

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2008

Contents

			<u>Page</u>
Officials			1
Independent Auditor's Report			2-3
Management's Discussion and Analysis (MD&A)			4-13
Basic Financial Statements:	<u>Exhibit</u>		
Government-wide Financial Statements:			
Statement of Net Assets	A		14
Statement of Activities	B		15
Governmental Fund Financial Statements:			
Balance Sheet	C		16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D		17
Statement of Revenues, Expenditures and Changes in Fund Balances	E		18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F		19
Proprietary Fund Financial Statements:			
Statement of Net Assets	G		20
Statement of Revenues, Expenses and Changes in Net Assets	H		21
Statement of Cash Flows	I		22
Notes to Financial Statements			23-34
Required Supplementary Information:			
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund			35
Notes to Required Supplementary Information - Budgetary Reporting			36
Other Supplementary Information:	<u>Schedule</u>		
Nonmajor Special Revenue Funds:			
Combining Balance Sheet	1		37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2		38
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3		39
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4		40
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>			41-42
Schedule of Findings			43-45

Spirit Lake Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 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
Board of Education (After September 2007 Election)		
Beth Will	President	2010
Ann Goerss	Vice President	2010
Scott Wicks	Board Member	2009
Cliff Garvey	Board Member	2008
Todd Hummel	Board Member	2009
School Officials		
Doug Latham	Superintendent	2008
Joyce Peschon	Board Secretary/Treasurer	2008
Lonnie Saunders	Attorney	2008

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spirit Lake Community School District, Spirit Lake, Iowa as of and for the year ended June 30, 2008, 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, 2008, 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 March 6, 2009 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 35 through 36 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

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 four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, 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.

March 6, 2009

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, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,670,702 in fiscal 2007 to \$11,533,293 in fiscal 2008, while General Fund expenditures increased from \$10,427,252 in fiscal 2007 to \$11,108,616 in fiscal 2008. The revenues exceeding expenditures and transfers resulted in an increase in the District's General Fund balance from \$569,428 in fiscal 2007 to \$994,105 in fiscal 2008.
- The increase in General Fund revenues was attributable to an increase in state sources in fiscal 2008. 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.

