

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

JUNE 30, 2010

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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 2009 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

Board of Education (After September 2009 Election)		
Beth Will	President	2011
Todd Hummel	Vice President	2013
Scott Wicks	Board Member	2013
Ann Goerss	Board Member	2011
Randy Magg	Board Member	2011

School Officials		
David Smith	Superintendent	2010
Joyce Peschon	Director of Business and Finance/ Board Secretary (Resigned December 2009)	2010
Karen Oleson	Director of Business and Finance (Assigned January 2010)	2010
Donna Sebert	Board Secretary (Assigned December 2009)	2010
Lonnie Saunders	Attorney	2010

Spirit Lake Community School District

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, 2010, 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, 2010, 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 23, 2011 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, Budgetary Comparison Information, Schedule of Funding Progress for the Retiree Health Plan, and the combining statements for the discretely presented component units on pages 7 through 16 and 46 through 50 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 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 nine years ended June 30, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman, Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

February 23, 2011

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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$11,117,604 in fiscal 2009 to \$11,321,880 in fiscal 2010, while General Fund expenditures decreased from \$11,092,840 in fiscal 2009 to \$11,008,401 net of transfers in fiscal 2010. The reduction in expenditures allowed the increase in the District's General Fund balance from \$1,018,869 in fiscal 2009 to \$1,332,348 in fiscal 2010.
- The increase in General Fund revenues was attributable to an increase in local tax sources and federal grant sources in fiscal 2010. The decrease in expenditures was due primarily to decreases in expenditures in the instructional and support services functional areas.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) increased as compared to fiscal 2008. At June 30, 2009 the District's solvency ratio was 8.78% as compared to 11.40% at June 30, 2010. 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, as well as presenting the schedule of funding progress for the retiree health plan.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

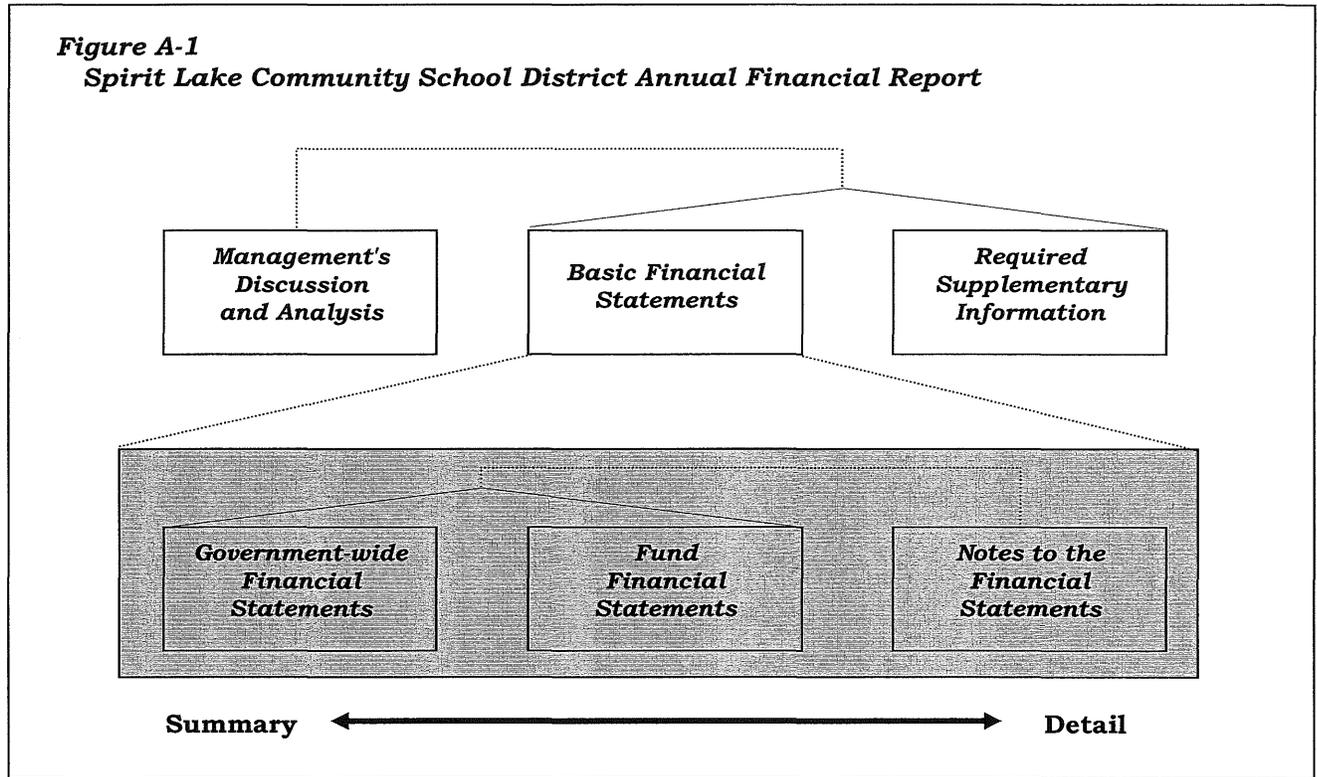


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, 2010 compared to June 30, 2009.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 13,672,800	11,597,950	87,397	90,945	13,760,197	11,688,895	17.72%
Capital assets	24,672,737	25,304,258	14,103	18,511	24,686,840	25,322,769	-2.51%
Total assets	38,345,537	36,902,208	101,500	109,456	38,447,037	37,011,664	3.88%
Long-term obligations	6,823,754	6,516,647	526	0	6,824,280	6,516,647	4.72%
Other liabilities	9,489,859	8,642,881	16,881	16,304	9,506,740	8,659,185	9.79%
Total liabilities	16,313,613	15,159,528	17,407	16,304	16,331,020	15,175,832	7.61%
Net assets:							
Invested in capital assets, net of related debt	18,032,221	19,190,443	14,103	18,511	18,046,324	19,208,954	-6.05%
Restricted	2,490,495	1,299,063	0	0	2,490,495	1,299,063	91.71%
Unrestricted	1,509,208	1,253,174	69,990	74,641	1,579,198	1,327,815	18.93%
Total net assets	\$ 22,031,924	21,742,680	84,093	93,152	22,116,017	21,835,832	1.28%

