

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

JUNE 30, 2009

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Spirit Lake Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|--------------------------------------|---------------------|
| Board of Education (Before September 2008 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 |
| Board of Education (After September 2008 Election) | | |
| Beth Will | President | 2011 * |
| Ann Goerss | Vice President | 2011 * |
| Randy Magg | Board Member | 2011 |
| Scott Wicks | Board Member | 2009 |
| Todd Hummel | Board Member | 2009 |
| School Officials | | |
| Doug Latham | Superintendent | 2009 |
| Joyce Peschon | Business Manager/ Board Secretary | 2009 |
| Lonnie Saunders | Attorney | 2009 |

* Board term altered per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

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, 2009, 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.

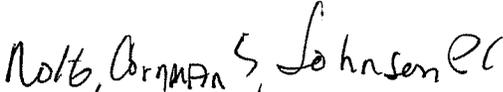
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Spirit Lake Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 2010 on our consideration of the Spirit Lake Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of 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 12 and 37 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Spirit Lake Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for eight years ended June 30, 2008 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2010

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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$11,533,293 in fiscal 2008 to \$11,117,604 in fiscal 2009, while General Fund expenditures decreased from \$11,108,616 in fiscal 2008 to \$11,092,840 in fiscal 2009. The reduction in expenditures allowed the increase in the District's General Fund balance from \$994,105 in fiscal 2008 to \$1,018,869 in fiscal 2009.
- The decrease in General Fund revenues was attributable to a decrease in state sources in fiscal 2009. The decrease in expenditures was due primarily to a decrease in expenditures in the support services functional area.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) increased as compared to fiscal 2008. At June 30, 2008 the District's solvency ratio was 8.29% as compared to 8.78% at June 30, 2009. The State School Budget Review Committee recommends a solvency ratio of 5% - 10%.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

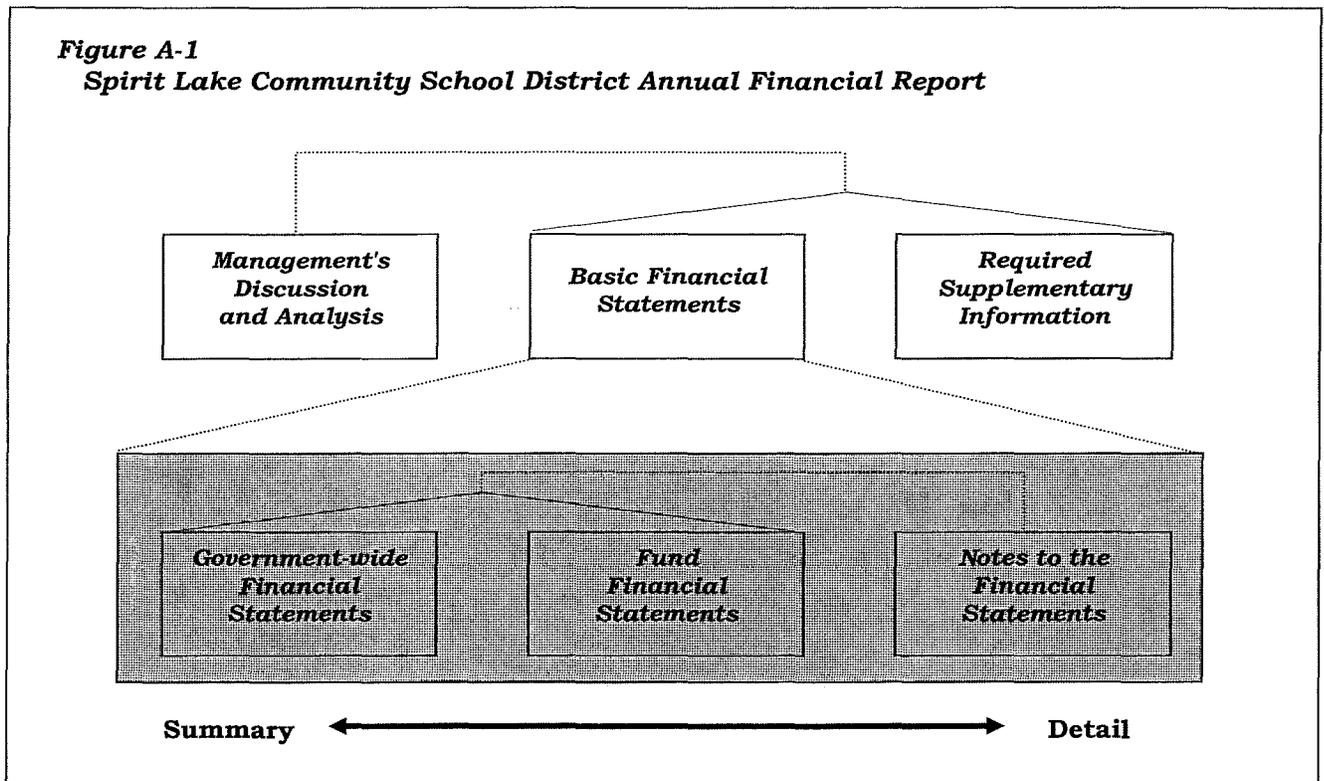


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

In the government-wide financial statements, the District's activities are divided into three 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.
- *Component unit:* This includes the activities of the Spirit Lake Community School Foundation, the Indian Athletic Booster Club, the Spirit Lake Music Booster Club, the Middle School Partners in Education and the Friends of the SAMI Center. The District receives significant financial benefits from these component units although they are legally separate entities.

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, 2009 compared to June 30, 2008.

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, |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2008-09 |
| Current and other assets | \$ 11,597,950 | 10,608,110 | 90,945 | 59,000 | 11,688,895 | 10,667,110 | 9.58% |
| Capital assets | 25,304,258 | 25,877,285 | 18,511 | 22,919 | 25,322,769 | 25,900,204 | -2.23% |
| Total assets | 36,902,208 | 36,485,395 | 109,456 | 81,919 | 37,011,664 | 36,567,314 | 1.22% |
| Long-term obligations | 6,516,647 | 7,689,346 | 0 | 0 | 6,516,647 | 7,689,346 | -15.25% |
| Other liabilities | 8,642,881 | 8,608,655 | 16,304 | 20,086 | 8,659,185 | 8,628,741 | 0.35% |
| Total liabilities | 15,159,528 | 16,298,001 | 16,304 | 20,086 | 15,175,832 | 16,318,087 | -7.00% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 19,190,443 | 18,448,503 | 18,511 | 22,919 | 19,208,954 | 18,471,422 | 3.99% |
| Restricted | 1,299,063 | 680,508 | 0 | 0 | 1,299,063 | 680,508 | 90.90% |
| Unrestricted | 1,253,174 | 1,058,383 | 74,641 | 38,914 | 1,327,815 | 1,097,297 | 21.01% |
| Total net assets | \$ 21,742,680 | 20,187,394 | 93,152 | 61,833 | 21,835,832 | 20,249,227 | 7.84% |

The District's combined net assets increased by 7.84%, or \$1,586,605, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$618,555, or 90.90% over the prior year. The increase was primarily a result of the increase in the Debt Service and Physical Plant and Equipment Levy 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 \$230,518, or 21.01%. This increase in unrestricted net assets can be attributed to increases in fund balance in the General, Management Levy and Physical Plant and Equipment Levy Funds.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-4
Changes of Net Assets

| | Governmental Activities | | Business Type Activities | | Total School District | | Total Change |
|--|-------------------------|-------------------|--------------------------|----------------|-----------------------|-------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2008-09 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 825,886 | 908,419 | 408,669 | 393,445 | 1,234,555 | 1,301,864 | -5.17% |
| Operating grants and contributions and restricted interest | 1,751,068 | 1,367,431 | 163,050 | 139,086 | 1,914,118 | 1,506,517 | 27.06% |
| Capital grants and contributions and restricted interest | 19,000 | 0 | 0 | 0 | 19,000 | 0 | 100.00% |
| General revenues: | | | | | | | |
| Property tax | 7,157,880 | 6,754,961 | 0 | 0 | 7,157,880 | 6,754,961 | 5.96% |
| Income surtax | 460,172 | 381,100 | 0 | 0 | 460,172 | 381,100 | 20.75% |
| Statewide sales and service tax | 1,549,351 | 1,552,149 | 0 | 0 | 1,549,351 | 1,552,149 | -0.18% |
| Unrestricted state grants | 2,349,063 | 2,991,696 | 0 | 0 | 2,349,063 | 2,991,696 | -21.48% |
| Other | 189,473 | 1,821,242 | 987 | 3,058 | 190,460 | 1,824,300 | -89.56% |
| Total revenues | 14,301,893 | 15,776,998 | 572,706 | 535,589 | 14,874,599 | 16,312,587 | -8.82% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instructional | 7,904,992 | 8,041,209 | 0 | 0 | 7,904,992 | 8,041,209 | -1.69% |
| Support services | 3,279,937 | 3,285,400 | 13,550 | 1,203 | 3,293,487 | 3,286,603 | 0.21% |
| Non-instructional programs | 0 | 20,624 | 527,837 | 573,157 | 527,837 | 593,781 | -11.11% |
| Other expenses | 1,561,678 | 1,341,345 | 0 | 0 | 1,561,678 | 1,341,345 | 16.43% |
| Total expenses | 12,746,607 | 12,688,578 | 541,387 | 574,360 | 13,287,994 | 13,262,938 | 0.19% |
| Change in net assets | 1,555,286 | 3,088,420 | 31,319 | (38,771) | 1,586,605 | 3,049,649 | -47.97% |
| Net assets beginning of year | 20,187,394 | 17,098,974 | 61,833 | 100,604 | 20,249,227 | 17,199,578 | 17.73% |
| Net assets end of year | \$ 21,742,680 | 20,187,394 | 93,152 | 61,833 | 21,835,832 | 20,249,227 | 7.84% |

In fiscal 2009, property tax, statewide sales and service tax and unrestricted state grants account for 77.31% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.83% of the revenue from business type activities.