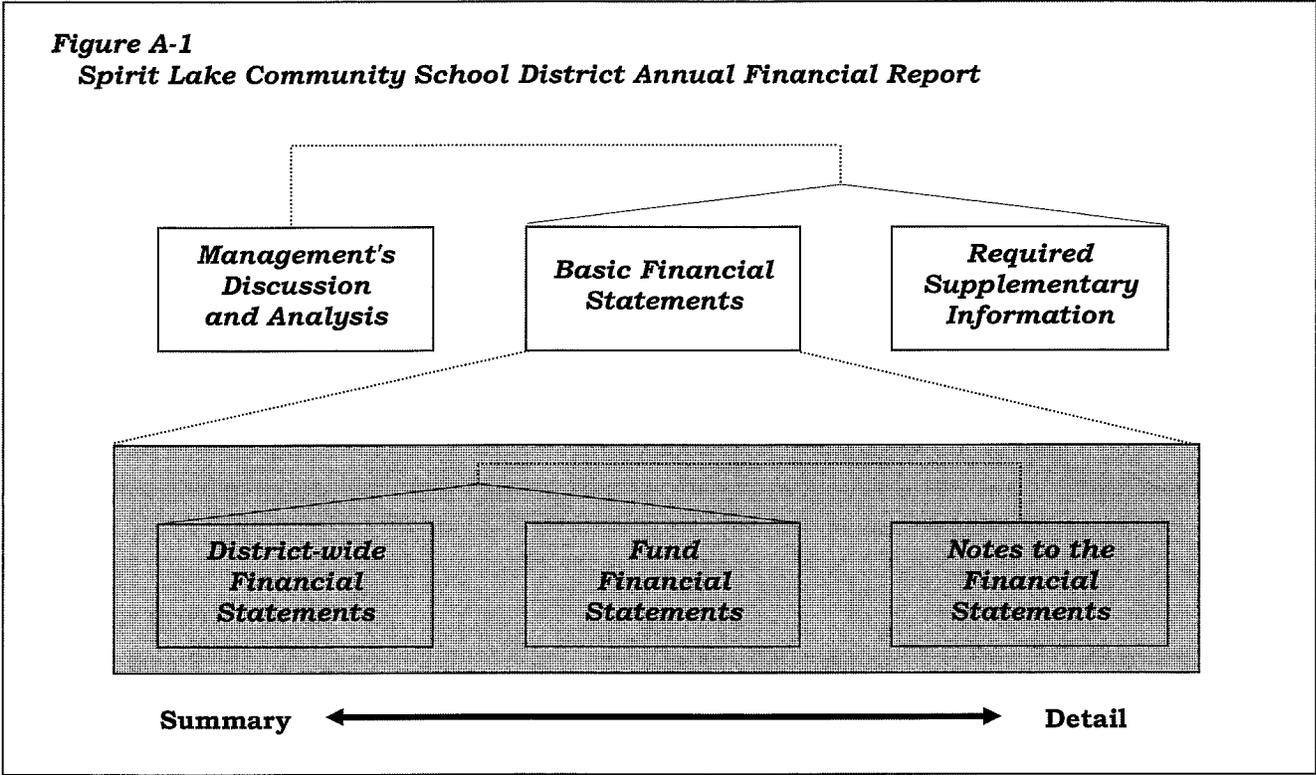


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-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, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business-Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 10,608,110	13,522,511	59,000	115,090	10,667,110	13,637,601	-21.78%
Capital assets	25,877,285	22,495,393	22,919	27,327	25,900,204	22,522,720	15.00%
Total assets	<u>36,485,395</u>	<u>36,017,904</u>	<u>81,919</u>	<u>142,417</u>	<u>36,567,314</u>	<u>36,160,321</u>	<u>1.13%</u>
Long-term obligations	7,689,346	10,581,261	0	0	7,689,346	10,581,261	-27.33%
Other liabilities	8,608,655	8,337,669	20,086	41,813	8,628,741	8,379,482	2.97%
Total liabilities	<u>16,298,001</u>	<u>18,918,930</u>	<u>20,086</u>	<u>41,813</u>	<u>16,318,087</u>	<u>18,960,743</u>	<u>-13.94%</u>
Net assets:							
Invested in capital assets, net of related debt	18,448,503	13,514,543	22,919	27,327	18,471,422	13,541,870	36.40%
Restricted	680,508	2,832,850	0	0	680,508	2,832,850	-75.98%
Unrestricted	1,058,383	751,581	38,914	73,277	1,097,297	824,858	33.03%
Total net assets	<u>\$ 20,187,394</u>	<u>17,098,974</u>	<u>61,833</u>	<u>100,604</u>	<u>20,249,227</u>	<u>17,199,578</u>	<u>17.73%</u>

The District's combined net assets increased by 17.73%, or \$3,049,649, 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 decreased \$2,152,342, or 75.98% over the prior year. The decrease was primarily a result of the decrease in the Debt Service and Capital Projects fund balances.

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 \$272,439, or 33.03%. 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, 2008 compared to June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 908,419	1,062,351	393,445	393,335	1,301,864	1,455,686	-10.57%
Operating grants and contributions and restricted interest	1,367,431	1,161,930	139,086	187,457	1,506,517	1,349,387	11.64%
General revenues:							
Local tax	7,136,061	7,280,088	0	0	7,136,061	7,280,088	-1.98%
Local option sales and service tax	1,552,149	1,580,968	0	0	1,552,149	1,580,968	-1.82%
Unrestricted state grants	2,991,696	2,347,259	0	0	2,991,696	2,347,259	27.45%
Other	1,821,242	3,264,697	3,058	3,052	1,824,300	3,267,749	-44.17%
Total revenues	15,776,998	16,697,293	535,589	583,844	16,312,587	17,281,137	-5.60%
Program expenses:							
Governmental activities:							
Instructional	8,041,209	7,194,101	0	0	8,041,209	7,194,101	11.78%
Support services	3,285,400	3,392,540	1,203	0	3,286,603	3,392,540	-3.12%
Non-instructional programs	20,624	0	573,157	531,473	593,781	531,473	11.72%
Other expenses	1,341,345	2,081,891	0	0	1,341,345	2,081,891	-35.57%
Total expenses	12,688,578	12,668,532	574,360	531,473	13,262,938	13,200,005	0.48%
Change in net assets	3,088,420	4,028,761	(38,771)	52,371	3,049,649	4,081,132	-25.27%
Net assets beginning of year	17,098,974	13,070,213	100,604	48,233	17,199,578	13,118,446	31.11%
Net assets end of year	\$ 20,187,394	17,098,974	61,833	100,604	20,249,227	17,199,578	17.73%

In fiscal 2008, local tax, local option sales and service tax and unrestricted state grants account for 74.03% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.43% of the revenue from business type activities.

The District's total revenues were approximately \$16.3 million of which \$15.8 million was for governmental activities and \$.5 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 5.60% in revenues and a .48% increase in expenses. The increase in expenses was related to the increase in instructional costs during the year.

Governmental Activities

Revenues for governmental activities were \$15,776,998 and expenses were \$12,688,578. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
	Instruction	\$ 8,041,209	7,194,101	10.53%	6,185,630	5,355,411
Support services	3,285,400	3,392,540	-3.26%	3,284,871	3,392,540	-3.28%
Non-instructional	20,624	0	100.00%	20,624	0	100.00%
Other expenses	1,341,345	2,081,891	-55.21%	921,603	1,696,300	-84.06%
Totals	<u>\$ 12,688,578</u>	<u>12,668,532</u>	<u>0.16%</u>	<u>10,412,728</u>	<u>10,444,251</u>	<u>-0.30%</u>

- The cost financed by users of the District's programs was \$908,419.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,367,431.
- The net cost of governmental activities was financed with \$7,136,061 in local tax, \$1,552,149 in local option sales and services tax, \$2,991,696 in unrestricted state grants, \$151,334 in interest income and \$1,669,908 in other revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$535,589 and expenses were \$574,360. 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 \$1,720,193, compared to last year's ending fund balances of \$4,974,244. However, the primary reason for the decrease in combined fund balances in fiscal 2008 is due to the decrease in the Debt Service and Capital Projects fund balances.