The District's combined net assets increased by 1.28%, or \$280,185, 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 represent 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 \$1,191,432, or 91.71% over the prior year. The increase was primarily a result of increases in fund balance for the Capital Projects and Management Levy Funds.

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 \$251,383, or 18.93%. This increase in unrestricted net assets can be attributed to increases in fund balance in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 807,229	825,886	382,227	408,669	1,189,456	1,234,555	-3.65%
Operating grants and contributions and restricted interest	2,343,626	1,751,068	182,818	163,050	2,526,444	1,914,118	31.99%
Capital grants and contributions and restricted interest	32,485	19,000	0	0	32,485	19,000	70.97%
General revenues:							
Property tax	7,388,737	7,157,880	0	0	7,388,737	7,157,880	3.23%
Income surtax	364,525	460,172	0	0	364,525	460,172	-20.79%
Statewide sales, service and use tax	1,369,671	1,549,351	0	0	1,369,671	1,549,351	-11.60%
Unrestricted state grants	1,274,468	2,349,063	0	0	1,274,468	2,349,063	-45.75%
Other	163,298	189,473	8,942	987	172,240	190,460	-9.57%
Total revenues	13,744,039	14,301,893	573,987	572,706	14,318,026	14,874,599	-3.74%
Program expenses:							
Governmental activities:							
Instructional	7,789,047	7,904,992	0	0	7,789,047	7,904,992	-1.47%
Support services	4,226,359	3,279,937	19,117	13,550	4,245,476	3,293,487	28.91%
Non-instructional programs	0	0	563,929	527,837	563,929	527,837	6.84%
Other expenses	1,439,389	1,561,678	0	0	1,439,389	1,561,678	-7.83%
Total expenses	13,454,795	12,746,607	583,046	541,387	14,037,841	13,287,994	5.64%
Change in net assets	289,244	1,555,286	(9,059)	31,319	280,185	1,586,605	-82.34%
Net assets beginning of year	21,742,680	20,187,394	93,152	61,833	21,835,832	20,249,227	7.84%
Net assets end of year	\$ 22,031,924	21,742,680	84,093	93,152	22,116,017	21,835,832	1.28%

In fiscal 2010, local tax, statewide sales, service and use tax and unrestricted state grants account for 75.65% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.44% of the revenue from business type activities.

The District's total revenues were approximately \$14.32 million of which approximately \$13.75 million was for governmental activities and approximately \$0.57 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 3.74% in revenues and a 5.64% increase in expenses. Property tax increased \$230,857 to fund increases in expenses. The increase in expenses was related to the purchase proceeds from the Apple Computer lease for the District's One on One computer initiative.

Governmental Activities

Revenues for governmental activities were \$13,744,039 and expenses were \$13,454,795. 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		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 7,789,047	7,904,992	-1.49%	5,239,420	5,776,291	-10.25%
Support services	4,226,359	3,279,937	22.39%	4,116,837	3,278,857	20.35%
Other expenses	1,439,389	1,561,678	-8.50%	915,198	1,095,505	-19.70%
Totals	<u>\$ 13,454,795</u>	<u>12,746,607</u>	<u>5.26%</u>	<u>10,271,455</u>	<u>10,150,653</u>	<u>1.18%</u>

- The cost financed by users of the District’s programs was \$807,229.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,343,626. Residents of the District subsidized construction costs with contributions totaling \$32,485.
- The net cost of governmental activities was financed with \$7,388,737 in property tax, \$364,525 in income surtax, \$1,369,671 in statewide sales, services and use tax, \$1,274,468 in unrestricted state grants, \$7,318 in interest income and \$155,980 in other revenues.

Business type Activities

Revenues of the District’s business type activities were \$573,987 and expenses were \$583,046. 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 \$3,924,430, compared to last year’s ending fund balances of \$2,678,517. The primary reason for the increase in combined fund balances in fiscal 2010 is due to the increase in the Capital Projects, 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. Due to the fact that fund revenues increased and fund expenditures decreased as compared to the previous year caused the fund balance of the General Fund to increase from \$1,018,869 at June 30, 2009 to \$1,332,348 at June 30, 2010.

-
- The Capital Projects Fund balance increased from a balance of \$0 in fiscal 2009 to a balance of \$263,207 in fiscal 2010.
 - The Physical Plant and Equipment Levy Fund balance increased from \$105,286 in fiscal 2009 to \$791,979 in fiscal 2010.

Proprietary Fund Highlights

The total Proprietary Fund net assets decreased from \$93,152 at June 30, 2009 to \$84,093 at June 30, 2009, representing a decrease of 9.72%. This decrease is primarily the result of continually increasing food and labor costs as well as the recognition of expense related to the net OPEB liability.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,673,966 less than budgeted revenues, a variance of 10.47%. The most significant variance resulted from the District receiving less from state 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, 2010, District expenditures exceeded the budgeted amount in the support services and other expenditures functions. Although the budget was exceeded in two individual functional areas, the overall budget total was not exceeded.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$24,686,840, 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 2.51% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$771,936.