The District's total revenues were approximately \$14.9 million of which \$14.3 million was for governmental activities and approximately \$0.6 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 8.82% in revenues and a 0.19% increase in expenses. Property tax increased \$402,919 to fund increases in expenses. The increase in expenses was related to an increase in support services costs during the year.

Governmental Activities

Revenues for governmental activities were \$14,301,893 and expenses were \$12,746,607. 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 | | |
|-------------------|------------------------|-------------------|-------------------|----------------------|-------------------|-------------------|
| | 2009 | 2008 | Change 2008-09 | 2009 | 2008 | Change 2008-09 |
| Instruction | \$ 7,904,992 | 8,041,209 | -1.72% | 5,776,291 | 6,185,630 | -7.09% |
| Support services | 3,279,937 | 3,285,400 | -0.17% | 3,278,857 | 3,284,871 | -0.18% |
| Non-instructional | 0 | 20,624 | -100.00% | 0 | 20,624 | -100.00% |
| Other expenses | 1,561,678 | 1,341,345 | 14.11% | 1,095,505 | 921,603 | 15.87% |
| Totals | <u>\$ 12,746,607</u> | <u>12,688,578</u> | <u>0.46%</u> | <u>10,150,653</u> | <u>10,412,728</u> | <u>-2.58%</u> |

- The cost financed by users of the District's programs was \$825,886.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,751,068. Residents of the District subsidized construction costs with contributions totaling \$19,000.
- The net cost of governmental activities was financed with \$7,157,880 in property tax, \$460,172 in income surtax, \$1,549,351 in statewide sales and services tax, \$2,349,063 in unrestricted state grants, \$27,215 in interest income and \$162,258 in other revenues.

Business type Activities

Revenues of the District's business type activities were \$572,706 and expenses were \$541,387. 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 \$2,678,517, compared to last year's ending fund balances of \$1,720,193. The primary reason for the increase in combined fund balances in fiscal 2009 is due to the increase in the Debt Service, Physical Plant and Equipment Levy and Management Levy fund balances.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Although the District experienced a slight decrease in revenues during fiscal 2009, the decrease in expenditures allowed the increase in General fund balance. Increases in revenues were due to the increases in local and federal revenues received during the year. The fund balance increased from \$994,105 to \$1,018,869.
- The Capital Projects Fund balance increased from a deficit balance of \$45,998 in fiscal 2008 to a balance of \$0 in fiscal 2009.
- The Debt Service Fund balance increased from \$501,865 in fiscal 2008 to \$959,237 in fiscal 2009.

Proprietary Fund Highlights

The total Proprietary Fund net assets increased from \$61,833 at June 30, 2008 to \$93,152 at June 30, 2009, representing an increase of 50.65%. This increase is primarily the result of the School Nutrition fund receiving more in federal funding as compared to the previous year.

BUDGETARY HIGHLIGHTS

The District's revenues were \$265,278 more than budgeted revenues, a variance of 1.83%. The most significant variance resulted from the District receiving more from federal 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, 2009, District expenditures exceeded the budgeted amount in the non-instructional programs function. Although the budget was exceeded in one functional area, the overall budget total was not exceeded.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$25,322,769, 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 decrease of 2.23% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$802,809.

The original cost of the District's capital assets was \$36.82 million. Governmental funds account for approximately \$36.68 million with the remainder of approximately \$0.14 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$10,402,155 at June 30, 2008, compared to \$0 reported at June 30, 2009.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business Type Activities | | Total School District | | Total Change |
|--------------------------|-------------------------|------------|--------------------------|--------|-----------------------|------------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2008-09 |
| Land | \$ 300,000 | 300,000 | 0 | 0 | 300,000 | 300,000 | 0.00% |
| Construction in progress | 0 | 10,402,155 | 0 | 0 | 0 | 10,402,155 | -100.00% |
| Buildings | 23,637,970 | 13,767,718 | 0 | 0 | 23,637,970 | 13,767,718 | 71.69% |
| Land improvements | 518,198 | 592,390 | 0 | 0 | 518,198 | 592,390 | -12.52% |
| Machinery and equipment | 848,090 | 815,022 | 18,511 | 22,919 | 866,601 | 837,941 | 3.42% |
| Total | \$ 25,304,258 | 25,877,285 | 18,511 | 22,919 | 25,322,769 | 25,900,204 | -2.23% |

Long-Term Debt

At June 30, 2009, the District had \$6,516,647 in general obligation and other long-term debt outstanding. This represents a decrease of 15.25% 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 revenue bond indebtedness at June 30, 2009 of \$5,935,000.

The District had capital loan notes payable of \$178,815 at June 30, 2009.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy of \$402,832 at June 30, 2009.

Figure A-7
Outstanding Long-Term Obligations

| | Total School District | | Total Change |
|--------------------------|--------------------------|------------------|-----------------|
| | June 30, | | June 30, |
| | 2009 | 2008 | 2008-09 |
| General obligation bonds | \$ 0 | 365,000 | -100.00% |
| Revenue bonds | 5,935,000 | 6,800,000 | -12.72% |
| Capital loan notes | 178,815 | 263,782 | -32.21% |
| Early retirement | 402,832 | 260,564 | 54.60% |
| Totals | <u>\$ 6,516,647</u> | <u>7,689,346</u> | <u>-15.25%</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:

- The District's October 2008 certified enrollment showed a decrease of 33.6 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 David Smith, Superintendent, 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, 2009

| | Primary Government | | | Component Units |
|--|---------------------------------|--------------------------------|-------------------|-------------------|
| | Govern- mental Activities | Business type Activities | Total | Total Discrete |
| ASSETS | | | | |
| Cash and pooled investments | \$ 3,168,385 | 70,866 | 3,239,251 | 278,424 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 90,684 | 0 | 90,684 | 0 |
| Succeeding year | 7,378,272 | 0 | 7,378,272 | 0 |
| Income surtax | 380,415 | 0 | 380,415 | 0 |
| Accounts | 35,623 | 2,592 | 38,215 | 0 |
| Due from other governments | 544,571 | 0 | 544,571 | 0 |
| Inventories | 0 | 17,487 | 17,487 | 0 |
| Capital assets, net of accumulated depreciation | 25,304,258 | 18,511 | 25,322,769 | 0 |
| TOTAL ASSETS | 36,902,208 | 109,456 | 37,011,664 | 278,424 |
| LIABILITIES | | | | |
| Accounts payable | 121,841 | 103 | 121,944 | 20,000 |
| Salaries and benefits payable | 1,038,905 | 8,301 | 1,047,206 | 0 |
| Interest payable | 103,863 | 0 | 103,863 | 0 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 7,378,272 | 0 | 7,378,272 | 0 |
| Unearned revenue | 0 | 7,900 | 7,900 | 0 |
| Long-term liabilities: | | | | |
| Portion due within one year: | | | | |
| Revenue bonds payable | 980,000 | 0 | 980,000 | 0 |
| Capital loan notes payable | 43,386 | 0 | 43,386 | 0 |
| Early retirement payable | 259,502 | 0 | 259,502 | 0 |
| Portion due after one year: | | | | |
| Revenue bonds payable | 4,955,000 | 0 | 4,955,000 | 0 |
| Capital loan notes payable | 135,429 | 0 | 135,429 | 0 |
| Early retirement payable | 143,330 | 0 | 143,330 | 0 |
| TOTAL LIABILITIES | 15,159,528 | 16,304 | 15,175,832 | 20,000 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 19,190,443 | 18,511 | 19,208,954 | 0 |
| Restricted for: | | | | |
| Investment | 0 | 0 | 0 | 20,544 |
| Categorical funding | 42,247 | 0 | 42,247 | 0 |
| Management | 76,631 | 0 | 76,631 | 0 |
| Physical plant and equipment levy | 105,286 | 0 | 105,286 | 0 |
| Debt service | 959,237 | 0 | 959,237 | 0 |
| Other special revenue purposes | 115,662 | 0 | 115,662 | 0 |
| Unrestricted | 1,253,174 | 74,641 | 1,327,815 | 237,880 |
| TOTAL NET ASSETS | \$ 21,742,680 | 93,152 | 21,835,832 | 258,424 |

