	300	141	0	441
Class of 2010	200	71	0	271
Class of 2011	100	35	0	135
Pictures	1,667	3,451	2,673	2,445
Investments	28,305	(29,759)	(1,662)	208
Student Insurance	63	52	0	115
Mexico Club	1,838	14,408	9,243	7,003
Russian Club	46	(46)	0	0
Pan Am Club	1,012	580	1,161	431
Video Club	525	407	230	702
Skills-USA	757	1,385	1,167	975
Annual	9,564	13,562	10,684	12,442
Academic Decathlon	0	1,174	1,174	0
SLHS Quiz Bowl	2,377	1,465	1,987	1,855
Classes	85	10,101	9,931	255
Elem Coca Cola Fund	0	2,005	223	1,782
MS Coca Cola Fund	0	981	289	692
HS Coca Cola Fund	0	700	0	700
MS SAC	11,005	22,086	23,464	9,627
HS SAC	1,067	5,943	3,699	3,311
MOC	678	2,102	1,572	1,208
Elementary Parents	13,792	5,522	(3,575)	22,889
Culinary Arts CA	4,278	8,317	6,430	6,165
Peer Helper	28	233	223	38
Due Other Fund	482	0	473	9
Total	$ 91,313	199,058	188,645	101,726

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	$ 7,337,029	5,346,101	5,589,269	4,832,510
Tuition	884,949	689,358	658,805	709,038
Other	347,694	1,501,512	1,686,729	1,561,555
Intermediate sources	0	445	1,383	37,098
State sources	3,439,146	3,214,284	3,327,968	3,737,756
Federal sources	740,807	693,673	252,925	296,099
Total	$ 12,749,625	11,445,373	11,517,079	11,174,056
Expenditures:				
Current:				
Instruction:				
Regular instruction	$ 4,753,828	4,703,110	4,401,150	4,296,842
Special instruction	1,243,321	1,798,261	1,484,307	1,399,381
Other instruction	1,093,118	487,118	656,684	655,845
Support services:				
Student services	208,887	190,887	201,786	200,983
Instructional staff services	453,087	454,653	395,621	388,613
Adminstration services	930,129	879,306	796,378	764,132
Operation and maintenance of plant services	876,437	909,186	810,144	649,243
Transportation services	273,057	313,194	243,171	266,683
Non-instructional programs	0	0	0	90,050
Other expenditures:				
Facilities acquisitions	1,656,854	1,253,535	1,952,221	5,489,798
Long-term debt:				
Principal	984,547	905,095	857,880	863,144
Interest	207,437	434,408	369,272	331,964
AEA flow-through	347,962	344,284	361,532	363,407
Total	$ 13,028,664	12,673,037	12,530,146	15,760,085

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 5

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	$ 18,260
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	10,369
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	83,710
			94,079
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6120-G	83,904
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 05	4,587
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 05	6,610
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	38,173
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 05	7,082
FUND FOR THE IMPROVEMENT OF EDUCATION(IOWA DEMONSTRATION GRANT)	84.215	FY 04	243,977
GOALS 2000	84.276	FY 04	1,435
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	84.196	FY 05	24,912
ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318	FY 05	2,120
TECH-PREP EDUCATION	84.243	FY 05	7,981

Schedule 5

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	1,780
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 05	8,421
			10,201
SPECIAL EDUCATION - GRANTS TO STATES(SUCCESS 4)	84.027	FY 04	737
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 05	54,538
TOTAL			$ 598,596

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)

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Telephone (641) 792-1910

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Spirit Lake Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 15, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

November 15, 2005

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of the
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 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, 2005. 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 grant agreements 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, 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 OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 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, 2005.

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 grant agreements 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

federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud 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 material weaknesses. However, we believe item III-A-05 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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Nolte, Cornman & Johnson P.C.

NOLTE, CORNMAN & JOHNSON, P.C.

November 15, 2005

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditor's Report

(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 were as follows:

Clustered
- CFDA Number 10.553 – School Breakfast Program
- CFDA Number 10.555 – National School Lunch Program

Individual
- 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, 2005

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

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

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

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

Conclusion - Response accepted.