The original cost of the District's capital assets was \$36.94 million. Governmental funds account for approximately \$36.80 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 machinery and equipment category. The District's machinery and equipment totaled \$805,955 at June 30, 2010, compared to \$866,601 reported at June 30, 2009. Depreciation expense taken during the year led to the decrease in net assets.

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,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 300,000	300,000	0	0	300,000	300,000	0.00%
Buildings	23,067,463	23,637,970	0	0	23,067,463	23,637,970	-2.41%
Land improvements	513,422	518,198	0	0	513,422	518,198	-0.92%
Machinery and equipment	791,852	848,090	14,103	18,511	805,955	866,601	-7.00%
Total	\$ 24,672,737	25,304,258	14,103	18,511	24,686,840	25,322,769	-2.51%

Long-Term Debt

At June 30, 2010, the District had \$6,823,972 in general obligation and other long-term debt outstanding. This represents an increase of 4.72% 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, 2010 of \$4,955,000.

The District had capital loan notes payable of \$90,790 at June 30, 2010.

At June 30, 2010, the District had an outstanding computer lease of \$1,594,726 payable from the Physical Plant and Equipment Levy Fund.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy of \$143,330 at June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Revenue bonds	\$ 4,955,000	5,935,000	0	0	4,955,000	5,935,000	-16.51%
Capital loan notes	90,790	178,815	0	0	90,790	178,815	-49.23%
Computer lease	1,594,726	0	0	0	1,594,726	0	100.00%
Early retirement	143,330	402,832	0	0	143,330	402,832	-64.42%
Net OPEB liability	39,600	0	526	0	40,126	0	100.00%
Total	\$ 6,823,446	6,516,647	526	0	6,823,972	6,516,647	4.72%

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 national recession that has adversely impacted the state of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid (allowable growth) to schools will be based on the condition of the state and national economies. Given the current financial status of the State of Iowa, there is a possibility that the state aid rate will be reduced for the fiscal 2011 year.

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 Karen Oleson, Director of Business and Finance, Spirit Lake Community School District, 2701 Hill Avenue, Spirit Lake, Iowa, 51360.

BASIC FINANCIAL STATEMENTS

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government		Component Units	
	Govern- mental Activities	Business type Activities	Total	Total Discrete
ASSETS				
Cash and pooled investments	\$ 4,349,107	93,360	4,442,467	271,173
Receivables:				
Property tax:				
Delinquent	49,953	0	49,953	0
Succeeding year	8,273,789	0	8,273,789	0
Income surtax	381,446	0	381,446	0
Interfund	17,070	(17,070)	0	0
Accounts	10,346	613	10,959	8,290
Apple computer receivable	134,963	0	134,963	0
Due from other governments	456,126	0	456,126	0
Inventories	0	10,494	10,494	0
Capital assets, net of accumulated depreciation	24,672,737	14,103	24,686,840	0
Prepaid expenses	0	0	0	7,000
TOTAL ASSETS	38,345,537	101,500	38,447,037	286,463
LIABILITIES				
Accounts payable	72,957	431	73,388	415
Salaries and benefits payable	1,007,163	7,363	1,014,526	1,793
Interest payable	123,243	0	123,243	0
Deferred revenue:				
Succeeding year property tax	8,273,789	0	8,273,789	0
Other	13,015	0	13,015	0
Unearned revenue	0	9,087	9,087	0
Long-term liabilities:				
Portion due within one year:				
Revenue bonds payable	1,010,000	0	1,010,000	0
Capital loan notes payable	44,981	0	44,981	0
Computer lease payable	370,748	0	370,748	0
Early retirement payable	25,220	0	25,220	0
Portion due after one year:				
Revenue bonds payable	3,945,000	0	3,945,000	0
Capital loan notes payable	45,809	0	45,809	0
Computer lease payable	1,223,978	0	1,223,978	0
Early retirement payable	118,110	0	118,110	0
Net OPEB liability	39,600	526	40,126	0
TOTAL LIABILITIES	16,313,613	17,407	16,331,020	2,208
NET ASSETS				
Invested in capital assets, net of related debt	18,032,221	14,103	18,046,324	0
Restricted for:				
Investment	0	0	0	20,544
Categorical funding	41,743	0	41,743	0
Management	438,575	0	438,575	0
Physical plant and equipment levy	791,979	0	791,979	0
Capital projects	263,207	0	263,207	0
Debt service	877,548	0	877,548	0
Other special revenue purposes	77,443	0	77,443	0
Unrestricted	1,509,208	69,990	1,579,198	263,711
TOTAL NET ASSETS	\$ 22,031,924	84,093	22,116,017	284,255

