

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDING AND QUESTIONED COSTS
JUNE 30, 2007

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Spirit Lake Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Beth Will	President	2007
Ann Goerss	Vice President	2007
Julie Nodland	Board Member	2006
Scott Wicks	Board Member	2006
Cliff Garvey	Board Member	2008

Board of Education (After September 2006 Election)		
Beth Will	President	2007
Ann Goerss	Vice President	2007
Julie Nodland	Board Member(resigned)	2009
Scott Wicks	Board Member	2009
Cliff Garvey	Board Member	2008
Todd Hummel	Board Member(appointed)	2007

School Officials

Timothy Grieves	Superintendent	2007
Joyce Peschon	Board Secretary/Treasurer	2007
Lonnie Saunders	Attorney	2007

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(a professional corporation)
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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, 2007, 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, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2008 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

January 11, 2008

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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,417,661 in fiscal 2006 to \$10,670,702 in fiscal 2007, while General Fund expenditures increased from \$9,883,085 in fiscal 2006 to \$10,427,252 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$419,295 in fiscal 2006 to \$569,428 in fiscal 2007.
- The increase in General Fund revenues was attributable to an increase in local and federal sources in fiscal 2007. The increase in expenditures was due primarily to an increase in instruction costs.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Spirit Lake Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Spirit Lake Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Spirit Lake Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

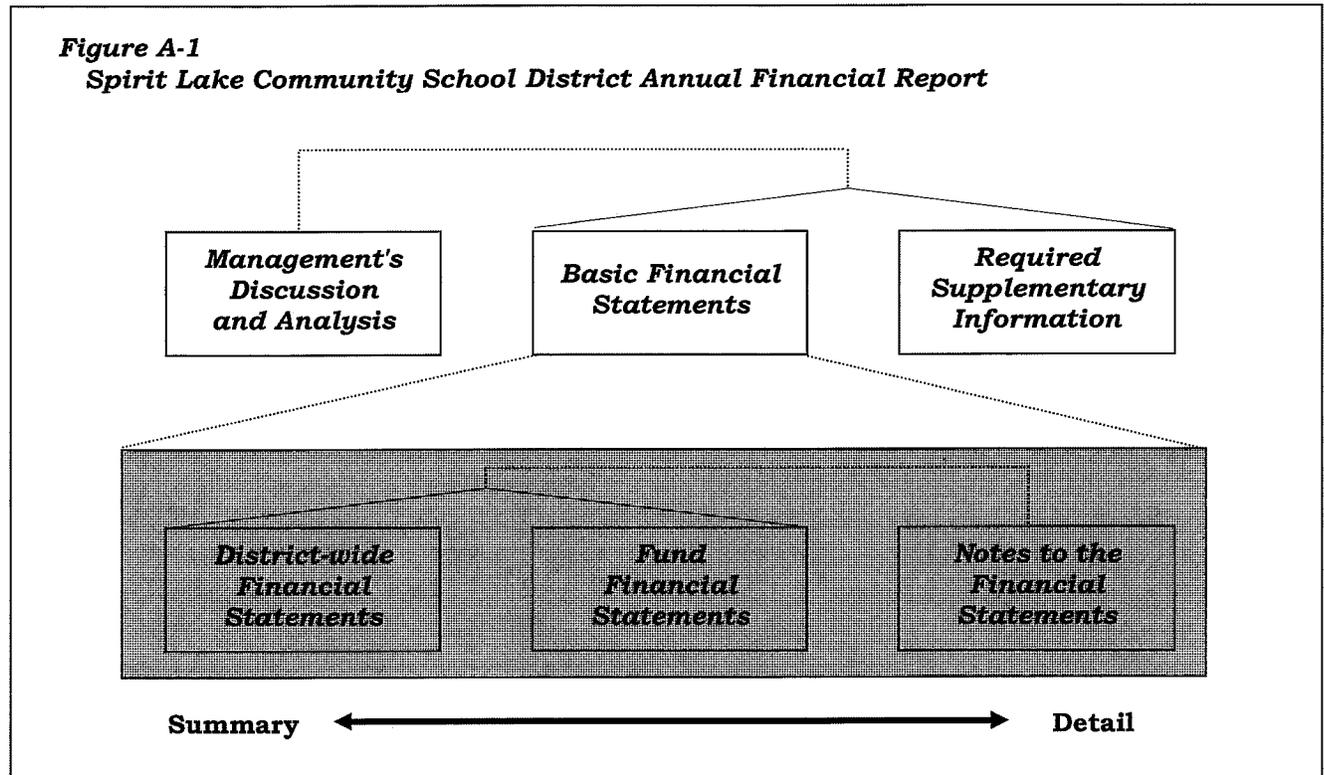


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s net assets are an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health, additional non-financial factors, such as changes in the

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Before and After School Program.