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 \$569,428 to \$994,105.
- The Capital Projects Fund balance decreased from a positive balance of \$2,291,888 in fiscal 2007 to a deficit balance of \$45,998 in fiscal 2008. This was primarily due to the construction costs incurred during the year.
- The Debt Service Fund balance decreased from \$1,822,190 in fiscal 2007 to \$501,865 in fiscal 2008.

Proprietary Fund Highlights

The total Proprietary Fund net assets decreased from \$100,604 at June 30, 2007 to \$61,833 at June 30, 2008, representing a decrease of 38.54%. This decrease is primarily the result of the Before and After School Program receiving no federal funding during the year.

BUDGETARY HIGHLIGHTS

The District's revenues were \$159,480 less than budgeted revenues, a variance of 1.07%. The most significant variance resulted from the District receiving less from local sources than originally anticipated.

Initially, total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

During the year ended June 30, 2008, District expenditures exceeded the budgeted amount in the other expenditures function and the District exceeded its General Fund unspent authorized budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$25,900,204, 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 15.00% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$596,639.

The original cost of the District's capital assets was \$36.59 million. Governmental funds account for \$36.45 million with the remainder of \$.14 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$13,767,718 at June 30, 2008, compared to \$11,307,181 reported at June 30, 2007.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-Type		Total		Total Change June 30, 2007-08
	Activities		Activities		School District		
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	
Land	\$ 300,000	300,000	0	0	300,000	300,000	0.00%
Construction in progress	10,402,155	9,308,963	0	0	10,402,155	9,308,963	11.74%
Buildings	13,767,718	11,307,181	0	0	13,767,718	11,307,181	21.76%
Land improvements	592,390	666,582	0	0	592,390	666,582	-11.13%
Machinery and equipment	815,022	912,667	22,919	27,327	837,941	939,994	-10.86%
Total	\$ 25,877,285	22,495,393	22,919	27,327	25,900,204	22,522,720	15.00%

Long-Term Debt

At June 30, 2008, the District had \$7,689,346 in general obligation and other long-term debt outstanding. This represents a decrease of 27.33% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$365,000 at June 30, 2008.

The District had outstanding revenue bonded indebtedness at June 30, 2008 of \$6,800,000.

The District had capital loan notes payable of \$263,782 at June 30, 2008.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy of \$260,564 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 365,000	715,000	-48.95%
Revenue bonds	6,800,000	2,690,000	152.79%
Revenue BANS	0	6,800,000	-100.00%
Capital loan notes	263,782	344,402	-23.41%
Early retirement	260,564	31,859	717.87%
Totals	<u>\$ 7,689,346</u>	<u>10,581,261</u>	<u>-27.33%</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 2008 certified enrollment showed a decrease of 28.2 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, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 2,507,526	51,612	2,559,138
Receivables:			
Property tax:			
Delinquent	48,933	0	48,933
Succeeding year	7,131,458	0	7,131,458
Income surtax	301,919	0	301,919
Interfund	1,551	(1,551)	0
Accounts	6,046	1,807	7,853
Due from other governments	610,677	73	610,750
Inventories	0	7,059	7,059
Capital assets, net of accumulated depreciation(Note 5)	25,877,285	22,919	25,900,204
Total Assets	36,485,395	81,919	36,567,314
Liabilities			
Accounts payable	487,174	2,037	489,211
Salaries and benefits payable	967,366	9,751	977,117
Accrued interest payable	22,657	0	22,657
Deferred revenue:			
Succeeding year property tax	7,131,458	0	7,131,458
Unearned revenue	0	8,298	8,298
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	365,000	0	365,000
Revenue bonds payable	865,000	0	865,000
Capital loan notes	41,869	0	41,869
Early retirement payable	92,014	0	92,014
Portion due after one year:			
Revenue bonds payable	5,935,000	0	5,935,000
Capital loan notes	221,913	0	221,913
Early retirement payable	168,550	0	168,550
Total Liabilities	16,298,001	20,086	16,318,087
Net Assets			
Invested in capital assets, net of related debt	18,448,503	22,919	18,471,422
Restricted for:			
Beginning teacher mentoring	1,808	0	1,808
Talented and gifted	7,230	0	7,230
Salary improvement program	12,572	0	12,572
Professional development	2,351	0	2,351
Market factor	6,135	0	6,135
Market factor incentives	8,237	0	8,237
Debt service	501,865	0	501,865
Physical plant and equipment levy	57,888	0	57,888
Other special revenue purposes	82,422	0	82,422
Unrestricted	1,058,383	38,914	1,097,297
Total Net Assets	\$ 20,187,394	61,833	20,249,227