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	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		Component Units	
					Govern- mental Activities	Business Type Activities	Total	Total Discrete
Functions/Programs:								
Governmental activities:								
Instruction:								
Regular	\$ 5,194,149	499,020	1,110,085	0	(3,585,044)	0	(3,585,044)	0
Special	1,261,934	181,790	378,571	0	(701,573)	0	(701,573)	0
Other	1,332,964	126,419	253,742	0	(952,803)	0	(952,803)	0
	<u>7,789,047</u>	<u>807,229</u>	<u>1,742,398</u>	<u>0</u>	<u>(5,239,420)</u>	<u>0</u>	<u>(5,239,420)</u>	<u>0</u>
Support services:								
Student	146,185	0	0	0	(146,185)	0	(146,185)	0
Instructional staff	1,661,507	0	65,848	0	(1,595,659)	0	(1,595,659)	0
Administration	961,034	0	43,674	0	(917,360)	0	(917,360)	0
Operation and maintenance of plant	1,152,472	0	0	0	(1,152,472)	0	(1,152,472)	0
Transportation	305,161	0	0	0	(305,161)	0	(305,161)	0
	<u>4,226,359</u>	<u>0</u>	<u>109,522</u>	<u>0</u>	<u>(4,116,837)</u>	<u>0</u>	<u>(4,116,837)</u>	<u>0</u>
Other expenditures:								
Facilities acquisitions	34,779	0	0	32,485	(2,294)	0	(2,294)	0
Long-term debt interest and fiscal charges	232,798	0	0	0	(232,798)	0	(232,798)	0
AEA flowthrough	491,706	0	491,706	0	0	0	0	0
Depreciation(unallocated)*	680,106	0	0	0	(680,106)	0	(680,106)	0
	<u>1,439,389</u>	<u>0</u>	<u>491,706</u>	<u>32,485</u>	<u>(915,198)</u>	<u>0</u>	<u>(915,198)</u>	<u>0</u>
Total governmental activities	13,454,795	807,229	2,343,626	32,485	(10,271,455)	0	(10,271,455)	0
Business Type activities:								
Support services:								
Administration	14,960	0	0	0	0	(14,960)	(14,960)	0
Operation and maintenance of plant	3,609	0	0	0	0	(3,609)	(3,609)	0
Transportation	548	0	0	0	0	(548)	(548)	0
Total support services	<u>19,117</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(19,117)</u>	<u>(19,117)</u>	<u>0</u>
Non-instructional programs:								
Nutrition services	475,653	310,118	182,818	0	0	17,283	17,283	0
Before and After School Program	88,276	72,109	0	0	0	(16,167)	(16,167)	0
Total non-instructional programs:	<u>563,929</u>	<u>382,227</u>	<u>182,818</u>	<u>0</u>	<u>0</u>	<u>1,116</u>	<u>1,116</u>	<u>0</u>
Total business type activities	<u>583,046</u>	<u>382,227</u>	<u>182,818</u>	<u>0</u>	<u>0</u>	<u>(18,001)</u>	<u>(18,001)</u>	<u>0</u>
Total primary government	\$ 14,037,841	1,189,456	2,526,444	32,485	(10,271,455)	(18,001)	(10,289,456)	0
Total discrete component units	\$ 249,446	196,268	61,959	0				8,781
General Revenues:								
Property tax levied for:								
General purposes					\$ 7,089,418	0	7,089,418	0
Capital outlay					299,319	0	299,319	0
Income surtax					364,525	0	364,525	0
Statewide sales, services and use tax					1,369,671	0	1,369,671	0
Unrestricted state grants					1,274,468	0	1,274,468	0
Unrestricted investment earnings					7,318	327	7,645	5,759
Other					155,980	8,615	164,595	11,291
Total general revenues					<u>10,560,699</u>	<u>8,942</u>	<u>10,569,641</u>	<u>17,050</u>
Changes in net assets					289,244	(9,059)	280,185	25,831
Net assets beginning of year					21,742,680	93,152	21,835,832	258,424
Net assets end of year					\$ 22,031,924	84,093	22,116,017	284,255

* 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, 2010

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 2,161,146	648,903	1,539,058	4,349,107
Receivables:				
Property tax:				
Delinquent	44,211	2,381	3,361	49,953
Succeeding year	7,093,786	930,005	249,998	8,273,789
Income surtax	381,446	0	0	381,446
Interfund	23,821	13,130	0	36,951
Accounts	10,346	0	0	10,346
Apple computer receivable	0	134,963	0	134,963
Due from other governments	192,919	0	263,207	456,126
Total Assets	\$ 9,907,675	1,729,382	2,055,624	13,692,681
Liabilities and Fund Balances				
Liabilities:				
Interfund payable	\$ 13,130	6,751	0	19,881
Accounts payable	66,787	647	5,523	72,957
Salaries and benefits payable	1,007,163	0	0	1,007,163
Deferred revenue:				
Succeeding year property tax	7,093,786	930,005	249,998	8,273,789
Income surtax	381,446	0	0	381,446
Other	13,015	0	0	13,015
Total liabilities	8,575,327	937,403	255,521	9,768,251
Fund balances:				
Reserved for:				
Categorical funding	41,743	0	0	41,743
Debt service	0	0	877,548	877,548
Unreserved	1,290,605	791,979	922,555	3,005,139
Total fund balances	1,332,348	791,979	1,800,103	3,924,430
Total Liabilities and Fund Balances	\$ 9,907,675	1,729,382	2,055,624	13,692,681

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, 2010

Total fund balances of governmental funds (page 20) \$ 3,924,430

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 24,672,737

Accounts receivable income surtax, are not yet available to finance expenditures of the current period. 381,446

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. (123,243)

Long-term liabilities, including early retirement, revenue bonds payable, capital loan notes payable, computer lease payable and other postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (6,823,446)