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 total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business-Type		Total		Total Change June 30, 2006-07
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2007	2006	2007	2006	2007	2006	
Current and other assets	\$ 13,522,511	14,827,197	115,090	44,607	13,637,601	14,871,804	-8.30%
Capital assets	22,495,393	18,713,695	27,327	31,735	22,522,720	18,745,430	20.15%
Total assets	<u>36,017,904</u>	<u>33,540,892</u>	<u>142,417</u>	<u>76,342</u>	<u>36,160,321</u>	<u>33,617,234</u>	<u>7.56%</u>
Long-term obligations	10,581,261	11,715,831	0	0	10,581,261	11,715,831	-9.68%
Other liabilities	8,337,669	8,754,848	41,813	28,109	8,379,482	8,782,957	-4.59%
Total liabilities	<u>18,918,930</u>	<u>20,470,679</u>	<u>41,813</u>	<u>28,109</u>	<u>18,960,743</u>	<u>20,498,788</u>	<u>-7.50%</u>
Net assets:							
Invested in capital assets, net of related debt	13,514,543	12,668,146	27,327	31,735	13,541,870	12,699,881	6.63%
Restricted	2,832,850	240,183	0	0	2,832,850	240,183	1079.45%
Unrestricted	751,581	161,884	73,277	16,498	824,858	178,382	362.41%
Total net assets	<u>\$ 17,098,974</u>	<u>13,070,213</u>	<u>100,604</u>	<u>48,233</u>	<u>17,199,578</u>	<u>13,118,446</u>	<u>31.11%</u>

The District's combined net assets increased by 31.11%, or \$4,081,132, 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 \$2,592,667, or 1079.45% over the prior year. The increase was primarily a result of the reclassification of the debt service fund balance from the invested in capital assets, net of related debt to the restricted net assets category.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$646,746, or 362.41%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,062,351	1,000,781	393,335	337,882	1,455,686	1,338,663	8.74%
Operating grants and contributions and restricted interest	1,161,930	1,062,632	187,457	130,978	1,349,387	1,193,610	13.05%
General revenues:							
Property tax	7,280,088	6,267,529	0	0	7,280,088	6,267,529	16.16%
Local option sales and service tax	1,580,968	1,347,492	0	0	1,580,968	1,347,492	17.33%
Unrestricted state grants	2,347,259	3,050,157	0	0	2,347,259	3,050,157	-23.04%
Other	3,264,697	1,980,047	3,052	844	3,267,749	1,980,891	64.96%
Total revenues	16,697,293	14,708,638	583,844	469,704	17,281,137	15,178,342	13.85%
Program expenses:							
Governmental activities:							
Instructional	7,194,101	7,029,346	0	0	7,194,101	7,029,346	2.34%
Support services	3,392,540	3,174,893	0	0	3,392,540	3,174,893	6.86%
Non-instructional programs	0	0	531,473	469,732	531,473	469,732	13.14%
Other expenses	2,081,891	1,539,949	0	0	2,081,891	1,539,949	35.19%
Total expenses	12,668,532	11,744,188	531,473	469,732	13,200,005	12,213,920	8.07%
Change in net assets	4,028,761	2,964,450	52,371	(28)	4,081,132	2,964,422	37.67%
Net assets beginning of year	13,070,213	10,105,763	48,233	48,261	13,118,446	10,154,024	29.19%
Net assets end of year	\$ 17,098,974	13,070,213	100,604	48,233	17,199,578	13,118,446	31.11%

In fiscal 2007, property tax, local option sales and service tax and unrestricted state grants account for 67.1% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly 100% of the revenue from business type activities.

The District's total revenues were approximately \$17.3 million of which \$16.7 million was for governmental activities and \$.6 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 13.85% in revenues and an 8.07% increase in expenses. The increase in expenses was related to the increase in support service and construction costs during the year.

Governmental Activities

Revenues for governmental activities were \$16,697,293 and expenses were \$12,668,532. 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 and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change	2007	2006	Change
			2006-2007			2006-2007
Instruction	\$ 7,194,101	7,029,346	2.29%	5,355,411	5,428,687	-1.37%
Support services	3,392,540	3,174,893	6.42%	3,392,540	3,174,893	6.42%
Other expenses	2,081,891	1,539,949	26.03%	1,696,300	1,077,195	36.50%
Totals	<u>\$ 12,668,532</u>	<u>11,744,188</u>	<u>7.30%</u>	<u>10,444,251</u>	<u>9,680,775</u>	<u>7.31%</u>

- The cost financed by users of the District's programs was \$1,062,351.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,161,930.
- The net cost of governmental activities was financed with \$7,280,088 in property tax, \$1,580,968 in local option sales and services tax, \$2,347,259 in unrestricted state grants and \$264,697 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$583,844 and expenses were \$531,473. The District's business-type activities includes the School Nutrition Fund and the Before and After School Program. 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 \$4,974,244, compared to last year's ending fund balances of a \$5,946,733. However, the primary reason for the decrease in combined fund balances in fiscal 2007 is due to the increased costs from the construction projects.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. The increases in expenditures were offset by the increase in total revenues. Increases in revenues were due to the increases in local and federal revenues received during the year. Expenditures increased in the instruction, support services and other expenditures functions. Part of this is due to the increase in salaries and benefits paid out to employees. Another is the normal increases in prices of utilities, gas and other everyday expenditures. The fund balance increased from \$419,295 to \$569,428.
- The Capital Projects Fund balance decreased from \$3,737,463 in fiscal 2006 to \$2,291,888 in fiscal 2007. This was primarily due to the construction costs incurred during the year.
- The Debt Service Fund balance increased from \$1,463,234 in fiscal 2006 to \$1,822,190 in fiscal 2007.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$48,233 at June 30, 2006 to \$100,604 at June 30, 2007, representing an increase of 108.6%. This increase is primarily the result of the federal funding received by the Before and After School Program.