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

| Functions/Programs: | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|---|----------------------|----------------------------|--|--|--|--------------------------------|---------------------|--------------------------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Primary Government | | Total | Component Units Total Discrete |
| | | | | | Govern- mental Activities | Business Type Activities | | |
| Governmental activities: | | | | | | | | |
| Instruction: | | | | | | | | |
| Regular | \$ 5,484,367 | 435,461 | 1,117,144 | 0 | (3,931,762) | 0 | (3,931,762) | 0 |
| Special | 1,157,228 | 195,698 | 149,971 | 0 | (811,559) | 0 | (811,559) | 0 |
| Other | 1,263,397 | 194,727 | 35,700 | 0 | (1,032,970) | 0 | (1,032,970) | 0 |
| | <u>7,904,992</u> | <u>825,886</u> | <u>1,302,815</u> | <u>0</u> | <u>(5,776,291)</u> | <u>0</u> | <u>(5,776,291)</u> | <u>0</u> |
| Support services: | | | | | | | | |
| Student | 160,182 | 0 | 0 | 0 | (160,182) | 0 | (160,182) | 0 |
| Instructional staff | 618,992 | 0 | 0 | 0 | (618,992) | 0 | (618,992) | 0 |
| Administration | 1,031,396 | 0 | 0 | 0 | (1,031,396) | 0 | (1,031,396) | 0 |
| Operation and maintenance of plant | 1,173,365 | 0 | 0 | 0 | (1,173,365) | 0 | (1,173,365) | 0 |
| Transportation | 296,002 | 0 | 1,080 | 0 | (294,922) | 0 | (294,922) | 0 |
| | <u>3,279,937</u> | <u>0</u> | <u>1,080</u> | <u>0</u> | <u>(3,278,857)</u> | <u>0</u> | <u>(3,278,857)</u> | <u>0</u> |
| Other expenditures: | | | | | | | | |
| Facilities acquisitions | 154,193 | 0 | 0 | 19,000 | (135,193) | 0 | (135,193) | 0 |
| Long-term debt interest and fiscal charges | 255,715 | 0 | 0 | 0 | (255,715) | 0 | (255,715) | 0 |
| AEA flowthrough | 447,173 | 0 | 447,173 | 0 | 0 | 0 | 0 | 0 |
| Depreciation(unallocated)* | 704,597 | 0 | 0 | 0 | (704,597) | 0 | (704,597) | 0 |
| | <u>1,561,678</u> | <u>0</u> | <u>447,173</u> | <u>19,000</u> | <u>(1,095,505)</u> | <u>0</u> | <u>(1,095,505)</u> | <u>0</u> |
| Total governmental activities | <u>12,746,607</u> | <u>825,886</u> | <u>1,751,068</u> | <u>19,000</u> | <u>(10,150,653)</u> | <u>0</u> | <u>(10,150,653)</u> | <u>0</u> |
| Business Type activities: | | | | | | | | |
| Support services: | | | | | | | | |
| Administration | 12,890 | 0 | 0 | 0 | 0 | (12,890) | (12,890) | 0 |
| Operation and maintenance of plant | 439 | 0 | 0 | 0 | 0 | (439) | (439) | 0 |
| Transportation | 221 | 0 | 0 | 0 | 0 | (221) | (221) | 0 |
| Total support services | <u>13,550</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(13,550)</u> | <u>(13,550)</u> | <u>0</u> |
| Non-instructional programs: | | | | | | | | |
| Nutrition services | 441,443 | 327,694 | 163,050 | 0 | 0 | 49,301 | 49,301 | 0 |
| Before and After School Program | 86,394 | 80,975 | 0 | 0 | 0 | (5,419) | (5,419) | 0 |
| Total non-instructional programs: | <u>527,837</u> | <u>408,669</u> | <u>163,050</u> | <u>0</u> | <u>0</u> | <u>43,882</u> | <u>43,882</u> | <u>0</u> |
| Total business type activities | <u>541,387</u> | <u>408,669</u> | <u>163,050</u> | <u>0</u> | <u>0</u> | <u>30,332</u> | <u>30,332</u> | <u>0</u> |
| Total primary government | <u>\$ 13,287,994</u> | <u>1,234,555</u> | <u>1,914,118</u> | <u>19,000</u> | <u>(10,150,653)</u> | <u>30,332</u> | <u>(10,120,321)</u> | <u>0</u> |
| Total component units | <u>\$ 256,975</u> | <u>249,969</u> | <u>8,461</u> | <u>0</u> | | | | <u>1,455</u> |
| General Revenues: | | | | | | | | |
| Property tax levied for: | | | | | | | | |
| General purposes | | | | | \$ 6,489,551 | 0 | 6,489,551 | 0 |
| Debt service | | | | | 383,349 | 0 | 383,349 | 0 |
| Capital outlay | | | | | 284,980 | 0 | 284,980 | 0 |
| Income surtax | | | | | 460,172 | 0 | 460,172 | 0 |
| Statewide sales and services | | | | | 1,549,351 | 0 | 1,549,351 | 0 |
| Unrestricted state grants | | | | | 2,349,063 | 0 | 2,349,063 | 0 |
| Unrestricted investment earnings | | | | | 27,215 | 987 | 28,202 | 12,293 |
| Other | | | | | 162,258 | 0 | 162,258 | 2,143 |
| Total general revenues | | | | | <u>11,705,939</u> | <u>987</u> | <u>11,706,926</u> | <u>14,436</u> |
| Changes in net assets | | | | | <u>1,555,286</u> | <u>31,319</u> | <u>1,586,605</u> | <u>15,891</u> |
| Net assets beginning of year | | | | | <u>20,187,394</u> | <u>61,833</u> | <u>20,249,227</u> | <u>242,533</u> |
| Net assets end of year | | | | | <u>\$ 21,742,680</u> | <u>93,152</u> | <u>21,835,832</u> | <u>258,424</u> |

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

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

| | General | Capital Projects | Debt Service | Other Nonmajor Governmental Funds | Total |
|--|---------------------|---------------------|-----------------|--|-------------------|
| Assets | | | | | |
| Cash and pooled investments | \$ 1,741,178 | 0 | 687,871 | 739,336 | 3,168,385 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 73,483 | 0 | 5,555 | 11,646 | 90,684 |
| Succeeding year | 6,579,464 | 0 | 0 | 798,808 | 7,378,272 |
| Income surtax | 380,415 | 0 | 0 | 0 | 380,415 |
| Interfund | 0 | 59,269 | 269,923 | 4,112 | 333,304 |
| Accounts | 31,037 | 0 | 0 | 4,586 | 35,623 |
| Due from other governments | 274,648 | 269,923 | 0 | 0 | 544,571 |
| Total Assets | \$ 9,080,225 | 329,192 | 963,349 | 1,558,488 | 11,931,254 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Interfund payable | \$ 0 | 269,923 | 4,112 | 59,269 | 333,304 |
| Accounts payable | 62,572 | 59,269 | 0 | 0 | 121,841 |
| Salaries and benefits payable | 1,038,905 | 0 | 0 | 0 | 1,038,905 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 6,579,464 | 0 | 0 | 798,808 | 7,378,272 |
| Income surtax | 380,415 | 0 | 0 | 0 | 380,415 |
| Total liabilities | 8,061,356 | 329,192 | 4,112 | 858,077 | 9,252,737 |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Categorical funding | 42,247 | 0 | 0 | 0 | 42,247 |
| Debt service | 0 | 0 | 959,237 | 0 | 959,237 |
| Unreserved | 976,622 | 0 | 0 | 700,411 | 1,677,033 |
| Total fund balances | 1,018,869 | 0 | 959,237 | 700,411 | 2,678,517 |
| Total Liabilities and Fund Balances | \$ 9,080,225 | 329,192 | 963,349 | 1,558,488 | 11,931,254 |