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 5,382,509	495,235	837,886	(4,049,388)	0	(4,049,388)
Special instruction	1,325,683	209,459	60,106	(1,056,118)	0	(1,056,118)
Other instruction	1,333,017	203,725	49,168	(1,080,124)	0	(1,080,124)
	<u>8,041,209</u>	<u>908,419</u>	<u>947,160</u>	<u>(6,185,630)</u>	<u>0</u>	<u>(6,185,630)</u>
Support services:						
Student services	228,904	0	0	(228,904)	0	(228,904)
Instructional staff services	568,530	0	0	(568,530)	0	(568,530)
Administration services	947,298	0	0	(947,298)	0	(947,298)
Operation and maintenance of plant services	1,219,165	0	0	(1,219,165)	0	(1,219,165)
Transportation services	321,503	0	529	(320,974)	0	(320,974)
	<u>3,285,400</u>	<u>0</u>	<u>529</u>	<u>(3,284,871)</u>	<u>0</u>	<u>(3,284,871)</u>
Non-instructional programs:						
Food service operations	20,624	0	0	(20,624)	0	(20,624)
Other expenditures:						
Long-term debt interest	427,018	0	0	(427,018)	0	(427,018)
AEA flowthrough	419,742	0	419,742	0	0	0
Depreciation(unallocated)*	494,585	0	0	(494,585)	0	(494,585)
	<u>1,341,345</u>	<u>0</u>	<u>419,742</u>	<u>(921,603)</u>	<u>0</u>	<u>(921,603)</u>
Total governmental activities	12,688,578	908,419	1,367,431	(10,412,728)	0	(10,412,728)
Business-Type activities:						
Support services:						
Operation and maintenance of plant services	549	0	0	0	(549)	(549)
Transportation services	654	0	0	0	(654)	(654)
Non-instructional programs:						
Nutrition services	460,091	291,484	139,086	0	(29,521)	(29,521)
Before and After School Program	113,066	101,961	0	0	(11,105)	(11,105)
Total business-type activities	574,360	393,445	139,086	0	(41,829)	(41,829)
Total	\$ 13,262,938	1,301,864	1,506,517	(10,412,728)	(41,829)	(10,454,557)
General Revenues:						
Local tax for:						
General purposes				\$ 6,133,059	0	6,133,059
Debt Service				382,273	0	382,273
Capital outlay				239,629	0	239,629
Income surtax				381,100	0	381,100
Local option sales and services tax				1,552,149	0	1,552,149
Unrestricted state grants				2,991,696	0	2,991,696
Unrestricted investment earnings				151,334	3,058	154,392
Other				1,669,908	0	1,669,908
Total general revenues				13,501,148	3,058	13,504,206
Changes in net assets				3,088,420	(38,771)	3,049,649
Net assets beginning of year				17,098,974	100,604	17,199,578
Net assets end of year				\$ 20,187,394	61,833	20,249,227

* 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, 2008

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
Assets					
Cash and pooled investments	\$ 1,599,713	407,473	225,250	275,090	2,507,526
Receivables:					
Property tax:					
Delinquent	43,187	0	2,728	3,018	48,933
Succeeding year	5,865,687	0	381,881	883,890	7,131,458
Income surtax	301,919	0	0	0	301,919
Interfund	1,551	0	273,887	0	275,438
Accounts	5,917	0	0	129	6,046
Due from other governments	332,225	273,887	0	4,565	610,677
Total Assets	\$ 8,150,199	681,360	883,746	1,166,692	10,881,997
Liabilities and Fund Balances					
Liabilities:					
Interfund payable	\$ 0	273,887	0	0	273,887
Accounts payable	21,122	453,471	0	12,581	487,174
Salaries and benefits payable	967,366	0	0	0	967,366
Deferred revenue:					
Succeeding year property tax	5,865,687	0	381,881	883,890	7,131,458
Income surtax	301,919	0	0	0	301,919
Total liabilities	7,156,094	727,358	381,881	896,471	9,161,804
Fund balances:					
Reserved for:					
Beginning teacher mentoring	1,808	0	0	0	1,808
Talented and gifted	7,230	0	0	0	7,230
Salary improvement program	12,572	0	0	0	12,572
Professional development	2,351	0	0	0	2,351
Market factor	6,135	0	0	0	6,135
Market factor incentives	8,237	0	0	0	8,237
Debt service	0	0	501,865	0	501,865
Unreserved	955,772	(45,998)	0	270,221	1,179,995
Total fund balances	994,105	(45,998)	501,865	270,221	1,720,193
Total Liabilities and Fund Balances	\$ 8,150,199	681,360	883,746	1,166,692	10,881,997

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, 2008

Total fund balances of governmental funds (page 16) \$ 1,720,193

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 25,877,285

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. (22,657)

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. (7,689,346)