BUDGETARY HIGHLIGHTS

The District's revenues were \$2,727,408 less than budgeted revenues, a variance of 15.8%. The most significant variance resulted from the District receiving less from local sources than originally anticipated.

The certified budget was exceeded in the non-instructional programs functions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$22,522,720, 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 16.77% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$549,624.

The original cost of the District's capital assets was \$32.7 million. Governmental funds account for \$32.6 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 \$9,308,963 at June 30, 2007, compared to \$5,028,001 reported at June 30, 2006. This increase resulted from the continued cost of the construction projects that weren't completed at year-end.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 300,000	300,000	0	0	300,000	300,000	0.00%
Construction in progress	9,308,963	5,028,001	0	0	9,308,963	5,028,001	45.99%
Buildings	11,307,181	11,669,954	0	0	11,307,181	11,669,954	-3.21%
Land improvements	666,582	740,773	0	0	666,582	740,773	-11.13%
Machinery and equipment	912,667	974,967	27,327	31,735	939,994	1,006,702	-7.10%
Total	\$ 22,495,393	18,713,695	27,327	31,735	22,522,720	18,745,430	16.77%

Long-Term Debt

At June 30, 2007, the District had \$10,581,261 in general obligation and other long-term debt outstanding. This represents a decrease of 9.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$715,000 at June 30, 2007.

The District had outstanding revenue bonded indebtedness at June 30, 2007 of \$2,690,000.

The District had outstanding \$6,800,000 in revenue bond anticipatory notes at June 30, 2007.

The District had capital loan notes payable of \$344,402 at June 30, 2007.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy of \$31,859 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 715,000	1,050,000	-31.9%
Revenue bonds	2,690,000	3,290,000	-18.2%
Revenue BANS	6,800,000	6,800,000	0.0%
Capital loan notes	344,402	423,189	-18.6%
Early retirement	31,859	152,642	-79.1%
Totals	<u>\$ 10,581,261</u>	<u>11,715,831</u>	<u>-9.7%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Although the District has experienced declining enrollment for a few years, the District's October 2007 certified enrollment showed an increase of 2.9 students from the prior year.
- 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 which began 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

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 5,825,430	108,468	5,933,898
Receivables:			
Property tax:			
Delinquent	39,463	0	39,463
Succeeding year	6,770,005	0	6,770,005
Income surtax	301,919	0	301,919
Accounts	2,001	555	2,556
Due from other governments	583,693	0	583,693
Inventories	0	6,067	6,067
Capital assets, net of accumulated depreciation (Note 4)	22,495,393	27,327	22,522,720
Total Assets	36,017,904	142,417	36,160,321
Liabilities			
Accounts payable	500,848	2,807	503,655
Salaries and benefits payable	975,495	32,106	1,007,601
Accrued interest payable	91,321	0	91,321
Deferred revenue:			
Succeeding year property tax	6,770,005	0	6,770,005
Unearned revenue	0	6,900	6,900
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	350,000	0	350,000
Revenue bonds payable	630,000	0	630,000
Capital loan notes	52,927	0	52,927
Early retirement payable	31,859	0	31,859
Portion due after one year:			
General obligation bonds payable	365,000	0	365,000
Revenue bonds payable	2,060,000	0	2,060,000
Revenue bonds payable	6,800,000	0	6,800,000
Capital loan notes	291,475	0	291,475
Total Liabilities	18,918,930	41,813	18,960,743
Net Assets			
Invested in capital assets, net of related debt	13,514,543	27,327	13,541,870
Restricted for:			
Beginning teacher mentoring	830	0	830
Talented and gifted	5,564	0	5,564
Salary improvement program	12,730	0	12,730
Additional teacher contract day	1,915	0	1,915
Professional development	3	0	3
Market factor	7,403	0	7,403
Capital projects	723,336	0	723,336
Debt service	1,822,190	0	1,822,190
Physical plant and equipment levy	72,599	0	72,599
Management levy	94,668	0	94,668
Other special revenue purposes	91,612	0	91,612
Unrestricted	751,581	73,277	824,858
Total Net Assets	\$ 17,098,974	100,604	17,199,578