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, 2009

| | |
|---|------------------------------------|
| Total fund balances of governmental funds (page 15) | \$ 2,678,517 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 25,304,258 |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current period. | 380,415 |
| 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. | (103,863) |
| Long-term liabilities, including early retirement, revenue bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | <u>(6,516,647)</u> |
| Net assets of governmental activities (page 13) | <u><u>\$ 21,742,680</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

| | General | Capital Projects | Debt Service | Other Nonmajor Governmental Funds | Total |
|--|--------------|---------------------|-----------------|--|-------------|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 6,268,725 | 1,549,351 | 383,349 | 887,482 | 9,088,907 |
| Tuition | 560,536 | 0 | 0 | 0 | 560,536 |
| Other | 255,681 | 23,278 | 5,175 | 257,158 | 541,292 |
| Intermediate sources | 2,790 | 0 | 0 | 0 | 2,790 |
| State sources | 3,567,495 | 0 | 0 | 0 | 3,567,495 |
| Federal sources | 462,377 | 0 | 0 | 0 | 462,377 |
| Total revenues | 11,117,604 | 1,572,629 | 388,524 | 1,144,640 | 14,223,397 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 5,292,835 | 0 | 0 | 105,044 | 5,397,879 |
| Special | 1,213,744 | 0 | 0 | 0 | 1,213,744 |
| Other | 1,066,301 | 0 | 0 | 197,096 | 1,263,397 |
| | 7,572,880 | 0 | 0 | 302,140 | 7,875,020 |
| Support services: | | | | | |
| Student | 133,574 | 0 | 0 | 0 | 133,574 |
| Instructional staff | 618,992 | 0 | 0 | 0 | 618,992 |
| Administration | 930,528 | 0 | 0 | 71,013 | 1,001,541 |
| Operation and maintenance of plant | 1,080,455 | 0 | 0 | 83,273 | 1,163,728 |
| Transportation | 215,920 | 0 | 0 | 66,954 | 282,874 |
| | 2,979,469 | 0 | 0 | 221,240 | 3,200,709 |
| Other expenditures: | | | | | |
| Facilities acquisitions | 0 | 100,162 | 0 | 152,533 | 252,695 |
| Long-term debt: | | | | | |
| Principal | 0 | 0 | 1,314,967 | 0 | 1,314,967 |
| Interest and fiscal charges | 0 | 0 | 174,509 | 0 | 174,509 |
| AEA flowthrough | 447,173 | 0 | 0 | 0 | 447,173 |
| | 447,173 | 100,162 | 1,489,476 | 152,533 | 2,189,344 |
| Total expenditures | 10,999,522 | 100,162 | 1,489,476 | 675,913 | 13,265,073 |
| Excess(deficiency) of revenues over(under) expenditures | 118,082 | 1,472,467 | (1,100,952) | 468,727 | 958,324 |
| Other financing sources(uses): | | | | | |
| Transfers in | 0 | 122,881 | 1,642,668 | 84,344 | 1,849,893 |
| Transfers out | (93,318) | (1,549,350) | (84,344) | (122,881) | (1,849,893) |
| Total other financing sources(uses) | (93,318) | (1,426,469) | 1,558,324 | (38,537) | 0 |
| Net change in fund balances | 24,764 | 45,998 | 457,372 | 430,190 | 958,324 |
| Fund balance beginning of year | 994,105 | (45,998) | 501,865 | 270,221 | 1,720,193 |
| Fund balance end of year | \$ 1,018,869 | 0 | 959,237 | 700,411 | 2,678,517 |

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds (page 17) \$ 958,324

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

| | | |
|----------------------|------------------|-----------|
| Capital outlays | \$ 225,374 | |
| Depreciation expense | <u>(798,401)</u> | (573,027) |

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

1,314,967

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.

(81,206)

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

78,496

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>(142,268)</u> |
|------------------|--|------------------|

Changes in net assets of governmental activities (page 14) \$ 1,555,286

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2009

| | School Nutrition | Before and After School Program | Total Enterprise |
|--|---------------------|---------------------------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 34,472 | 36,394 | 70,866 |
| Accounts receivable | 2,592 | 0 | 2,592 |
| Inventories | 17,487 | 0 | 17,487 |
| Capital assets, net of accumulated depreciation | 18,511 | 0 | 18,511 |
| TOTAL ASSETS | 73,062 | 36,394 | 109,456 |
| LIABILITIES | | | |
| Accounts payable | 103 | 0 | 103 |
| Salaries and benefits payable | 0 | 8,301 | 8,301 |
| Unearned revenue | 7,900 | 0 | 7,900 |
| TOTAL LIABILITIES | 8,003 | 8,301 | 16,304 |
| NET ASSETS | | | |
| Invested in capital assets | 18,511 | 0 | 18,511 |
| Unrestricted | 46,548 | 28,093 | 74,641 |
| TOTAL NET ASSETS | \$ 65,059 | 28,093 | 93,152 |

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

| | School Nutrition | Before and After School Program | Total Enterprise |
|--|---------------------|---------------------------------------|---------------------|
| OPERATING REVENUE: | | | |
| Local sources: | | | |
| Charges for services | \$ 327,694 | 80,975 | 408,669 |
| OPERATING EXPENSES: | | | |
| Support services: | | | |
| Administration: | | | |
| Salaries | 0 | 10,540 | 10,540 |
| Benefits | 0 | 2,350 | 2,350 |
| Operation and maintenance of plant: | | | |
| Supplies | 439 | 0 | 439 |
| Transportation: | | | |
| Salaries | 0 | 199 | 199 |
| Benefits | 0 | 22 | 22 |
| Total support services | 439 | 13,111 | 13,550 |
| Non-instructional programs: | | | |
| Salaries | 159,187 | 60,252 | 219,439 |
| Benefits | 27,988 | 8,986 | 36,974 |
| Services | 833 | 219 | 1,052 |
| Supplies | 249,027 | 16,937 | 265,964 |
| Depreciation | 4,408 | 0 | 4,408 |
| Total non-instructional programs | 441,443 | 86,394 | 527,837 |
| TOTAL OPERATING EXPENSES | 441,882 | 99,505 | 541,387 |
| OPERATING LOSS | (114,188) | (18,530) | (132,718) |
| NON-OPERATING REVENUES: | | | |
| State sources | 5,031 | 0 | 5,031 |
| Federal sources | 158,019 | 0 | 158,019 |
| Interest on investments | 83 | 904 | 987 |
| TOTAL NON-OPERATING REVENUES | 163,133 | 904 | 164,037 |
| Net income(loss) | 48,945 | (17,626) | 31,319 |
| Net assets beginning of year | 16,114 | 45,719 | 61,833 |
| Net assets end of year | \$ 65,059 | 28,093 | 93,152 |

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

| | School Nutrition | Before and After School Program | Total Enterprise |
|---|---------------------|---------------------------------------|---------------------|
| Cash flows from operating activities: | | | |
| Cash received from sale of lunches and breakfasts | \$ 311,299 | 0 | 311,299 |
| Cash received from miscellaneous | 13,925 | 82,335 | 96,260 |
| Cash payments to employees for services | (187,175) | (83,799) | (270,974) |
| Cash payments to suppliers for goods or services | (232,090) | (20,744) | (252,834) |
| Net cash used in operating activities | <u>(94,041)</u> | <u>(22,208)</u> | <u>(116,249)</u> |
| Cash flows from non-capital financing activities: | | | |
| Interfund borrowings/repayments | (10,000) | 10,000 | 0 |
| State grants received | 5,031 | 0 | 5,031 |
| Federal grants received | 129,485 | 0 | 129,485 |
| Net cash provided by non-capital financing activities | <u>124,516</u> | <u>10,000</u> | <u>134,516</u> |
| Cash flows from investing activities: | | | |
| Interest on investments | 83 | 904 | 987 |
| Net increase(decrease) in cash and cash equivalents | 30,558 | (11,304) | 19,254 |
| Cash and cash equivalents at beginning of year | 3,914 | 47,698 | 51,612 |
| Cash and cash equivalents at end of year | <u>\$ 34,472</u> | <u>36,394</u> | <u>70,866</u> |
| Reconciliation of operating loss to net cash used in operating activities: | | | |
| Operating loss | \$ (114,188) | (18,530) | (132,718) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | |
| Commodities consumed | 28,534 | 0 | 28,534 |
| Depreciation | 4,408 | 0 | 4,408 |
| Increase in inventories | (10,428) | 0 | (10,428) |
| (Increase)Decrease in accounts receivable | (2,072) | 1,360 | (712) |
| Increase(Decrease) in accounts payable | 103 | (3,588) | (3,485) |
| Decrease in salaries and benefits payable | 0 | (1,450) | (1,450) |
| Decrease in unearned revenue | (398) | 0 | (398) |
| Net cash used in operating activities | <u>\$ (94,041)</u> | <u>(22,208)</u> | <u>(116,249)</u> |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2009, the District received Federal commodities valued at \$28,534.