Net assets of governmental activities (page 14) \$ 20,187,394

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, 2008

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 6,333,708	1,552,149	382,273	420,080	8,688,210
Tuition	654,005	0	0	0	654,005
Other	238,721	69,456	34,597	286,350	629,124
State sources	4,015,627	0	0	0	4,015,627
Federal sources	290,032	0	0	0	290,032
Total revenues	<u>11,532,093</u>	<u>1,621,605</u>	<u>416,870</u>	<u>706,430</u>	<u>14,276,998</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	5,260,937	0	0	31,859	5,292,796
Special instruction	1,228,798	0	0	0	1,228,798
Other instruction	1,067,090	0	0	265,927	1,333,017
	<u>7,556,825</u>	<u>0</u>	<u>0</u>	<u>297,786</u>	<u>7,854,611</u>
Support services:					
Student services	228,904	0	0	0	228,904
Instructional staff services	568,030	0	0	0	568,030
Administration services	874,048	0	0	71,250	945,298
Operation and maintenance of plant services	1,109,054	0	0	80,789	1,189,843
Transportation services	258,695	0	0	89,237	347,932
	<u>3,038,731</u>	<u>0</u>	<u>0</u>	<u>241,276</u>	<u>3,280,007</u>
Other expenditures:					
Facilities acquisitions	0	3,673,702	0	187,885	3,861,587
Long-term debt:					
Principal	0	0	9,920,620	0	9,920,620
Interest and fiscal charges	0	0	495,682	0	495,682
AEA flowthrough	419,742	0	0	0	419,742
	<u>419,742</u>	<u>3,673,702</u>	<u>10,416,302</u>	<u>187,885</u>	<u>14,697,631</u>
Total expenditures	<u>11,015,298</u>	<u>3,673,702</u>	<u>10,416,302</u>	<u>726,947</u>	<u>25,832,249</u>
Excess (deficiency) of revenues over (under) expenditures	516,795	(2,052,097)	(9,999,432)	(20,517)	(11,555,251)
Other financing sources (uses):					
Transfers in	0	0	8,679,107	0	8,679,107
Transfers out	(93,318)	(8,585,789)	0	0	(8,679,107)
Issuance of bonds	0	6,800,000	0	0	6,800,000
Sale of equipment	1,200	0	0	0	1,200
Donations	0	1,500,000	0	0	1,500,000
Total other financing sources (uses)	<u>(92,118)</u>	<u>(285,789)</u>	<u>8,679,107</u>	<u>0</u>	<u>8,301,200</u>
Net change in fund balances	424,677	(2,337,886)	(1,320,325)	(20,517)	(3,254,051)
Fund balance beginning of year	569,428	2,291,888	1,822,190	290,738	4,974,244
Fund balance end of year	<u>\$ 994,105</u>	<u>(45,998)</u>	<u>501,865</u>	<u>270,221</u>	<u>1,720,193</u>

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, 2008

Net change in fund balances - total governmental funds (page 18) \$ (3,254,051)

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, depreciation expense and loss on disposal of assets in the year are as follows:

Capital outlays	\$ 4,075,768	
Depreciation expense	(592,231)	
Loss on disposal of assets	<u>(101,645)</u>	3,381,892

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments and issuances are as follows:

Repaid	\$ 9,920,620	
Issued	<u>(6,800,000)</u>	3,120,620

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.

68,664

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>(228,705)</u>
------------------	--	------------------

Changes in net assets of governmental activities (page 15) \$ 3,088,420

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	Before and		Total
	School Nutrition	After School Program	
Assets			
Cash and pooled investments	\$ 3,914	47,698	51,612
Interfund receivable	0	10,000	10,000
Accounts receivable	447	1,360	1,807
Due from other governments	73	0	73
Inventories	7,059	0	7,059
Capital assets, net of accumulated depreciation (Note 5)	22,919	0	22,919
Total Assets	34,412	59,058	93,470
Liabilities			
Interfund payable	10,000	1,551	11,551
Accounts payable	0	2,037	2,037
Salaries and benefits payable	0	9,751	9,751
Unearned revenue	8,298	0	8,298
Total Liabilities	18,298	13,339	31,637
Net Assets			
Invested in capital assets	22,919	0	22,919
Unrestricted	(6,805)	45,719	38,914
Total Net Assets	\$ 16,114	45,719	61,833

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, 2008

	School Nutrition	Before and After School Program	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 291,484	101,961	393,445
OPERATING EXPENSES:			
Support services:			
Operation and maintenance of plant services:			
Supplies	549	0	549
Transportation services:			
Salaries	0	575	575
Benefits	0	79	79
	549	654	1,203
Non-instructional:			
Food service and other enterprise operations:			
Salaries	170,300	76,919	247,219
Benefits	23,303	15,788	39,091
Services	3,593	7,287	10,880
Supplies	258,487	13,072	271,559
Depreciation	4,408	0	4,408
	460,091	113,066	573,157
TOTAL OPERATING EXPENSES	460,640	113,720	574,360
OPERATING LOSS	(169,156)	(11,759)	(180,915)
NON-OPERATING REVENUES:			
State sources	5,444	0	5,444
Federal sources	133,642	0	133,642
Interest income	918	2,140	3,058
TOTAL NON-OPERATING REVENUES	140,004	2,140	142,144
Change in net assets	(29,152)	(9,619)	(38,771)
Net assets beginning of year	45,266	55,338	100,604
Net assets end of year	\$ 16,114	45,719	61,833