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Governmental activities:						
Instruction:						
Regular instruction	\$ 4,945,156	695,443	718,538	(3,531,175)	0	(3,531,175)
Special instruction	1,434,039	0	57,801	(1,376,238)	0	(1,376,238)
Other instruction	814,906	366,908	0	(447,998)	0	(447,998)
	<u>7,194,101</u>	<u>1,062,351</u>	<u>776,339</u>	<u>(5,355,411)</u>	<u>0</u>	<u>(5,355,411)</u>
Support services:						
Student services	220,123	0	0	(220,123)	0	(220,123)
Instructional staff services	597,886	0	0	(597,886)	0	(597,886)
Administration services	1,031,644	0	0	(1,031,644)	0	(1,031,644)
Operation and maintenance of plant services	1,184,298	0	0	(1,184,298)	0	(1,184,298)
Transportation services	358,589	0	0	(358,589)	0	(358,589)
	<u>3,392,540</u>	<u>0</u>	<u>0</u>	<u>(3,392,540)</u>	<u>0</u>	<u>(3,392,540)</u>
Other expenditures:						
Facilities and acquisitions	735,297	0	0	(735,297)	0	(735,297)
Long-term debt interest	524,039	0	0	(524,039)	0	(524,039)
AEA flowthrough	385,591	0	385,591	0	0	0
Depreciation (unallocated)*	436,964	0	0	(436,964)	0	(436,964)
	<u>2,081,891</u>	<u>0</u>	<u>385,591</u>	<u>(1,696,300)</u>	<u>0</u>	<u>(1,696,300)</u>
Total governmental activities	12,668,532	1,062,351	1,161,930	(10,444,251)	0	(10,444,251)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	437,484	301,714	139,457	0	3,687	3,687
Before and After School Program	93,989	91,621	48,000	0	45,632	45,632
Total business-type activities	<u>531,473</u>	<u>393,335</u>	<u>187,457</u>	<u>0</u>	<u>49,319</u>	<u>49,319</u>
Total	\$ 13,200,005	1,455,686	1,349,387	(10,444,251)	49,319	(10,394,932)
General Revenues:						
Local tax for:						
General purposes				\$ 6,663,083	0	6,663,083
Debt Service				383,540	0	383,540
Capital outlay				233,465	0	233,465
Local option sales and services tax				1,580,968	0	1,580,968
Unrestricted state grants				2,347,259	0	2,347,259
Unrestricted investment earnings				264,697	3,052	267,749
Other				3,000,000	0	3,000,000
Total general revenues				<u>14,473,012</u>	<u>3,052</u>	<u>14,476,064</u>
Changes in net assets				4,028,761	52,371	4,081,132
Net assets beginning of year				<u>13,070,213</u>	<u>48,233</u>	<u>13,118,446</u>
Net assets end of year				<u>\$ 17,098,974</u>	<u>100,604</u>	<u>17,199,578</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	Nonmajor				Total
	General	Capital Projects	Debt Service	Governmental Funds	
Assets					
Cash and pooled investments	\$ 1,235,075	2,467,563	1,820,016	302,776	5,825,430
Receivables:					
Property tax:					
Delinquent	34,182	0	2,174	3,107	39,463
Succeeding year	5,967,521	0	382,631	419,853	6,770,005
Income surtax	301,919	0	0	0	301,919
Accounts	1,431	0	0	570	2,001
Due from other governments	350,053	233,640	0	0	583,693
Total Assets	\$ 7,890,181	2,701,203	2,204,821	726,306	13,522,511
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 77,855	409,315	0	13,678	500,848
Salaries and benefits payable	973,458	0	0	2,037	975,495
Deferred revenue:					
Succeeding year property tax	5,967,521	0	382,631	419,853	6,770,005
Income surtax	301,919	0	0	0	301,919
Total liabilities	7,320,753	409,315	382,631	435,568	8,548,267
Fund balances:					
Reserved for:					
Beginning teacher mentoring	830	0	0	0	830
Talented and gifted	5,564	0	0	0	5,564
Salary improvement program	12,730	0	0	0	12,730
Additional teacher contract day	1,915	0	0	0	1,915
Professional development	3	0	0	0	3
Market factor	7,403	0	0	0	7,403
Debt service	0	0	1,822,190	0	1,822,190
Capital facility construction	0	1,568,552	0	0	1,568,552
Unreserved	540,983	723,336	0	290,738	1,555,057
Total fund balances	569,428	2,291,888	1,822,190	290,738	4,974,244
Total Liabilities and Fund Balances	\$ 7,890,181	2,701,203	2,204,821	726,306	13,522,511