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
SPIRIT LAKE COMMUNITY SCHOOL FOUNDATION
JUNE 30, 2009

| | <u>Spirit Lake Community School Foundation</u> |
|-------------------------|--|
| Assets | |
| Cash | \$ 18,823 |
| Investments | <u>628,177</u> |
| Total Assets | <u>\$ 647,000</u> |
| | |
| Total Liabilities | <u>\$ 0</u> |
| | |
| Net Assets | |
| Restricted net assets | 640,101 |
| Unrestricted net assets | <u>6,899</u> |
| Total Net Assets | <u>\$ 647,000</u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET ASSETS - CASH BASIS -
SPIRIT LAKE COMMUNITY SCHOOL FOUNDATION
YEAR ENDED JUNE 30, 2009

| | Spirit Lake Community School Foundation | | |
|--|---|------------------|------------------|
| | Unrestricted | Restricted | Total |
| | Funds | Funds | |
| Revenues: | | | |
| Interest | \$ 28 | 0 | 28 |
| Donations | 5,420 | 11,813 | 17,233 |
| Dividends | 0 | 27,595 | 27,595 |
| TOTAL REVENUES | 5,448 | 39,408 | 44,856 |
| EXPENSES: | | | |
| Scholarships | 370 | 36,153 | 36,523 |
| Donations | 500 | 11,305 | 11,805 |
| Accounting fees | 0 | 1,500 | 1,500 |
| Investment management | 0 | 2,642 | 2,642 |
| Postage | 164 | 0 | 164 |
| Supplies | 751 | 0 | 751 |
| TOTAL EXPENSES | 1,785 | 51,600 | 53,385 |
| Excess(Deficiency) of revenues over(under) expenses | 3,663 | (12,192) | (8,529) |
| OTHER FINANCING SOURCES(USES): | | | |
| Loss on sale of investments | 0 | (147,191) | (147,191) |
| Unrealized gain on investments | 0 | 27,484 | 27,484 |
| Transfers | (1,184) | 1,184 | 0 |
| TOTAL OTHER FINANCING SOURCES(USES) | (1,184) | (118,523) | (119,707) |
| Change in net assets | 2,479 | (130,715) | (128,236) |
| Net assets beginning of year | 4,420 | 770,816 | 775,236 |
| Net assets end of year | \$ 6,899 | 640,101 | 647,000 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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 six organizations that are considered as component units according to the Governmental Accounting Standards Board criteria.

These financial statements present the Spirit Lake Community School District (the primary government) and its component units.

One component unit, the Spirit Lake Community School Foundation is included in the District's reporting because of the significance of its operational or financial relationship with the District. Certain disclosures about the component unit are not included because the component unit has been audited separately and the report has been issued under separate cover. The audited financial statements are available at the District's central office.

The remaining four component units discussed below are included in the District's reporting entity because of the significance of its operational or financial relationship with the District. These organizations do not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting

Standards Board, these organizations meet the definition of a component unit which should be discretely presented. These organizations are accounted for as a Governmental fund in these financial statements.

Discretely Presented Component Units - The Indian Athletic Booster Club was created to raise money through membership fees, contributions and fundraisers to benefit the District's non-intramural athletic programs. It is a legally separate not-for-profit organization with its own accounting records and board of directors. The board of directors consists of five officers of the executive committee and six at-large members. Directors are elected by booster club members at the annual meeting. Executive committee members serve one year terms while at-large members serve two year terms.

The Spirit Lake Music Booster Club was created to provide support, both financial and volunteer, to the music programs of the District by raising money through memberships, concession stands and fundraisers. It is a legally separate not-for-profit organization with its own accounting records and board of directors. Directors volunteer and may serve for long as they are willing.

The Middle School Partners in Education(PIE)was created to offer parents the opportunity to help further the education of students at the District's middle school. Funds raised by this organization are used to aid in the education of students in ways that the District's budget would otherwise not be able to provide. PIE is a legally separate not-for-profit organization with its own accounting records and board of directors.

The Friends of the SAMI Center(The Friends) was created to be an active partner with the District as the primary advocate for the Sami Bedell Center for the Performing Arts. The Friends mission is to enhance the impact of the Sami Center by providing collaborative programming and financial support in a creative and visionary manner. The Friends is a legally separate not-for-profit organization with its own accounting records and board of directors.

Jointly Governed Organizations

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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 financial statements:

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, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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, 2009, expenditures in the non-instructional programs function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2009 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, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

| | <u>Amortized Cost</u> |
|-----------------------|-----------------------|
| Diversified Portfolio | \$ <u>2,725,418</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, 2009 is as follows:

| Transfer to | Transfer from | Amount |
|--------------------------------------|--------------------------------------|---------------------|
| Debt Service | General | \$ 93,318 |
| Debt Sinking | Capital Projects | 1,549,350 |
| Capital Projects | Physical Plant and Equipment Levy | 122,881 |
| Physical Plant and Equipment Levy | Debt Service | 84,344 |
| Total | | <u>\$ 1,849,893</u> |

The General Fund transferred to Debt Service Fund for principal and interest payments on the District's capital loan note indebtedness.

The Capital Projects transferred statewide sales and services tax dollars to the Debt Sinking Fund as required by the covenants of the District's revenue bond indebtedness.

The Physical Plant and Equipment Levy Fund transferred to the Capital Projects Fund to pay for capital construction projects completed during the year.

The District had an excess balance in the Debt Service fund after the final payment was made on the May 1, 2001 general obligation bond issue. As a result, the Debt Service Fund transferred the balance to the Physical Plant and Equipment Levy Fund.

(4) Due to and Due From Other Funds

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

| Receivable Fund | Payable Fund | Amount |
|--------------------------------------|--------------------------------------|-------------------|
| Physical Plant and Equipment Levy | Debt Service | \$ 4,112 |
| Debt Sinking | Capital Projects | 269,923 |
| Capital Projects | Physical Plant and Equipment Levy | 59,269 |
| Total | | <u>\$ 333,304</u> |

The interfund loan between the Debt Service Fund and the Physical Plant and Equipment Levy Fund was for tax receivable after the District had repaid all of the remaining general obligation bond indebtedness.

The interfund loan between the Capital Projects Fund and the Debt Sinking fund is for statewide sales and services tax receivable at the end of the year. Per the revenue bond covenant all statewide sales and services tax must be placed in the debt sinking fund.

The interfund loan between the Physical Plant and Equipment Levy Fund and the Capital Projects Fund was for retainage for completed construction projects in the District.

The District's Board of Directors has subsequently approved the repayment of the interfund loans in compliance with the declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|-------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 300,000 | 0 | 0 | 300,000 |
| Construction in progress | 10,402,155 | 98,502 | 10,500,657 | 0 |
| Total capital assets not being depreciated | <u>10,702,155</u> | <u>98,502</u> | <u>10,500,657</u> | <u>300,000</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 21,535,954 | 10,500,657 | 0 | 32,036,611 |
| Land improvements | 1,860,773 | 0 | 0 | 1,860,773 |
| Machinery and equipment | 2,354,866 | 126,872 | 0 | 2,481,738 |
| Total capital assets being depreciated | <u>25,751,593</u> | <u>10,627,529</u> | <u>0</u> | <u>36,379,122</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 7,768,236 | 630,405 | 0 | 8,398,641 |
| Land improvements | 1,268,383 | 74,192 | 0 | 1,342,575 |
| Machinery and equipment | 1,539,844 | 93,804 | 0 | 1,633,648 |
| Total accumulated depreciation | <u>10,576,463</u> | <u>798,401</u> | <u>0</u> | <u>11,374,864</u> |
| Total capital assets being depreciated, net | <u>15,175,130</u> | <u>9,829,128</u> | <u>0</u> | <u>25,004,258</u> |
| Governmental activities capital assets, net | <u>\$ 25,877,285</u> | <u>9,927,630</u> | <u>10,500,657</u> | <u>25,304,258</u> |

| | 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 | 117,573 | 4,408 | 0 | 121,981 |
| Business-type activities capital assets, net | \$ 22,919 | (4,408) | 0 | 18,511 |

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 15,329

Support services:

Administration 2,000

Operation and maintenance of plant 40,712

Transportation 35,763

93,804

Unallocated depreciation 704,597

Total governmental activities depreciation expense \$ 798,401

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, 2009 is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|--------------------------|---------------------------------|-----------|-----------|---------------------------|---------------------------|
| General obligation bonds | \$ 365,000 | 0 | 365,000 | 0 | 0 |
| Revenue bonds | 6,800,000 | 0 | 865,000 | 5,935,000 | 980,000 |
| Capital loan notes | 263,782 | 0 | 84,967 | 178,815 | 43,386 |
| Early retirement | 260,564 | 234,282 | 92,014 | 402,832 | 259,502 |
| Total | \$ 7,689,346 | 234,282 | 1,406,981 | 6,516,647 | 1,282,888 |

Revenue Bonds Payable

Details of the District's June 30, 2009 revenue bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of June 1, 2008 | | | |
|----------------------------|----------------------------|--------------|-----------|-----------|
| | Interest Rates | Principal | Interest | Total |
| 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 | 3.500 | 385,000 | 107,800 | 492,800 |
| 2015-2019 | 3.500 | 1,925,000 | 336,873 | 2,261,873 |
| 2020-2021 | 3.500 | 770,000 | 40,423 | 810,423 |
| Total | | \$ 5,935,000 | 1,125,600 | 7,060,600 |

The District has pledged future statewide 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 (statewide) 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 (statewide) sales and services tax revenues. The total principal and interest remaining to be paid on the bonds is \$7,060,600. For the current year \$865,000 in principal and \$148,750 in interest was paid on the bonds and the total statewide sales and services tax revenues were \$1,549,351.