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	School Nutrition	Before and After School Program	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 283,037	0	283,037
Cash received from miscellaneous	9,953	100,601	110,554
Cash payments to employees for services	(217,854)	(91,465)	(309,319)
Cash payments to suppliers for goods or services	(250,705)	(21,129)	(271,834)
Net cash used in operating activities	(175,569)	(11,993)	(187,562)
Cash flows from non-capital financing activities:			
Interfund borrowings	10,000	(8,449)	1,551
State grants received	5,444	0	5,444
Federal grants received	120,653	0	120,653
Net cash provided by(used in) non-capital financing activities	136,097	(8,449)	127,648
Cash flows from investing activities:			
Interest on investments	918	2,140	3,058
Net decrease in cash and cash equivalents	(38,554)	(18,302)	(56,856)
Cash and cash equivalents at beginning of year	42,468	66,000	108,468
Cash and cash equivalents at end of year	\$ 3,914	47,698	51,612
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (169,156)	(11,759)	(180,915)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	12,916	0	12,916
Depreciation	4,408	0	4,408
Increase in inventories	(992)	0	(992)
Decrease(increase) in accounts receivable	108	(1,360)	(1,252)
Decrease in accounts payable	0	(770)	(770)
Increase(decrease) in salaries and benefits payable	(24,251)	1,896	(22,355)
Increase in unearned revenue	1,398	0	1,398
Net cash used in operating activities	\$ (175,569)	(11,993)	(187,562)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 3,914	47,698	51,612
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2008, the District received Federal commodities valued at \$12,916.			
SEE NOTES TO FINANCIAL STATEMENTS.			

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(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, 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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

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

Capital assets 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, 2008, expenditures in the other expenditures function exceeded the amount budgeted and the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 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, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 1,922,570</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, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 93,318
Debt Service	Capital Projects	8,585,789
Total		<u>\$ 8,679,107</u>

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

(4) Due to and Due From Other Funds

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
General	Before and After School Program	\$ 1,551
Debt Service	Capital Projects	273,887
Before and After School Program	School Nutrition	10,000
Total		<u>\$ 285,438</u>

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 140,492	0	0	140,492
Less accumulated depreciation	113,165	4,408	0	117,573
Business-type activities capital assets, net	<u>\$ 27,327</u>	<u>(4,408)</u>	<u>0</u>	<u>22,919</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	9,308,963	3,974,122	2,880,930	10,402,155
Total capital assets not being depreciated	9,608,963	3,974,122	2,880,930	10,702,155
Capital assets being depreciated:				
Buildings	18,655,024	2,880,930	0	21,535,954
Land improvements	1,860,773	0	0	1,860,773
Machinery and equipment	2,431,183	101,646	177,963	2,354,866
Total capital assets being depreciated	22,946,980	2,982,576	177,963	25,751,593
Less accumulated depreciation for:				
Buildings	7,347,843	420,393	0	7,768,236
Land improvements	1,194,191	74,192	0	1,268,383
Machinery and equipment	1,518,516	97,646	76,318	1,539,844
Total accumulated depreciation	10,060,550	592,231	76,318	10,576,463
Total capital assets being depreciated, net	12,886,430	2,390,345	101,645	15,175,130
Governmental activities capital assets, net	\$ 22,495,393	6,364,467	2,982,575	25,877,285

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 6,901
Support services:	
Instructional staff	500
Administration	2,000
Operation and maintenance of plant	41,412
Transportation	46,833
	97,646
Unallocated depreciation	494,585
Total governmental activities depreciation expense	\$ 592,231
Business-type activities:	
Food services	\$ 4,408

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 715,000	0	350,000	365,000	365,000
Revenue bonds	2,690,000	6,800,000	2,690,000	6,800,000	865,000
Revenue BANS	6,800,000	0	6,800,000	0	0
Capital loan notes	344,402	0	80,620	263,782	41,869
Early Retirement	31,859	260,564	31,859	260,564	92,014
Total	\$ 10,581,261	7,060,564	9,952,479	7,689,346	1,363,883

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 2001		
		Principal	Interest	Total
2009	4.625 %	\$ 365,000	16,882	381,882

Revenue Bonds Payable

Details of the District's June 30, 2008 revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of June 1, 2008		
		Principal	Interest	Total
2009	3.500 %	\$ 865,000	148,750	1,013,750
2010	3.500	980,000	207,726	1,187,726
2011	3.500	1,010,000	173,426	1,183,426
2012	3.500	480,000	138,076	618,076
2013	3.500	385,000	121,276	506,276
2014-2018	3.500	1,925,000	404,247	2,329,247
2019-2021	3.500	1,155,000	80,849	1,235,849
Total		\$ 6,800,000	1,274,350	8,074,350

The District has pledged future local option sales and services tax revenues to repay the \$6,800,000 bonds issued in June 2008. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable through 2021. The bonds are not a general obligation of the District. However,

the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payment on the bonds, along with the required transfers to the Reserve Account are expected to require 100 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$8,074,350. For the current year no principal and interest was paid on the bonds and the total local option sales and services tax revenues were \$1,552,449.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- b) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year. Any monies left in the Revenue Account shall be disbursed into the Reserve Account. The District is required to establish a Reserve Account of \$680,000 to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account.
- c) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Revenue BANS Payable

During the year ended June 30, 2008, the District repaid \$6,800,000 of revenue bond anticipatory notes.

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, 2008 capital loan notes indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 2, 2001			
	Interest Rates	Principal	Interest	Total
2009	5.100 %	\$ 41,869	4,790	46,659
2010	5.100	86,004	7,314	93,318
2011	5.100	89,155	4,163	93,318
2012	5.100	46,754	849	47,603
Total		\$ 263,782	17,116	280,898

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, 2008 totaled \$31,859.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$448,325, \$388,740, and \$372,860 respectively, equal to the required contributions for each year.