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, 2007

Total fund balances of governmental funds (page 16)	\$ 4,974,244
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	22,495,393
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	301,919
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.	(91,321)
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.	<u>(10,581,261)</u>
Net assets of governmental activites (page 14)	<u>\$ 17,098,974</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 6,282,141	1,580,968	383,540	544,350	8,790,999
Tuition	695,443	0	0	0	695,443
Other	183,929	129,761	81,638	236,277	631,605
State sources	3,168,572	0	0	0	3,168,572
Federal sources	340,617	0	0	0	340,617
Total revenues	10,670,702	1,710,729	465,178	780,627	13,627,236
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	4,902,420	0	0	155,518	5,057,938
Special instruction	1,434,039	0	0	0	1,434,039
Other instruction	582,237	0	0	232,669	814,906
	6,918,696	0	0	388,187	7,306,883
Support services:					
Student services	220,123	0	0	0	220,123
Instructional staff services	591,241	0	0	1,539	592,780
Administration services	971,522	0	0	58,122	1,029,644
Operation and maintenance of plant services	1,063,471	0	0	74,515	1,137,986
Transportation services	276,608	0	0	81,100	357,708
	3,122,965	0	0	215,276	3,338,241
Other expenditures:					
Facilities acquisitions	0	4,803,092	0	213,167	5,016,259
Long-term debt:					
Principal	0	0	1,013,787	0	1,013,787
Interest and fiscal charges	0	0	538,964	0	538,964
AEA flowthrough	385,591	0	0	0	385,591
	385,591	4,803,092	1,552,751	213,167	6,954,601
Total expenditures	10,427,252	4,803,092	1,552,751	816,630	17,599,725
Excess(deficiency) of revenues over(under) expenditures	243,450	(3,092,363)	(1,087,573)	(36,003)	(3,972,489)
Other financing sources(uses):					
Transfers in	0	0	1,446,529	0	1,446,529
Transfers out	(93,317)	(1,353,212)	0	0	(1,446,529)
Donations	0	3,000,000	0	0	3,000,000
Total other financing sources(uses)	(93,317)	1,646,788	1,446,529	0	3,000,000
Net change in fund balances	150,133	(1,445,575)	358,956	(36,003)	(972,489)
Fund balance beginning of year	419,295	3,737,463	1,463,234	326,741	5,946,733
Fund balance end of year	\$ 569,428	2,291,888	1,822,190	290,738	4,974,244

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ (972,489)

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	\$ 4,192,880	
Depreciation expense	(392,239)	
Loss on disposal of assets	<u>(18,943)</u>	3,781,698

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 repayments are as follows:

Repaid		1,013,787
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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.

14,925

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

70,057

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		<u>120,783</u>
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Changes in net assets of governmental activities (page 15) \$ 4,028,761

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Before and		
	School Nutrition	After School Program	Total
Assets			
Cash and pooled investments	\$ 42,468	66,000	108,468
Accounts receivable	555	0	555
Inventories	6,067	0	6,067
Capital assets, net of accumulated depreciation(Note 4)	27,327	0	27,327
Total Assets	76,417	66,000	142,417
Liabilities			
Accounts payable	0	2,807	2,807
Salaries and benefits payable	24,251	7,855	32,106
Unearned revenue	6,900	0	6,900
Total Liabilities	31,151	10,662	41,813
Net Assets			
Invested in capital assets	27,327	0	27,327
Unrestricted	17,939	55,338	73,277
Total Net Assets	\$ 45,266	55,338	100,604

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	School Nutrition	Before and After School Program	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 301,714	91,621	393,335
TOTAL OPERATING REVENUES	301,714	91,621	393,335
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	166,454	62,749	229,203
Benefits	22,346	9,999	32,345
Services	1,020	3,039	4,059
Supplies	243,256	13,877	257,133
Depreciation	4,408	0	4,408
Other	0	4,325	4,325
TOTAL OPERATING EXPENSES	437,484	93,989	531,473
OPERATING LOSS	(135,770)	(2,368)	(138,138)
NON-OPERATING REVENUES:			
State sources	5,522	0	5,522
Federal sources	133,935	48,000	181,935
Interest income	1,375	1,677	3,052
TOTAL NON-OPERATING REVENUES	140,832	49,677	190,509
Change in net assets	5,062	47,309	52,371
Net assets beginning of year	40,204	8,029	48,233
Net assets end of year	\$ 45,266	55,338	100,604

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	School Nutrition	Before and After School Program	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 290,788	0	290,788
Cash received from miscellaneous	16,580	91,621	108,201
Cash payments to employees for services	(183,753)	(72,944)	(256,697)
Cash payments to suppliers for goods or services	(231,488)	(18,434)	(249,922)
Net cash provided by(used in) operating activities	(107,873)	243	(107,630)
Cash flows from non-capital financing activities:			
State grants received	5,522	0	5,522
Federal grants received	119,984	48,000	167,984
Net cash provided by non-capital financing activities	125,506	48,000	173,506
Cash flows from investing activities:			
Interest on investments	1,375	1,677	3,052
Net increase in cash and cash equivalents	19,008	49,920	68,928
Cash and cash equivalents at beginning of year	23,460	16,080	39,540
Cash and cash equivalents at end of year	\$ 42,468	66,000	108,468
Reconciliation of operating loss to net cash provided by(used in) operating activities:			
Operating loss	\$ (135,770)	(2,368)	(138,138)
Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:			
Commodities consumed	13,951	0	13,951
Depreciation	4,408	0	4,408
Increase in inventories	(1,163)	0	(1,163)
Increase in accounts receivable	(392)	0	(392)
Increase in accounts payable	0	2,807	2,807
Increase(decrease) in salaries and benefits payable	5,047	(196)	4,851
Increase in unearned revenue	6,046	0	6,046
Net cash provided by(used in) operating activities	\$ (107,873)	243	(107,630)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 42,468	66,000	108,468
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2007, the District received Federal commodities valued at \$13,951.			
SEE NOTES TO FINANCIAL STATEMENTS.			