Net assets of governmental activities (page 18) \$ 22,031,924

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, 2010

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 6,951,882	299,319	1,870,701	9,121,902
Tuition	610,212	0	0	610,212
Other	200,627	43,101	207,085	450,813
Intermediate sources	8,027	312	610	8,949
State sources	2,550,547	0	0	2,550,547
Federal sources	1,000,585	0	0	1,000,585
Total revenues	<u>11,321,880</u>	<u>342,732</u>	<u>2,078,396</u>	<u>13,743,008</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	5,080,788	0	263,545	5,344,333
Special	1,267,017	0	0	1,267,017
Other	1,114,475	0	221,474	1,335,949
	<u>7,462,280</u>	<u>0</u>	<u>485,019</u>	<u>7,947,299</u>
Support services:				
Student	171,910	0	0	171,910
Instructional staff	598,959	1,061,482	0	1,660,441
Administration	915,758	0	76,994	992,752
Operation and maintenance of plant	1,052,865	0	75,233	1,128,098
Transportation	211,917	51,124	15,529	278,570
	<u>2,951,409</u>	<u>1,112,606</u>	<u>167,756</u>	<u>4,231,771</u>
Other expenditures:				
Facilities acquisitions	0	139,602	0	139,602
Long-term debt:				
Principal	0	0	1,068,025	1,068,025
Interest and fiscal charges	0	0	213,418	213,418
AEA flowthrough	491,706	0	0	491,706
	<u>491,706</u>	<u>139,602</u>	<u>1,281,443</u>	<u>1,912,751</u>
Total expenditures	<u>10,905,395</u>	<u>1,252,208</u>	<u>1,934,218</u>	<u>14,091,821</u>
Excess (deficiency) of revenues over (under) expenditures	416,485	(909,476)	144,178	(348,813)
Other financing sources (uses):				
Transfers in	0	1,443	1,209,470	1,210,913
Transfers out	(103,006)	0	(1,107,907)	(1,210,913)
Proceeds from computer lease	0	1,594,726	0	1,594,726
Total other financing sources (uses)	<u>(103,006)</u>	<u>1,596,169</u>	<u>101,563</u>	<u>1,594,726</u>
Net change in fund balances	313,479	686,693	245,741	1,245,913
Fund balance beginning of year	<u>1,018,869</u>	<u>105,286</u>	<u>1,554,362</u>	<u>2,678,517</u>
Fund balance end of year	<u>\$ 1,332,348</u>	<u>791,979</u>	<u>1,800,103</u>	<u>3,924,430</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds (page 22) \$ 1,245,913

*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	\$ 136,007	
Depreciation expense	(767,528)	(631,521)

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

Repaid	\$ 1,068,025	
Issued	(1,594,726)	(526,701)

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. (19,380)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 1,031

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	\$ 259,502	
Other postemployment benefits	(39,600)	219,902

Changes in net assets of governmental activities (page 19) \$ 289,244

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business Type Activities:		
	Nonmajor		
	Enterprise Funds		
	School Nutrition	Before & After School Program	Total
ASSETS			
Current assets:			
Cash and pooled investments	\$ 83,614	9,746	93,360
Interfund receivable	0	6,751	6,751
Accounts receivable	613	0	613
Inventories	10,494	0	10,494
Total current assets	94,721	16,497	111,218
Non-current assets:			
Capital assets:			
Machinery and equipment, net of accumulated depreciation	14,103	0	14,103
Total non-current assets	14,103	0	14,103
TOTAL ASSETS	108,824	16,497	125,321
LIABILITIES			
Current liabilities:			
Interfund payable	9,501	14,320	23,821
Accounts payable	28	403	431
Salaries and benefits payable	0	7,363	7,363
Unearned revenue	9,087	0	9,087
Total current liabilities	18,616	22,086	16,881
Long-term liabilities:			
Net OPEB liability	374	152	526
Total long-term liabilities	374	152	526
TOTAL LIABILITIES	18,990	22,238	41,228
NET ASSETS			
Invested in capital assets	14,103	0	14,103
Unrestricted	75,731	(5,741)	69,990
TOTAL NET ASSETS	\$ 89,834	(5,741)	84,093

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, 2010

	School Nutrition	Before and After School Program	Total Enterprise
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 310,118	72,109	382,227
Miscellaneous	8,615	0	8,615
TOTAL OPERATING REVENUES	318,733	72,109	390,842
OPERATING EXPENSES:			
Support services:			
Administration:			
Salaries	0	11,017	11,017
Benefits	0	3,906	3,906
Other	0	37	37
Operation and maintenance of plant:			
Services	65	2,400	2,465
Supplies	1,144	0	1,144
Transportation:			
Salaries	0	476	476
Benefits	0	72	72
Total support services	1,209	17,908	19,117
Non-instructional programs:			
Salaries	156,993	59,357	216,350
Benefits	28,610	8,216	36,826
Services	9,549	104	9,653
Supplies	276,078	20,599	296,677
Other	15	0	15
Depreciation	4,408	0	4,408
Total non-instructional programs	475,653	88,276	563,929
TOTAL OPERATING EXPENSES	476,862	106,184	583,046
OPERATING LOSS	(158,129)	(34,075)	(192,204)
NON-OPERATING REVENUES:			
State sources	4,445	0	4,445
Federal sources	178,373	0	178,373
Interest on investments	86	241	327
TOTAL NON-OPERATING REVENUES	182,904	241	183,145
Net income(loss)	24,775	(33,834)	(9,059)
Net assets beginning of year	65,059	28,093	93,152
Net assets end of year	\$ 89,834	(5,741)	84,093