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

- a) All proceeds from the local option (statewide) 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.

Capital Loan Notes

During the year ended June 30, 2002, the District issued Energy Management Capital Loan Notes to build a wind turbine. Annual principal and interest payments are made from the General Fund. Details of the District's June 30, 2009 capital loan notes indebtedness are as follows:

| Year Ending June 30, | Capital Loan Note Issue of July 2, 2001 | | | |
|----------------------------|---|------------|----------|---------|
| | Interest Rates | Principal | Interest | Total |
| 2010 | 5.100 % \$ | 43,386 | 3,273 | 46,659 |
| 2011 | 5.100 | 89,155 | 4,163 | 93,318 |
| 2012 | 5.100 | 46,274 | 849 | 47,123 |
| Total | | \$ 178,815 | 8,285 | 187,100 |

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, 2009 totaled \$92,014.

(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 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$459,884, \$448,325, and \$388,740 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 \$447,173 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2009, expenditures in the non-instructional programs function exceeded the amount budgeted.

(11) Operating Lease

During the year ended June 30, 2008, the District entered into a lease agreement for two buses. Per terms of the lease agreement, the District has agreed to pay \$25,018 a year. The final payment is in August 2010.

(12) Contingencies

As of June 30, 2009, 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.

(13) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2009 are broken out by the following projects:

| Project | Amount |
|-----------------------------|------------------|
| Talented and gifted | \$ 9,358 |
| Beginning teacher mentoring | 2,128 |
| Salary improvement program | 15,328 |
| Market factor | 4,812 |
| Iowa arts council | 33 |
| Professional development | 2,351 |
| Market factor incentives | 8,237 |
| Total | <u>\$ 42,247</u> |

(14) Other Postemployment Benefits (OPEB)

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement No. 45.

REQUIRED SUPPLEMENTARY INFORMATION

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

| | Governmental | Proprietary | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|---|---------------|-------------|-----------------|------------------|-------------|--------------------------------|
| | Funds | Fund Type | | Original | Final | |
| | Actual | Actual | | | | |
| Revenues: | | | | | | |
| Local sources | \$ 10,190,735 | 409,656 | 10,600,391 | 10,471,213 | 10,471,213 | 129,178 |
| Intermediate sources | 2,790 | 0 | 2,790 | 0 | 0 | 2,790 |
| State sources | 3,567,495 | 5,031 | 3,572,526 | 3,734,612 | 3,734,612 | (162,086) |
| Federal sources | 462,377 | 158,019 | 620,396 | 325,000 | 325,000 | 295,396 |
| Total revenues | 14,223,397 | 572,706 | 14,796,103 | 14,530,825 | 14,530,825 | 265,278 |
| Expenditures/Expenses: | | | | | | |
| Instruction | 7,875,020 | 0 | 7,875,020 | 8,221,621 | 8,221,621 | 346,601 |
| Support services | 3,200,709 | 13,550 | 3,214,259 | 3,224,990 | 3,500,000 | 285,741 |
| Non-instructional programs | 0 | 527,837 | 527,837 | 444,200 | 500,000 | (27,837) |
| Other expenditures | 2,189,344 | 0 | 2,189,344 | 3,312,148 | 3,312,148 | 1,122,804 |
| Total expenditures/expenses | 13,265,073 | 541,387 | 13,806,460 | 15,202,959 | 15,533,769 | 1,727,309 |
| Excess (deficiency) of revenues over (under) expenditures/expenses | 958,324 | 31,319 | 989,643 | (672,134) | (1,002,944) | 1,992,587 |
| Balance beginning of year | 1,720,193 | 61,833 | 1,782,026 | 1,077,773 | 1,077,773 | 704,253 |
| Balance end of year | \$ 2,678,517 | 93,152 | 2,771,669 | 405,639 | 74,829 | 2,696,840 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the general Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2009, the District adopted one budget amendment increasing budgeted expenditures by \$330,810.

During the year ended June 30, 2009, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Total |
|--|-------------------------|---------------------|--|------------------|
| Assets | | | | |
| Cash and pooled investments | \$ 471,946 | 111,076 | 156,314 | 739,336 |
| Receivables: | | | | |
| Property tax: | | | | |
| Current year delinquent | 7,517 | 0 | 4,129 | 11,646 |
| Succeeding year | 500,000 | 0 | 298,808 | 798,808 |
| Interfund | 0 | 0 | 4,112 | 4,112 |
| Accounts | 0 | 4,586 | 0 | 4,586 |
| Total Assets | \$ 979,463 | 115,662 | 463,363 | 1,558,488 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Interfund payable | \$ 0 | 0 | 59,269 | 59,269 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 500,000 | 0 | 298,808 | 798,808 |
| Total liabilities | 500,000 | 0 | 358,077 | 858,077 |
| Unreserved fund balances | 479,463 | 115,662 | 105,286 | 700,411 |
| Total Liabilities and Fund Balances | \$ 979,463 | 115,662 | 463,363 | 1,558,488 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2009

| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Total |
|---|-------------------------|---------------------|--|------------------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Local tax | \$ 602,502 | 0 | 284,980 | 887,482 |
| Other | 24,055 | 230,336 | 2,767 | 257,158 |
| TOTAL REVENUES | 626,557 | 230,336 | 287,747 | 1,144,640 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 105,044 | 0 | 0 | 105,044 |
| Other | 0 | 197,096 | 0 | 197,096 |
| Support services: | | | | |
| Administration | 71,013 | 0 | 0 | 71,013 |
| Operation and maintenance of plant | 83,273 | 0 | 0 | 83,273 |
| Student transportation | 17,675 | 0 | 49,279 | 66,954 |
| Other expenditures: | | | | |
| Facilities acquisitions | 0 | 0 | 152,533 | 152,533 |
| TOTAL EXPENDITURES | 277,005 | 197,096 | 201,812 | 675,913 |
| Excess of revenues over expenditures | 349,552 | 33,240 | 85,935 | 468,727 |
| Other financing sources(uses): | | | | |
| Transfer in | 0 | 0 | 84,344 | 84,344 |
| Transfer out | 0 | 0 | (122,881) | (122,881) |
| Total other financing sources(uses) | 0 | 0 | (38,537) | (38,537) |
| Excess of revenues and other financing sources(uses) over expenditures | 349,552 | 33,240 | 47,398 | 430,190 |
| Fund balance beginning of year | 129,911 | 82,422 | 57,888 | 270,221 |
| Fund balance end of year | \$ 479,463 | 115,662 | 105,286 | 700,411 |

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, 2009

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|-----------------------|---------------------------------|----------------|-------------------|---------------------------|
| MS Drama | \$ 1,338 | 634 | 49 | 1,923 |
| HS Drama | 2,491 | 11,241 | 10,896 | 2,836 |
| Speech | 0 | 356 | 356 | 0 |
| MS Vocal | 0 | 947 | 947 | 0 |
| HS Vocal | 1,186 | 8,949 | 9,543 | 592 |
| MS Instrumental Music | 5,402 | 4,633 | 5,346 | 4,689 |
| HS Instrumental Music | 2,401 | 11,559 | 10,122 | 3,838 |
| Co-Ed Athletics | 29,506 | 69,735 | 69,629 | 29,612 |
| Cross Country | 0 | 936 | 936 | 0 |
| Boys Basketball | 0 | 4,269 | 4,269 | 0 |
| Boys Football | 0 | 12,681 | 6,023 | 6,658 |
| Boys Soccer | 0 | 2,054 | 2,054 | 0 |
| Boys Baseball | 0 | 3,191 | 3,191 | 0 |
| Boys Track | 0 | 3,352 | 2,570 | 782 |
| Boys Tennis | 0 | 836 | 836 | 0 |
| Boys Golf | 65 | 505 | 570 | 0 |
| Boys Wrestling | 0 | 2,639 | 2,639 | 0 |
| Girls Basketball | 0 | 3,840 | 3,840 | 0 |
| Girls Volleyball | 0 | 7,310 | 7,310 | 0 |
| Girls Soccer | 0 | 1,703 | 1,703 | 0 |
| Girls Softball | 0 | 5,228 | 5,088 | 140 |
| Girls Track | 0 | 2,387 | 2,387 | 0 |
| Girls Tennis | 0 | 1,607 | 1,607 | 0 |
| Girls Golf | 0 | 1,578 | 1,578 | 0 |
| Class of 2009 | 1,161 | 0 | 891 | 270 |
| Class of 2010 | 2,435 | 1,034 | 2,584 | 885 |
| Class of 2011 | 1,188 | 836 | 41 | 1,983 |
| Class of 2012 | 320 | 840 | 37 | 1,123 |
| Class of 2013 | 211 | 3 | 0 | 214 |
| Class of 2014 | 103 | 1 | 0 | 104 |
| Student Insurance | 0 | 2,797 | 2,797 | 0 |
| Mexico Club | 1,773 | 20 | 0 | 1,793 |
| Video Club | 463 | 5 | 90 | 378 |
| Skills-USA | 152 | 3 | 46 | 109 |
| Annual | 15,204 | 9,147 | 10,138 | 14,213 |
| Academic Decathlon | 0 | 946 | 946 | 0 |
| SLHS Quiz Bowl | 1,370 | 766 | 596 | 1,540 |
| Classes | 2,446 | 5,196 | 2,807 | 4,835 |
| MS SAC | 3,385 | 3,656 | 6,180 | 861 |
| HS SAC | 9,069 | 3,762 | 2,336 | 10,495 |
| MOC | 624 | 1,773 | 1,604 | 793 |
| Due Other Fund | 129 | 37,381 | 12,514 | 24,996 |
| Total | \$ 82,422 | 230,336 | 197,096 | 115,662 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET FOR DEBT SERVICE FUND
 JUNE 30, 2009