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(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 plus any unspent bond proceeds 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 are the School Nutrition Fund and the Before and After School Program. The Nutrition fund is used to account for the food service operations of the District. The Before and After School Program is used to account for the programs held before and after school.

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 Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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, 2007 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, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
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.

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

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - 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, 2007, expenditures in the non-instructional programs function exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 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, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 2,032,606</u>

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

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

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 93,317
Debt Service	Capital Projects	<u>1,353,212</u>
Total		<u>\$ 1,446,529</u>

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

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Machinery and equipment	\$ 140,492	0	0	140,492
Less accumulated depreciation	108,757	4,408	0	113,165
Business-type activities capital assets, net	<u>\$ 31,735</u>	<u>(4,408)</u>	<u>0</u>	<u>27,327</u>

	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	5,028,001	4,280,962	0	9,308,963
Total capital assets not being depreciated	5,328,001	4,280,962	0	9,608,963
Capital assets being depreciated:				
Buildings	18,655,024	0	0	18,655,024
Land improvements	1,860,773	0	0	1,860,773
Machinery and equipment	2,519,265	64,895	152,977	2,431,183
Total capital assets being depreciated	23,035,062	64,895	152,977	22,946,980
Less accumulated depreciation for:				
Buildings	6,985,070	362,773	0	7,347,843
Land improvements	1,120,000	74,191	0	1,194,191
Machinery and equipment	1,544,298	108,252	134,034	1,518,516
Total accumulated depreciation	9,649,368	545,216	134,034	10,060,550
Total capital assets being depreciated, net	13,385,694	(480,321)	18,943	12,886,430
Governmental activities capital assets, net	\$ 18,713,695	3,800,641	18,943	22,495,393

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 8,001
Support services:	
Instructional staff	5,106
Administration	2,000
Operation and maintenance of plant	46,312
Transportation	46,833
	108,252
Unallocated depreciation	436,964
Total governmental activities depreciation expense	\$ 545,216
Business-type activities:	
Food services	\$ 4,408
Total business-type activities depreciation expense	\$ 4,408

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,050,000	0	335,000	715,000	350,000
Revenue bonds	3,290,000	0	600,000	2,690,000	630,000
Revenue BANS	6,800,000	0	0	6,800,000	0
Capital loan notes	423,189	0	78,787	344,402	52,927
Early Retirement	152,642	31,859	152,642	31,859	31,859
Total	\$ 11,715,831	31,859	1,166,429	10,581,261	1,064,786

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 2001		
		Principal	Interest	Total
2008	4.500 %	\$ 350,000	32,632	382,632
2009	4.625	365,000	16,882	381,882
Total		\$ 715,000	49,514	764,514

Revenue Bonds Payable

Details of the District's June 30, 2007 revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 2001		
		Principal	Interest	Total
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		\$ 2,690,000	316,090	3,006,090

Revenue BANS Payable

During the year ended June 30, 2006, the District issued \$6,800,000 of revenue bond anticipatory notes. Details of the District's June 30, 2007 revenue bans indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 1, 2005			Bond Issue of June 1, 2005			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
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	285,000		1,100,000	41,250	6,800,000	326,250	7,126,250

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, 2007 capital loan notes indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 2, 2001				
	Interest Rates	Principal	Interest	Total	
2008	5.100 %	\$ 40,427	13,159	53,586	
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	45,818	849	46,667	
Total		\$ 344,402	35,795	380,197	

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, 2007 totaled \$152,642.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 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, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$388,740, \$372,860, and \$371,668 respectively, equal to the required contributions for each year.

(7) 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.

(8) 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 \$385,591 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitment

The District has entered into various contracts totaling \$12,500,000 for the gym and auditorium projects. As of June 30, 2007, costs of \$9,308,963 had been incurred against the contracts. The balance of \$3,191,037 remaining at June 30, 2007 will be paid as work on the projects progresses.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the non-instructional programs function exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Fund Type Actual		Original	Final	
Revenues:						
Local sources	\$ 10,118,047	396,387	10,514,434	13,113,317	13,113,317	(2,598,883)
Intermediate sources	0	0	0	1,000	1,000	(1,000)
State sources	3,168,572	5,522	3,174,094	3,479,171	3,479,171	(305,077)
Federal sources	340,617	181,935	522,552	345,000	345,000	177,552
Total revenues	13,627,236	583,844	14,211,080	16,938,488	16,938,488	(2,727,408)
Expenditures:						
Instruction	7,306,883	0	7,306,883	7,632,733	7,632,733	325,850
Support services	3,338,241	0	3,338,241	3,625,000	3,625,000	286,759
Non-instructional programs	0	531,473	531,473	0	0	(531,473)
Other expenditures	6,954,601	0	6,954,601	7,863,936	7,863,936	909,335
Total expenditures	17,599,725	531,473	18,131,198	19,121,669	19,121,669	990,471
Excess(deficiency) of revenues over(under) expenditures	(3,972,489)	52,371	(3,920,118)	(2,183,181)	(2,183,181)	(1,736,937)
Other financing sources, net	3,000,000	0	3,000,000	5,500	5,500	2,994,500
Excess(deficiency) of revenues over(under) expenditures	(972,489)	52,371	(920,118)	(2,177,681)	(2,177,681)	1,257,563
Balance beginning of year	5,946,733	48,233	5,994,966	6,601,019	6,601,019	(606,053)
Balance end of year	\$ 4,974,244	100,604	5,074,848	4,423,338	4,423,338	651,510