SEE NOTES TO FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	School Nutrition	Before and After School Program	Total Enterprise
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 313,284	0	313,284
Cash received from miscellaneous	8,615	72,109	80,724
Cash payments to employees for services	(185,229)	(83,830)	(269,059)
Cash payments to suppliers for goods or services	(241,509)	(22,737)	(264,246)
Net cash used in operating activities	<u>(104,839)</u>	<u>(34,458)</u>	<u>(139,297)</u>
Cash flows from non-capital financing activities:			
Borrowings from the General Fund	9,501	14,320	23,821
Repayments from the Physical Plant and Equipment Levy Fund	0	(6,751)	(6,751)
State grants received	4,445	0	4,445
Federal grants received	139,949	0	139,949
Net cash provided by non-capital financing activities	<u>153,895</u>	<u>7,569</u>	<u>161,464</u>
Cash flows from investing activities:			
Net cash provided by investing activities	<u>86</u>	<u>241</u>	<u>327</u>
Net increase(decrease) in cash and cash equivalents	49,142	(26,648)	22,494
Cash and cash equivalents at beginning of year	<u>34,472</u>	<u>36,394</u>	<u>70,866</u>
Cash and cash equivalents at end of year	<u>\$ 83,614</u>	<u>9,746</u>	<u>93,360</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (158,129)	(34,075)	(192,204)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	38,424	0	38,424
Depreciation	4,408	0	4,408
Decrease in inventories	6,993	0	6,993
Decrease in accounts receivable	1,979	0	1,979
Increase(Decrease) in accounts payable	(75)	403	328
Decrease in salaries and benefits payable	0	(938)	(938)
Increase in unearned revenue	1,187	0	1,187
Increase in postemployment benefits	374	152	526
Net cash used in operating activities	<u>\$ (104,839)</u>	<u>(34,458)</u>	<u>(139,297)</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$38,424.

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, 2010

	Spirit Lake Community School Foundation
Assets	
Cash	\$ 8,175
Investments	696,640
Total Assets	\$ 704,815
 Total Liabilities	 \$ 0
 Net Assets	
Restricted net assets	696,994
Unrestricted net assets	7,821
Total Net Assets	\$ 704,815

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, 2010

	Spirit Lake Community School Foundation		
	Unrestricted	Restricted	Total
	Funds	Funds	
Revenues:			
Interest	\$ 13	0	13
Donations	4,165	7,442	11,607
Dividends	0	22,980	22,980
TOTAL REVENUES	4,178	30,422	34,600
EXPENSES:			
Scholarships	3,840	26,560	30,400
Donations	435	3,556	3,991
Accounting fees	0	1,500	1,500
Investment management	0	2,119	2,119
Postage	216	0	216
Supplies	1,160	0	1,160
TOTAL EXPENSES	5,651	33,735	39,386
Deficiency of revenues under expenses	(1,473)	(3,313)	(4,786)
OTHER FINANCING SOURCES (USES):			
Gain on sale of investments	0	82,860	82,860
Unrealized gain on investments	0	(20,259)	(20,259)
Transfers	2,395	(2,395)	0
TOTAL OTHER FINANCING SOURCES (USES)	2,395	60,206	62,601
Change in net assets	922	56,893	57,815
Net assets beginning of year	6,899	640,101	647,000
Net assets end of year	\$ 7,821	696,994	704,815

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

(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. 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 Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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 and intangibles, 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
Intangibles	25,000
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
Intangibles	2 + 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, 2010, expenditures in the support services and other expenditures functions exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2010 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, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,631,348 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, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 93,318
Debt Sinking	Capital Projects	1,106,464
Management Levy	General	9,688
Physical Plant and Equipment Levy	Debt Service	1,443
Total		<u>\$ 1,210,913</u>

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

The Capital Projects transferred statewide sales, services and use 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 Debt Service Fund transferred the prior year ending balance to the Physical Plant and Equipment Levy Fund. The amount transferred was remaining monies from bond covenants that were paid off in the prior year.

(4) Due to and Due From Other Funds

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nutrition	\$ 9,501
General	Before and After School Programs	14,320
Before and After School Programs	Physical Plant and Equipment Levy	6,751
Physical Plant and Equipment Levy	General	13,130
Total		<u>\$ 43,702</u>

The Nutrition Fund is repaying the General Fund for payroll the Nutrition Fund had not yet repaid as of June 30, 2010.

The Before and After School Programs Fund is repaying the General Fund for payroll not yet repaid and for cashflow purposes during the fiscal year.

The Physical Plant and Equipment Levy Fund is repaying the Before and After School Programs Fund for computer purchases made as part of the District's one on one computer initiative.

The General Fund is repaying the Physical Plant and Equipment Levy Fund for unallowable items contained in the District's lease with Apple Computer Company.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 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
Total capital assets not being depreciated	300,000	0	0	300,000
Capital assets being depreciated:				
Buildings	32,036,611	31,754	0	32,068,365
Land improvements	1,860,773	73,069	18,770	1,915,072
Machinery and equipment	2,481,738	31,184	0	2,512,922
Total capital assets being depreciated	36,379,122	136,007	18,770	36,496,359
Less accumulated depreciation for:				
Buildings	8,398,641	602,261	0	9,000,902
Land improvements	1,342,575	77,845	18,770	1,401,650
Machinery and equipment	1,633,648	87,422	0	1,721,070
Total accumulated depreciation	11,374,864	767,528	18,770	12,123,622
Total capital assets being depreciated, net	25,004,258	(631,521)	0	24,372,737
Governmental activities capital assets, net	\$ 25,304,258	(631,521)	0	24,672,737
Business type activities:				
Machinery and equipment	\$ 140,492	0	0	140,492
Less accumulated depreciation	121,981	4,408	0	126,389
Business type activities capital assets, net	\$ 18,511	(4,408)	0	14,103