II-C-05 Local Option Sales and Services Tax Expenditures - We noted during our audit that there were expenditures out of the Capital Projects (LOSST) Fund that do not appear to meet the requirements for LOSST expenditures.

Recommendation - The District should review the requirements for LOSST type expenditures. The District may wish to seek legal counsel in regards to this matter.

Response - We will review the requirements and comply as necessary. We have contacted our attorney and he said our expenditures were necessary to complete the project.

Conclusion - Response acknowledged. We believe the small tool purchases were not allowable from the LOSST fund. The District should request a declaratory ruling from the Department of Education.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2005
U.S. Department of Agriculture
Passed through the Iowa Department of Education

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

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

Response - We have added staff to improve internal control, we will review current procedures.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Statutory Reporting

IV-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amended certified budget amounts in the support services, non-instructional programs and other expenditures functional areas.

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

Response - We will review our procedures and will amend as needed in the future.

Conclusion - Response accepted.

IV-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979. However, we noted during our audit that the District overpaid certified staff $12,734 in salary and benefits. The overpayment did not appear to be authorized by the District. We also noted during our audit that there where clothing items purchased for coaches out of the Activity Fund which may not meet the requirements for public purpose as defined in Attorney General's opinion dated April 25, 1979.

Recommendation - The District should collect the overpayments back from the teachers for the unauthorized overpayment. In addition, the District should review procedures in place for identifying and correcting payroll mistakes. The District should review the clothing purchases 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 items of clothing.

Response - We will review payroll procedures and correct the error from previous year. We will also review public purpose for the Activity Fund expenditures and comply as necessary.

Conclusion - Response accepted.

IV-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-05 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kim Kirschbaum, Bus Driver Spouse owns Bob's Repair and Tow	Parts/Supplies	$10,996
Jean Boekout, High School Office Manager Spouse owns Wally's Refrigeration	Repairs	$1,453

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
Akin, Shane	$ 0	444	148	296
Bruinsma, Terry	1,133	0	850	283
Caughey, Sheryl	904	0	818	86
Daniels, Matthew	86	0	0	86
Dean, Kara	560	0	474	86
DeGroot, Leka	179	0	179	0
Fliss, Peggy	461	0	461	0
Graff, Randy	0	887	259	628
Greer, Elaine	1,956	0	1,565	391
Hall, Henry	0	2,117	2,117	0
Hanson, Steve	0	527	263	264
Hardin, Melinda	308	0	308	0
Hellert, Art	0	935	78	857
Johnson, Doug	0	1,585	595	990
Johnson, Julie	1,564	0	1,564	0
Jones, Kelly	897	0	717	180
Kirchner, Bob	628	0	628	0
Laven, Sara	912	0	560	352
Lenertz, Alan	99	0	99	0
Loerch, Randy	0	595	223	372
Markley, Jerry	844	0	596	248
Miller, Terry	668	0	501	167
Overman, Bethany	338	0	338	0
Petty, Scott	871	0	550	321
Peyton, Melode	134	0	134	0
Sipma, Ranae	315	0	315	0
Spangler, Marie	156	0	156	0
Studer, Ellen	0	1,272	106	1,166
Thompson, Kathy	665	0	399	266
Toews, Marcy	1,546	0	976	570
Walz, John	0	1,965	656	1,309
Wiersma, Rick	0	1,306	218	1,088
Wilson, Wendy	1,100	0	1,100	0
	$ 16,324	11,189	17,803	9,710

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

IV-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

Response - We will comply in the future.

Conclusion - Response accepted.

IV-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-05 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely. However, we noted no significant deficiencies in the amounts reported.

Recommendation - The District should submit the Certified Annual Report in a timely manner in the future.

Response - We will comply in the future.

Conclusion - Response accepted.

IV-K-05 Financial Condition - The District had a deficit undesignated fund balance of $122,411 in the General Fund.

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

Response - We will continue to monitor this fund. We have plans in place to improve the fund balance.

Conclusion - Response accepted.