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

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 GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as 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, 2007, expenditures in the non-instructional programs functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 127,084	91,740	83,952	302,776
Receivables:				
Property tax:				
Current year delinquent	1,784	0	1,323	3,107
Succeeding year	180,000	0	239,853	419,853
Accounts	0	570	0	570
Total Assets	\$ 308,868	92,310	325,128	726,306
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 304	698	12,676	13,678
Salaries and benefits payable	2,037	0	0	2,037
Deferred revenue:				
Succeeding year property tax	180,000	0	239,853	419,853
Total liabilities	182,341	698	252,529	435,568
Fund balances:				
Unreserved	126,527	91,612	72,599	290,738
Total fund balances	126,527	91,612	72,599	290,738
Total Liabilities and Fund Balances	\$ 308,868	92,310	325,128	726,306

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 310,885	0	233,465	544,350
Other	14,413	218,902	2,962	236,277
TOTAL REVENUES	325,298	218,902	236,427	780,627
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	155,518	0	0	155,518
Other instruction	0	232,669	0	232,669
Support services:				
Instructional staff services	0	1,539	0	1,539
Administration services	58,122	0	0	58,122
Operation and maintenance of plant services	74,515	0	0	74,515
Student transportation	15,930	0	65,170	81,100
Other expenditures:				
Facilities acquisitions	0	0	213,167	213,167
TOTAL EXPENDITURES	304,085	234,208	278,337	816,630
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	21,213	(15,306)	(41,910)	(36,003)
FUND BALANCE BEGINNING OF YEAR	105,314	106,918	114,509	326,741
FUND BALANCE END OF YEAR	\$ 126,527	91,612	72,599	290,738

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
MS Drama	\$ 540	626	579	587
HS Drama	1,500	1,912	857	2,555
MS Vocal	432	845	675	602
HS Vocal	2,028	6,263	8,250	41
MS Instrumental Music	8,832	4,613	6,246	7,199
HS Instrumental Music	3,857	16,411	14,889	5,379
Co-Ed Athletics	19,554	51,288	51,578	19,264
Cross Country	0	540	540	0
Boys Basketball	0	9,146	9,146	0
Boys Football	0	11,567	11,567	0
Boys Soccer	0	1,489	1,489	0
Boys Baseball	(21)	2,278	2,707	(450)
Boys Track	0	2,837	2,837	0
Boys Tennis	0	637	637	0
Boys Golf	0	435	435	0
Boys Wrestling	0	1,179	1,179	0
Girls Basketball	0	10,119	10,119	0
Girls Volleyball	0	5,021	5,021	0
Girls Soccer	0	3,248	3,248	0
Girls Softball	(21)	3,509	3,511	(23)
Girls Track	0	1,763	1,763	0
Class of 2007	1,289	626	1,915	0
Class of 2008	2,435	936	2,011	1,360
Class of 2009	1,452	1,122	0	2,574
Class of 2010	484	977	0	1,461
Class of 2011	344	114	0	458
Class of 2012	206	108	0	314
Class of 2013	103	105	0	208
Class of 2014	0	102	0	102
Pictures	3,643	3,780	1,095	6,328
Investments	410	5,100	5,510	0
Student Insurance	0	139	139	0
Activity tickets	45	132	177	0
Mexico Club	577	5,357	4,535	1,399
Video Club	424	25	155	294
Skills-USA	247	0	63	184
Annual	13,230	11,650	9,619	15,261
SLHS Quiz Bowl	1,074	780	467	1,387
Classes	1,466	6,386	6,413	1,439
Elem Coca Cola Fund	1,673	1,629	1,438	1,864
MS Coca Cola Fund	755	1,571	835	1,491
HS Coca Cola Fund	69	1,400	353	1,116
MS SAC	12,200	27,230	34,642	4,788
HS SAC	3,451	5,274	2,502	6,223
MOC	1,015	704	1,099	620
Elementary Parents	17,189	3,190	17,694	2,685
Culinary Arts CA	5,755	4,738	5,661	4,832
Peer Helper	39	1	0	40
Due Other Fund	642	0	612	30
Total	\$ 106,918	218,902	234,208	91,612