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 15,168
Support services:		
Administration		2,721
Operation and maintenance of plant		39,327
Transportation		30,206
		<u>87,422</u>
Unallocated depreciation		<u>680,106</u>
Total governmental activities depreciation expense		<u>\$ 767,528</u>
Business type activities:		
Food services		<u>\$ 4,408</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Revenue bonds	\$ 5,935,000	0	980,000	4,955,000	1,010,000
Capital loan notes	178,815	0	88,025	90,790	44,981
Computer lease	0	1,594,726	0	1,594,726	370,748
Early retirement	402,832	0	259,502	143,330	25,220
Net OPEB liability	0	39,600	0	39,600	0
Total	<u>\$ 6,516,647</u>	<u>1,634,326</u>	<u>1,327,527</u>	<u>6,823,446</u>	<u>1,450,949</u>
Business type activities:					
Net OPEB liability	<u>\$ 0</u>	<u>526</u>	<u>0</u>	<u>526</u>	<u>0</u>

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, 2010 capital loan notes indebtedness are as follows:

Year Ending June 30,	Capital Loan Note Issue of July 2, 2001	Interest Rates	Principal	Interest	Total
2011	5.10 %	\$ 44,981	1,678	46,659	
2012	5.10	45,809	849	46,658	
Total		<u>\$ 90,790</u>	<u>2,527</u>	<u>93,317</u>	

Revenue Bonds Payable

Details of the District's June 30, 2010 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of June 1, 2008			
	Interest Rates	Principal	Interest	Total
2011	3.50	% \$ 1,010,000	173,426	1,183,426
2012	3.50	480,000	138,076	618,076
2013	3.50	385,000	121,276	506,276
2014	3.50	385,000	107,800	492,800
2015	3.50	385,000	94,326	479,326
2016-2020	3.50	1,925,000	269,497	2,194,497
2021	3.50	385,000	13,473	398,473
Total		\$ 4,955,000	917,874	5,872,874

The District has pledged future statewide sales, services and use 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 statewide sales, services and use 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 statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$8,872,874. For the current year \$980,000 in principal and \$207,726 in interest was paid on the bonds and the total statewide sales, services and use tax revenues were \$1,369,671.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) All proceeds from the statewide sales, services and use 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.

Computer Lease

During the year ended June 30, 2010, the District entered into a lease agreement with Apple Computer Company for laptop computers for the District's One on One Initiative. Annual principal and

interest payments are made from the Physical Plant and Equipment Levy Fund. Details of the District's June 30, 2010 computer leases indebtedness are as follows:

Year Ending June 30,	Lease dated March 3, 2010			
	Interest Rates	Principal	Interest	Total
2011	4.84	% \$ 370,748	72,752	443,500
2012	4.84	388,909	54,591	443,500
2013	4.84	407,960	35,540	443,500
2014	4.84	427,109	16,391	443,500
		<u>\$ 1,594,726</u>	<u>179,274</u>	<u>1,774,000</u>

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, 2010 totaled \$259,502.

(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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$484,681, \$459,884, and \$448,325 respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No.45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 104 active and 12 retired members in the plan.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - the contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 51,365
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	<u>51,365</u>
Contributions made	<u>(11,239)</u>
Increase in net OPEB obligation	40,126
Net OPEB obligation - beginning of year	<u>0</u>
Net OPEB obligation - end of year	<u><u>\$ 40,126</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2010.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 51,365	21.88%	\$ 40,126

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$0.434 million, with no actuarial value of assets, resulting in an

unfunded actuarial accrued liability (UAAL) of \$0.434 million. The covered payroll (annual payroll of active employees covered by the plan) was \$6.191 million, and the ratio of the UAAL to the covered payroll was 7.0%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information in the section following the Notes to the Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The health cost trend rate for basis of the actuarial was 6% per year.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from the 2006 Society of Actuaries Study.

Projected claim costs of the medical plan are \$299 per month for retirees developed from a combination of age adjusted fully insured premiums and manual claims costs. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) 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.

(10) 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 \$491,706 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2010, expenditures in the support services and other expenditures functions exceeded the amounts budgeted.

(12) Operating Lease

During the year ended June 30, 2010, the District entered into a lease agreement with Sovereign Leasing, LLC for two buses. Per terms of the lease agreement, the District has agreed to pay \$24,479 per year. The final payment is in September 2011. Also, during the year ended June 30, 2010, the District entered into another lease agreement with Sovereign Leasing, LLC for two additional buses. Per terms of the lease agreement, the District has agreed to pay \$26,644 per year. The final payment is in August 2010.

(13) Deficit Fund Balance/Net Assets

At June 30, 2010, the Before and After School Programs Fund had a deficit unreserved undesignated fund balance of \$5,741.

(14) Contingencies

As of June 30, 2010, 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.

(15) Apple Computer Company Receivable

During the year ended, June 30, 2010, the District entered into a lease with Apple Computer Company for the purchase of computer equipment related to the District's one-on-one initiative. The District lease-purchased funds in anticipation of paying for the cost of professional development and training as well as the cost of the computers from the Physical Plant and Equipment Levy Fund. Professional development and training is not an allowable expenditure from the Physical Plant and Equipment Levy Fund; therefore the District is requesting a refund of \$134,963.34 from Apple Computer which represents the unused portion of the borrowed funds. The receivable is reflected on the balance sheet of the Physical Plant and Equipment Levy Fund.