(8) Risk Management

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$419,742 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitment

The District has entered into various contracts for the auditorium project. As of June 30, 2008, costs of \$10,402,155 had been incurred against the contracts. The balance remaining at June 30, 2008 will be paid as work on the projects progresses.

(11) 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, 2008, expenditures in the other expenditures function exceeded the amount budgeted and the District exceeded its General Fund unspent authorized budget.

(12) Deficit Fund Balance

The District has a deficit undesignated fund balance in the Capital Projects Fund of \$45,998 as of June 30, 2008. The District also had a deficit unrestricted fund balance within the School Nutrition Fund of \$6,805 at June 30, 2008.

(13) Contingencies

As of June 30, 2008, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

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, 2008

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 9,971,339	396,503	10,367,842	10,397,774	10,397,774	(29,932)
State sources	4,015,627	5,444	4,021,071	4,109,293	4,109,293	(88,222)
Federal sources	290,032	133,642	423,674	465,000	465,000	(41,326)
Total revenues	14,276,998	535,589	14,812,587	14,972,067	14,972,067	(159,480)
Expenditures:						
Instruction	7,854,611	0	7,854,611	9,312,602	9,312,602	1,457,991
Support services	3,280,007	1,203	3,281,210	3,812,000	4,500,000	1,218,790
Non-instructional programs	0	573,157	573,157	725,033	725,033	151,876
Other expenditures	14,697,631	0	14,697,631	6,927,142	10,000,000	(4,697,631)
Total expenditures	25,832,249	574,360	26,406,609	20,776,777	24,537,635	(1,868,974)
Deficiency of revenues under expenditures	(11,555,251)	(38,771)	(11,594,022)	(5,804,710)	(9,565,568)	(2,028,454)
Other financing sources, net	8,301,200	0	8,301,200	2,000,000	2,000,000	6,301,200
Excess(deficiency) of revenues over(under) expenditures	(3,254,051)	(38,771)	(3,292,822)	(3,804,710)	(7,565,568)	4,272,746
Balance beginning of year	4,974,244	100,604	5,074,848	3,804,710	3,804,710	1,270,138
Balance end of year	\$ 1,720,193	61,833	1,782,026	0	(3,760,858)	5,542,884

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

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, the District adopted one budget amendment increasing budgeted expenditures by \$3,760,858.

During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amount budgeted and the District exceeded its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2008

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 128,603	84,302	62,185	275,090
Receivables:				
Property tax:				
Current year delinquent	1,308	0	1,710	3,018
Succeeding year	600,000	0	283,890	883,890
Accounts	0	129	0	129
Due from other governments	0	4,565	0	4,565
Total Assets	\$ 729,911	88,996	347,785	1,166,692
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 0	6,574	6,007	12,581
Deferred revenue:				
Succeeding year property tax	600,000	0	283,890	883,890
Total liabilities	600,000	6,574	289,897	896,471
Fund balances:				
Unreserved	129,911	82,422	57,888	270,221
Total Liabilities and Fund Balances	\$ 729,911	88,996	347,785	1,166,692

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2008

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 180,451	0	239,629	420,080
Other	22,806	256,737	6,807	286,350
TOTAL REVENUES	203,257	256,737	246,436	706,430
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	31,859	0	0	31,859
Other instruction	0	265,927	0	265,927
Support services:				
Administration services	71,250	0	0	71,250
Operation and maintenance of plant services	80,789	0	0	80,789
Student transportation	15,975	0	73,262	89,237
Other expenditures:				
Facilities acquisitions	0	0	187,885	187,885
TOTAL EXPENDITURES	199,873	265,927	261,147	726,947
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,384	(9,190)	(14,711)	(20,517)
FUND BALANCE BEGINNING OF YEAR	126,527	91,612	72,599	290,738
FUND BALANCE END OF YEAR	\$ 129,911	82,422	57,888	270,221