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,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 8,790,999	7,615,021	7,337,029	5,346,101
Tuition	695,443	696,195	884,949	689,358
Other	631,605	874,633	347,694	1,501,512
Intermediate sources	0	0	0	445
State sources	3,168,572	3,772,691	3,439,146	3,214,284
Federal sources	340,617	250,098	740,807	693,673
Total	\$ 13,627,236	13,208,638	12,749,625	11,445,373
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 5,057,938	4,781,325	4,753,828	4,703,110
Special instruction	1,434,039	984,914	1,243,321	1,798,261
Other instruction	814,906	1,165,331	1,093,118	487,118
Support services:				
Student services	220,123	241,135	208,887	190,887
Instructional staff services	592,780	595,803	453,087	454,653
Administration services	1,029,644	857,510	930,129	879,306
Operation and maintenance of plant services	1,137,986	1,094,590	876,437	909,186
Transportation services	357,708	361,889	273,057	313,194
Other expenditures:				
Facilities acquisitions	5,016,259	4,847,325	1,656,854	1,253,535
Long-term debt:				
Principal	1,013,787	996,145	984,547	905,095
Interest and fiscal charges	538,964	581,337	207,437	434,408
AEA flow-through	385,591	372,754	347,962	344,284
Total	\$ 17,599,725	16,880,058	13,028,664	12,673,037

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 07	\$ <u>13,951</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	11,722
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	<u>108,262</u>
			<u>119,984</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6120-G	<u>75,519</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	<u>8,183</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	<u>3,072</u>
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	84.196	FY 07	<u>24,500</u>
TECH-PREP EDUCATION	84.243	FY 07	<u>150</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 07	<u>1,519</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 06	18,314
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 07	<u>37,551</u>
			<u>55,865</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 07	<u>9,065</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>57,801</u>

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DEPARTMENT OF HUMAN SERVICES:			
IOWA DEPARTMENT OF HUMAN SERVICES			
MEDICAID TIME STUDY	93.778	FY 07	<u>104,744</u>
CHILD CARE DEVELOPMENT BLOCK GRANT	93.575	FY 07	<u>48,000</u>
TOTAL			<u>\$ 522,353</u>

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 basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

Independent Auditor's Report on 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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 11, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Spirit Lake Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spirit Lake Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Spirit Lake Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Spirit Lake Community School District's financial statements that is more than inconsequential will not be prevented or detected by Spirit Lake Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Spirit Lake Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 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 such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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.

January 11, 2008

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

To the Board of Education of
Spirit Lake Community School District

Compliance

We have audited the compliance of Spirit Lake Community School District with the types of compliance requirements described in 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, 2007. 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Spirit Lake Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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.

January 11, 2008

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies 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) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
 - CFDA Number 93.778 - Medicaid Time Study
- (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 FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 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-07 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

More specifically, we noted expenditures for instructional supplies and inservice expenses being purchased from the Pictures and Elementary Parent accounts. These accounts should be closed and moved to the general fund. The District should also close out the Coke accounts and transfer those balances to the general fund.

There was a balance remaining in the Due to Other Funds account. Transfers to the correct funds should be completed by the end of year.

There was a computer purchased from the Middle School Student Advisory Council for \$1,487.40. This expense should have been run through the general fund and a corrective transfer should be made.

We noted that the District had entered into an exclusive vendor contract and portion of these proceeds were being receipted into the student activity fund. All exclusive vendor money received should be receipted into the general fund.

We noted instructional supplies and various teacher expenses that were run through the Student Advisory Council. These expenses should be run through the general fund.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of

the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We will make corrections and transfers. We will also closely watch accounts in the future.

Conclusion - Response accepted.

II-C-07 Cell Phone Policy - We noted during our audit that the District had not implemented a cell phone policy that addresses employees who carry District paid cell phones.

Recommendation - The District should review the policies in place and consider implementing a cell phone policy.

Response - We have adopted a Board Policy for cell phones.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program

Federal Award Year: 2007
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I grants to Local Educational agencies

Federal Award Year: 2007
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 93.778: Medicaid Time Study

Federal Award Year: 2007
U.S. Department of Human Services
Passed through the Iowa Department of Human Services

III-A-07 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.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDING AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Statutory Reporting

IV-A-07 Certified Budget - District expenditures for the year ended June 30, 2007, exceeded the certified budget amounts in the non-instructional program functions.

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-B-07 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.

IV-C-07 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-D-07 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	\$8,599
Jean Boekout, High School Office Manager Spouse owns Wally's Refrigeration	Repairs	\$111
Clifford Garvey, Board Member	Services	\$685
Julie Nodland, Board Member Owns Prairie Rose Wood	Supplies	\$193

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

In accordance with 279.7A of the Code of Iowa, the above transactions with the board members do not appear to represent 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
Daniels, Matthew	\$ 86	0	86	0
Erlandson, Barb	658	0	658	0
Graff, Randy	185	0	185	0
Hellert, Art	389	0	389	0
Johnson, Doug	198	0	198	0
Markley, Jerry	74	0	74	0
Walz, John	325	0	325	0
Wiersma, Rick	435	0	435	0
	<u>\$ 2,350</u>	<u>0</u>	<u>2,350</u>	<u>0</u>

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

- IV-E-07 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-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-07 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-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-J-07 Financial Condition - The District had negative account balances within the Special Revenue, Student Activity Fund

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

Response - We will monitor these funds and investigate alternatives to eliminate the deficit in the future.

Conclusion - Response accepted.

- IV-K-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We will contact the banks to make the change.

Conclusion - Response accepted.