| | Debt Service Fund | | |
|--|-------------------|-----------------|----------------|
| | Debt Service | Debt Sinking | Total |
| Assets | | | |
| Cash and pooled investments | \$ 0 | 687,871 | 687,871 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 5,555 | 0 | 5,555 |
| Interfund | 0 | 269,923 | 269,923 |
| Total assets | \$ 5,555 | 957,794 | 963,349 |
| Liabilities and fund balances | | | |
| Liabilities: | | | |
| Interfund payable | \$ 4,112 | 0 | 4,112 |
| Fund balances: | | | |
| Reserved for debt service | 1,443 | 957,794 | 959,237 |
| Total liabilities and fund balances | \$ 5,555 | 957,794 | 963,349 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 DEBT SERVICE FUND
 YEAR ENDED JUNE 30, 2009

| | Debt Service Fund | | |
|--|-------------------|-----------------|-------------|
| | Debt Service | Debt Sinking | Total |
| REVENUES: | | | |
| Local sources: | | | |
| Local tax | \$ 383,349 | 0 | 383,349 |
| Other | 2 | 5,173 | 5,175 |
| Total revenues | 383,351 | 5,173 | 388,524 |
| EXPENDITURES: | | | |
| Current: | | | |
| Other expenditures: | | | |
| Long-term debt: | | | |
| Principal | 449,967 | 865,000 | 1,314,967 |
| Interest and fiscal charges | 25,560 | 148,949 | 174,509 |
| Total expenditures | 475,527 | 1,013,949 | 1,489,476 |
| Deficiency of revenues under expenditures | (92,176) | (1,008,776) | (1,100,952) |
| Other financing sources(uses): | | | |
| Transfer in | 93,318 | 1,549,350 | 1,642,668 |
| Transfer out | (84,344) | 0 | (84,344) |
| Total other financing sources(uses) | 8,974 | 1,549,350 | 1,558,324 |
| Net change in fund balances | (83,202) | 540,574 | 457,372 |
| Fund balances beginning of year | 84,645 | 417,220 | 501,865 |
| Fund balances end of year | \$ 1,443 | 957,794 | 959,237 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND
 NET ASSETS - CASH BASIS -
 DISCRETE COMPONENT UNITS
 JUNE 30, 2009

| | Discrete Component Units | | | | Total |
|---------------------------|------------------------------------|--------------------------------------|---|----------------------------------|---------|
| | Indian Athletic Booster Club | Spirit Lake Music Booster Club | Middle School Partners in Education | Friends of the SAMI Center | |
| Assets | | | | | |
| Cash | \$ 6,178 | 52,519 | 2,405 | 199,773 | 260,875 |
| Investments | 0 | 0 | 0 | 17,549 | 17,549 |
| Total Assets | \$ 6,178 | 52,519 | 2,405 | 217,322 | 278,424 |
| Liabilities | | | | | |
| Accounts payable | \$ 20,000 | 0 | 0 | 0 | 20,000 |
| Total Liabilities | 20,000 | 0 | 0 | 0 | 20,000 |
| Net Assets | | | | | |
| Restricted for investment | 0 | 0 | 0 | 20,544 | 20,544 |
| Unrestricted | (13,822) | 52,519 | 2,405 | 196,778 | 237,880 |
| Total Net Assets | \$ (13,822) | 52,519 | 2,405 | 217,322 | 258,424 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES AND EXPENSES
 AND CHANGES IN NET ASSETS - CASH BASIS -
 DISCRETE COMPONENT UNITS
 YEAR ENDED JUNE 30, 2009

| | Discrete Component Units | | | | | Total |
|------------------------------|--------------------------|-----------------------|--------------------------|-----------------------|----------------|----------------|
| | Indian | Spirit Lake | Middle School | Friends | Total | |
| | Athletic Booster Club | Music Booster Club | Partners in Education | of the SAMI Center | | |
| Revenues: | | | | | | |
| Interest | \$ 2,154 | 100 | 0 | 9,728 | 11,982 | 11,982 |
| Donations | 0 | 700 | 0 | 7,761 | 8,461 | 8,461 |
| Dividends | 0 | 0 | 0 | 311 | 311 | 311 |
| Sponsorships | 34,350 | 7,780 | 0 | 3,050 | 45,180 | 45,180 |
| Concessions | 35,851 | 25,169 | 0 | 138 | 61,158 | 61,158 |
| Event admissions | 0 | 0 | 0 | 20,731 | 20,731 | 20,731 |
| Fundraisers | 22,585 | 20,322 | 60,043 | 19,950 | 122,900 | 122,900 |
| Other | 0 | 2,063 | 0 | 80 | 2,143 | 2,143 |
| TOTAL REVENUES | 94,940 | 56,134 | 60,043 | 61,749 | 272,866 | 272,866 |
| EXPENSES: | | | | | | |
| Facilities/Equipment | 8,604 | 400 | 20,384 | 19,851 | 49,239 | 49,239 |
| Labor | 0 | 5,077 | 0 | 30,000 | 35,077 | 35,077 |
| Advertising | 2,733 | 481 | 0 | 4,625 | 7,839 | 7,839 |
| Bank charges | 2,131 | 150 | 0 | 425 | 2,706 | 2,706 |
| Travel | 2,874 | 544 | 0 | 1,235 | 4,653 | 4,653 |
| Postage | 42 | 911 | 0 | 80 | 1,033 | 1,033 |
| Supplies | 40,116 | 18,340 | 37,254 | 3,453 | 99,163 | 99,163 |
| Insurance | 974 | 470 | 0 | 725 | 2,169 | 2,169 |
| Student purchases | 13,878 | 9,397 | 0 | 0 | 23,275 | 23,275 |
| Event expenses | 0 | 0 | 0 | 30,592 | 30,592 | 30,592 |
| Other | 637 | 570 | 0 | 22 | 1,229 | 1,229 |
| TOTAL EXPENSES | 71,989 | 36,340 | 57,638 | 91,008 | 256,975 | 256,975 |
| Change in net assets | 22,951 | 19,794 | 2,405 | (29,259) | 15,891 | 15,891 |
| Net assets beginning of year | (36,773) | 32,725 | 0 | 246,581 | 242,533 | 242,533 |
| Net assets end of year | \$ (13,822) | 52,519 | 2,405 | 217,322 | 258,424 | 258,424 |