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, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
MS Drama	\$ 587	1,113	362	1,338
HS Drama	2,555	1,688	1,752	2,491
Speech	0	473	473	0
MS Vocal	602	707	1,309	0
HS Vocal	41	9,060	7,915	1,186
MS Instrumental Music	7,199	5,137	6,934	5,402
HS Instrumental Music	5,379	15,013	17,991	2,401
Co-Ed Athletics	19,264	57,721	47,479	29,506
Cross Country	0	670	670	0
Boys Basketball	0	8,085	8,085	0
Boys Football	0	18,362	18,362	0
Boys Soccer	0	5,607	5,607	0
Boys Baseball	(450)	4,819	4,369	0
Boys Track	0	3,736	3,736	0
Boys Tennis	0	1,196	1,196	0
Boys Golf	0	901	836	65
Boys Wrestling	0	12,172	12,172	0
Girls Basketball	0	6,664	6,664	0
Girls Volleyball	0	6,610	6,610	0
Girls Soccer	0	3,993	3,993	0
Girls Softball	(23)	2,092	2,069	0
Girls Track	0	1,965	1,965	0
Girls Tennis	0	704	704	0
Class of 2008	1,360	909	2,269	0
Class of 2009	2,574	1,176	2,589	1,161
Class of 2010	1,461	974	0	2,435
Class of 2011	458	730	0	1,188
Class of 2012	314	6	0	320
Class of 2013	208	3	0	211
Class of 2014	102	1	0	103
Pictures	6,328	725	7,053	0
Investments	0	1,965	1,965	0
Student Insurance	0	674	674	0
Mexico Club	1,399	36,280	35,906	1,773
Video Club	294	169	0	463
Skills-USA	184	5	37	152
Annual	15,261	11,943	12,000	15,204
Academic Decathlon	0	956	956	0
SLHS Quiz Bowl	1,387	738	755	1,370
Classes	1,439	4,070	3,063	2,446
Elem Coca Cola Fund	1,864	0	1,864	0
MS Coca Cola Fund	1,491	0	1,491	0
HS Coca Cola Fund	1,116	0	1,116	0
MS SAC	4,788	13,285	14,688	3,385
HS SAC	6,223	4,797	1,951	9,069
MOC	620	1,323	1,319	624
Elementary Parents	2,685	2,399	5,084	0
Culinary Arts CA	4,832	121	4,953	0
Peer Helper	40	0	40	0
Due Other Fund	30	5,000	4,901	129
Total	\$ 91,612	256,737	265,927	82,422

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 FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 8,688,210	8,790,999	7,615,021	7,337,029	5,346,101
Tuition	654,005	695,443	696,195	884,949	689,358
Other	629,124	631,605	874,633	347,694	1,501,512
Intermediate sources	0	0	0	0	445
State sources	4,015,627	3,168,572	3,772,691	3,439,146	3,214,284
Federal sources	290,032	340,617	250,098	740,807	693,673
Total	<u>\$ 14,276,998</u>	<u>13,627,236</u>	<u>13,208,638</u>	<u>12,749,625</u>	<u>11,445,373</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 5,292,796	5,057,938	4,781,325	4,753,828	4,703,110
Special instruction	1,228,798	1,434,039	984,914	1,243,321	1,798,261
Other instruction	1,333,017	814,906	1,165,331	1,093,118	487,118
Support services:					
Student services	228,904	220,123	241,135	208,887	190,887
Instructional staff services	568,030	592,780	595,803	453,087	454,653
Administration services	945,298	1,029,644	857,510	930,129	879,306
Operation and maintenance of plant services	1,189,843	1,137,986	1,094,590	876,437	909,186
Transportation services	347,932	357,708	361,889	273,057	313,194
Other expenditures:					
Facilities acquisitions	3,861,587	5,016,259	4,847,325	1,656,854	1,253,535
Long-term debt:					
Principal	9,920,620	1,013,787	996,145	984,547	905,095
Interest and fiscal charges	495,682	538,964	581,337	207,437	434,408
AEA flow-through	419,742	385,591	372,754	347,962	344,284
Total	<u>\$ 25,832,249</u>	<u>17,599,725</u>	<u>16,880,058</u>	<u>13,028,664</u>	<u>12,673,037</u>

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, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2009. 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 I of the accompanying Schedule of Findings 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 I-A-08 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 II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 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. 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.

March 6, 2009

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-08 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.

I-B-08 Revenue/expenditure recognition - We noted during the audit that the District's current practice is to code expenditures against revenues and revenues against expenditures. This practice is understating both the revenues and expenditures for the year.

Recommendation - To better reflect the revenues and expenditures the District should code expenditures to an appropriate expenditure account and revenues to an appropriate revenue account.

Response - We have already made the necessary adjustments for the proper coding of revenue and expenditure accounts.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Statutory Reporting

II-A-08 Certified Budget - District expenditures for the year ended June 30, 2008, exceeded the certified budget amounts in the other expenditures function. The District also exceeded its unspent budget for the year ended June 30, 2008.

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. The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.

Response - The District has implemented the financial tools recently made available from the Iowa Department of Education and SBRC Committee. These reports will provide the information necessary to monthly monitor the budget and identify amendments as needed. The exceeded expenditures in the "other expenditures" category include only expenditures in the areas of construction projects, debt service payments and AEA Support. The overall budget of the District was not exceeded, only in the "other expenditures" category.

Conclusion - Response accepted.

II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-08 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	\$4,751
Jean Boekout, High School Office Manager Spouse owns Wally's Refrigeration	Repairs	\$1,175
Clifford Garvey, Board Member	Services	\$628

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.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-08 Certified Enrollment - We noted that the number of basic resident student reported to the Iowa Department of Education on line 2 of the Certified Enrollment Certification Form for October 2007 was overstated by 1.0 student. This caused line 7 to be overstated by 1.0 student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management regarding this issue.

Conclusion - Response accepted.

- II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

- II-J-08 Financial Condition - The District had a deficit fund balance within the Capital Projects Fund of \$45,998 at June 30, 2008. The District also had a deficit unrestricted fund balance within the School Nutrition Fund of \$6,805 at June 30, 2008.

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

Response - The board is looking into options that are available to eliminate the deficit and will make the necessary adjustments. Possible options include a PPEL Fund transfer to cover the deficit.

Conclusion - Response accepted.

- II-K-08 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.