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 NINE YEARS

| | Modified Accrual Basis | | | | | | | | |
|-----------------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| | Years Ended June 30, | | | | | | | | |
| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
| Revenues: | | | | | | | | | |
| Local sources: | | | | | | | | | |
| Local tax | \$ 9,088,907 | 8,688,210 | 8,790,999 | 7,615,021 | 7,337,029 | 5,346,101 | 5,589,269 | 4,832,510 | 4,554,870 |
| Tuition | 560,536 | 654,005 | 695,443 | 696,195 | 884,949 | 689,358 | 658,805 | 709,038 | 656,330 |
| Other | 541,292 | 629,124 | 631,605 | 874,633 | 347,694 | 1,501,512 | 1,686,729 | 1,561,555 | 865,483 |
| Intermediate sources | 2,790 | 0 | 0 | 0 | 0 | 445 | 1,383 | 37,098 | 217 |
| State sources | 3,567,495 | 4,015,627 | 3,168,572 | 3,772,691 | 3,439,146 | 3,214,284 | 3,327,968 | 3,737,756 | 3,687,934 |
| Federal sources | 462,377 | 290,032 | 340,617 | 250,098 | 740,807 | 693,673 | 252,925 | 296,099 | 230,016 |
| Total | \$ 14,223,397 | 14,276,998 | 13,627,236 | 13,208,638 | 12,749,625 | 11,445,373 | 11,517,079 | 11,174,056 | 9,994,850 |
| Expenditures: | | | | | | | | | |
| Current: | | | | | | | | | |
| Instruction: | | | | | | | | | |
| Regular | \$ 5,397,879 | 5,292,796 | 5,057,938 | 4,781,325 | 4,753,828 | 4,703,110 | 4,401,150 | 4,296,842 | 4,240,239 |
| Special | 1,213,744 | 1,228,798 | 1,434,039 | 984,914 | 1,243,321 | 1,798,261 | 1,484,307 | 1,399,381 | 1,253,236 |
| Other | 1,263,397 | 1,333,017 | 814,906 | 1,165,331 | 1,093,118 | 487,118 | 656,684 | 655,845 | 662,325 |
| Support services: | | | | | | | | | |
| Student | 133,574 | 228,904 | 220,123 | 241,135 | 208,887 | 190,887 | 201,786 | 200,983 | 210,931 |
| Instructional staff | 618,992 | 568,030 | 592,780 | 595,803 | 453,087 | 454,653 | 395,621 | 388,613 | 410,773 |
| Administration | 1,001,541 | 945,298 | 1,029,644 | 857,510 | 930,129 | 879,306 | 796,378 | 764,132 | 691,977 |
| Operation and maintenance | | | | | | | | | |
| of plant | 1,163,728 | 1,189,843 | 1,137,986 | 1,094,590 | 876,437 | 909,186 | 810,144 | 649,243 | 794,469 |
| Transportation | 282,874 | 347,932 | 357,708 | 361,889 | 273,057 | 313,194 | 243,171 | 266,683 | 190,656 |
| Central | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 90,050 | 0 |
| Other expenditures: | | | | | | | | | |
| Facilities acquisitions | 252,695 | 3,861,587 | 5,016,259 | 4,847,325 | 1,656,854 | 1,253,535 | 1,952,221 | 5,489,798 | 350,397 |
| Long-term debt: | | | | | | | | | |
| Principal | 1,314,967 | 9,920,620 | 1,013,787 | 996,145 | 984,547 | 905,095 | 857,880 | 863,144 | 260,000 |
| Interest and fiscal charges | 174,509 | 495,682 | 538,964 | 581,337 | 207,437 | 434,408 | 369,272 | 331,964 | 161,422 |
| AEA flow-through | 447,173 | 419,742 | 385,591 | 372,754 | 347,962 | 344,284 | 361,532 | 363,407 | 369,071 |
| Total | \$ 13,265,073 | 25,832,249 | 17,599,725 | 16,880,058 | 13,028,664 | 12,673,037 | 12,530,146 | 15,760,085 | 9,595,496 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

| GRANTOR/PROGRAM | CFDA NUMBER | GRANT NUMBER | PROGRAM EXPENDITURES |
|---|----------------|-----------------|-------------------------|
| INDIRECT: | | | |
| U.S. DEPARTMENT OF AGRICULTURE: | | | |
| IOWA DEPARTMENT OF EDUCATION: | | | |
| SCHOOL NUTRITION CLUSTER PROGRAMS: | | | |
| SCHOOL BREAKFAST PROGRAM | 10.553 | FY 09 | \$ 10,676 |
| NATIONAL SCHOOL LUNCH PROGRAM | 10.555 | FY 09 | 147,343 |
| | | | <u>158,019</u> |
| U.S. DEPARTMENT OF EDUCATION: | | | |
| IOWA DEPARTMENT OF EDUCATION: | | | |
| TITLE I CLUSTER PROGRAMS: | | | |
| TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES | 84.010 | 6120-G | 83,889 |
| ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - RECOVERY ACT | 84.389 | FY 09 | 9,203 |
| | | | <u>93,092</u> |
| VOCATIONAL EDUCATION - BASIC GRANTS TO STATES | 84.048 | FY 09 | 43,010 |
| SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS | 84.186 | FY 09 | 3,851 |
| EDUCATION FOR HOMELESS CHILDREN AND YOUTH | 84.196 | FY 09 | 26,521 |
| COMPREHENSIVE CENTERS (TECH-PREP EDUCATION TITLE II) | 84.243 | FY 09 | 9,477 |
| IMPROVING TEACHER QUALITY STATE GRANTS | 84.367 | FY 09 | 36,856 |
| GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES | 84.369 | FY 09 | 8,405 |
| ARRA - STATE FISCAL STABILIZATION FUND(SFSF) EDUCATION STATE GRANTS, RECOVERY ACT | 84.394 | FY 09 | 99,595 |
| AREA EDUCATION AGENCY: | | | |
| SPECIAL EDUCATION CLUSTER PROGRAMS: | | | |
| SPECIAL EDUCATION - GRANTS TO STATES (PART B) | 84.027 | FY 09 | 61,096 |
| ARRA - SPECIAL EDUCATION GRANTS TO STATES (PART B), RECOVERY ACT | 84.391 | FY 09 | 32,861 |
| | | | <u>93,957</u> |
| TOTAL | | | <u>\$ 572,783</u> |

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Spirit Lake Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 27, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spirit Lake Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Spirit Lake Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spirit Lake Community School District's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spirit Lake Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spirit Lake Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2010

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

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

Compliance

We have audited the compliance of Spirit Lake Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Spirit Lake Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Spirit Lake Community School District's management. Our responsibility is to express an opinion on Spirit Lake Community School District's compliance based on our audit.

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

In our opinion, Spirit Lake Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Spirit Lake Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Spirit Lake Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Spirit Lake Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-09 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-09 to be a material weakness.

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2010

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
- Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Clustered
 - CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
 - CFDA Number 84.389 - Title I - ARRA Grants to Local Educational Agencies - Recovery Act
 - Individual
 - CFDA Number 84.394 - ARRA State Fiscal Stabilization Fund(SFSF) Education State Grants, (Recovery Act)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Spirit Lake Community School District did not qualify as a low-risk auditee.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-09 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 - The District has implemented a new procedure which has the office receptionist open the mail and write receipts for checks. The receptionist then forwards this information to the business manager for review, coding and recording of receipt numbers. Finally, receipted checks go to the assistant business manager for preparing the deposit slips and making the deposit.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2009
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
CFDA Number 84.389: Title I - ARRA Grants to Local Educational Agencies - Recovery Act
Agency Numbers: 6120-G
Federal Award Year: 2009
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.394: ARRA State Fiscal Stabilization Fund(SFSF)
Education State Grants, (Recovery Act)
Federal Award Year: 2009
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-09 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 - The District has implemented a new procedure which has the office receptionist open the mail and write receipts for checks. The receptionist then forwards this information to the business manager for review, coding and recording of receipt numbers. Finally, receipted checks go to the assistant business manager for preparing the deposit slips and making the deposit.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-09 Certified Budget - District expenditures for the year ended June 30, 2009, exceeded the certified budget amounts in the non-instructional programs function. Although the budget was exceeded in one functional area, the total certified budget for the year was not exceeded.

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

Response - Budget exceeded the certified budget in the non-instructional function. It is noted that the District did not exceed the published budget nor did it exceed its budget authority. However, the District will monitor the budgets more closely to insure that an amended budget is filed if it appears expenditures will exceed the published budget in any functional area.

Conclusion - Response accepted.

IV-B-09 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-09 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|----------------------------|----------|
| Bob Kirschbaum, Substitute Bus Driver Owns Bob's Repair and Tow | Parts/Supplies | \$11,478 |
| Jean Boekout, High School Office Manager Spouse owns Wally's Refrigeration | Repairs | \$2,897 |
| Clifford Garvey, Board Member | Services | \$800 |

In accordance with Attorney General's Opinion dated July 2, 1990, the above transactions with the substitute bus driver do not appear to present a conflict of interest.

In accordance with Attorney General's opinion dated November 9, 1976, the above transactions with the spouse of the high school office manager 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 member do not appear to represent a conflict of interest.

- IV-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-09 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-09 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-I-09 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-J-09 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- IV-K-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

| | | |
|--|----|------------------------------|
| Beginning Balance | \$ | 0 |
| Statewide sales and services tax revenue | | 1,549,351 |
| Expenditures/transfers out: | | |
| Debt service for school infrastructure: | | |
| Revenue debt | | 1,549,351 |
| | | <u> </u> |
| Ending balance | \$ | <u> 0</u> |

- IV-L-09 Early Retirement - The District's early retirement policy stipulates that any regular licensed employee between the ages of fifty-five and sixty-five and has completed fifteen years of continuous service to the District can elect to take early retirement. The District's early retirement policy is compliant with Chapter 279.46 of the Code of Iowa; however, the District has allowed Pam Houser to take early retirement even though she was not fifty-five years of age at the time of her retirement. This is a violation of the District's Board approved early retirement policy. The District also paid Ms. Houser's early retirement benefit of \$4,844.25 from the Management Levy Fund.

Recommendation - The District may not use management funds to pay for the early retirement benefits of Ms. Houser as it is not in compliance with Chapter 279.46 of the Code of Iowa. We recommend that the District consult legal counsel to determine legality of the early retirement as well as subsequent action needed. The District should also make a corrective transfer from the General Fund to the Management Levy Fund of \$4,844.25 for Ms. Houser's early retirement benefits.

Response - The District will make the necessary adjustments to comply with the recommendation

Conclusion - Response accepted.