(16) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2010 are broken out by the following projects:

Project	Amount
Talented and gifted	\$ 12,296
Beginning teacher mentoring	2,549
Teacher salary supplement	1,106
Market factor	4,266
Professional development for model core curriculum	10,937
Professional development	2,352
Market factor incentives	8,237
Total	<u>\$ 41,743</u>

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, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 10,182,927	391,169	10,574,096	10,797,309	10,797,309	(223,213)
Intermediate sources	8,949	0	8,949	0	0	8,949
State sources	2,550,547	4,445	2,554,992	4,726,652	4,726,652	(2,171,660)
Federal sources	1,000,585	178,373	1,178,958	467,000	467,000	711,958
Total revenues	13,743,008	573,987	14,316,995	15,990,961	15,990,961	(1,673,966)
Expenditures/Expenses:						
Instruction	7,947,299	0	7,947,299	9,077,200	9,077,200	1,129,901
Support services	4,231,771	19,117	4,250,888	3,945,000	3,945,000	(305,888)
Non-instructional programs	0	563,929	563,929	619,000	619,000	55,071
Other expenditures	1,912,751	0	1,912,751	1,898,486	1,898,486	(14,265)
Total expenditures/expenses	14,091,821	583,046	14,674,867	15,539,686	15,539,686	864,819
Excess(Deficiency) of revenues over(under) expenditures/expenses	(348,813)	(9,059)	(357,872)	451,275	451,275	(809,147)
Other financing sources, net	1,594,726	0	1,594,726	1,000	1,000	1,593,726
Excess(deficiency) of revenues over(under) expenditures/expenses	1,245,913	(9,059)	1,236,854	452,275	452,275	784,579
Balance beginning of year	2,678,517	93,152	2,771,669	1,231,830	1,231,830	1,539,839
Balance end of year	\$ 3,924,430	84,093	4,008,523	1,684,105	1,684,105	2,324,418

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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, 2010, expenditures in the support services and other expenditures functions exceeded the amounts budgeted.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 (IN THOUSANDS)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)			
2010	July 1, 2009	\$ -	\$ 434	\$ 434	0.0%	\$ 6,191	7.0%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND
 NET ASSETS - CASH BASIS -
 DISCRETE COMPONENT UNITS
 JUNE 30, 2010

	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	\$ 4,910	71,490	10,952	163,191	250,543
Investments	0	0	0	20,630	20,630
Accounts receivable	0	0	0	8,290	8,290
Prepaid expenses	0	0	0	7,000	7,000
Total Assets	\$ 4,910	71,490	10,952	199,111	286,463
Liabilities					
Accounts payable	\$ 0	415	0	0	415
Salaries and benefits payable	0	0	0	1,793	1,793
Total Liabilities	0	415	0	1,793	2,208
Net Assets					
Restricted for investment	0	0	0	20,544	20,544
Unrestricted	4,910	71,075	10,952	176,774	263,711
Total Net Assets	\$ 4,910	71,075	10,952	197,318	284,255
Total Liabilities and Net Assets	\$ 4,910	71,490	10,952	199,111	286,463

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, 2010

	Discrete Component Units				
	Indian	Spirit Lake	Middle School	Friends	Total
	Athletic Booster Club	Music Booster Club	Partners in Education	of the SAMI Center	
Revenues:					
Interest	\$ 27	110	0	5,359	5,496
Donations	12,750	340	0	8,550	21,640
Dividends	0	0	0	263	263
Sponsorships	32,300	7,419	0	600	40,319
Concessions	39,805	14,530	0	63	54,398
Event admissions	0	7,042	0	20,171	27,213
Fundraisers	32,238	13,704	68,715	0	114,657
Other	1,508	5,675	2,014	2,094	11,291
TOTAL REVENUES	118,628	48,820	70,729	37,100	275,277
EXPENSES:					
Facilities/Equipment	39,776	0	0	387	40,163
Labor	0	5,475	0	30,473	35,948
Donations	6,200	0	0	0	6,200
Advertising	2,966	3,691	0	6,489	13,146
Bank charges	625	0	23	1,439	2,087
Travel	0	0	0	1,016	1,016
Postage	44	436	0	342	822
Supplies	40,671	18,994	61,367	812	121,844
Insurance	1,074	499	0	0	1,573
Event expenses	7,598	0	0	16,018	23,616
Accounting/tax preparation	595	165	100	0	860
Other	347	1,004	692	128	2,171
TOTAL EXPENSES	99,896	30,264	62,182	57,104	249,446
Change in net assets	18,732	18,556	8,547	(20,004)	25,831
Net assets beginning of year	(13,822)	52,519	2,405	217,322	258,424
Net assets end of year	\$ 4,910	71,075	10,952	197,318	284,255

OTHER SUPPLEMENTARY INFORMATION

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue Funds					Total
	Management Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 583,032	78,478	661,510	0	877,548	1,539,058
Receivables:						
Property tax:						
Delinquent	3,361	0	3,361	0	0	3,361
Succeeding year	249,998	0	249,998	0	0	249,998
Due from other governments	0	0	0	263,207	0	263,207
Total Assets	\$ 836,391	78,478	914,869	263,207	877,548	2,055,624
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 4,488	1,035	5,523	0	0	5,523
Deferred revenue:						
Succeeding year property tax	249,998	0	249,998	0	0	249,998
Total liabilities	254,486	1,035	255,521	0	0	255,521
Fund balances:						
Reserved for debt service	0	0	0	0	877,548	877,548
Unreserved	581,905	77,443	659,348	263,207	0	922,555
Total fund balances	581,905	77,443	659,348	263,207	877,548	1,800,103
Total Liabilities and Fund Balances	\$ 836,391	78,478	914,869	263,207	877,548	2,055,624

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, 2010

	Special Revenue Funds					Total
	Management Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 501,030	0	501,030	1,369,671	0	1,870,701
Other	22,415	183,255	205,670	0	1,415	207,085
Intermediate sources	610	0	610	0	0	610
TOTAL REVENUES	524,055	183,255	707,310	1,369,671	1,415	2,078,396
EXPENDITURES:						
Current:						
Instruction:						
Regular	263,545	0	263,545	0	0	263,545
Other	0	221,474	221,474	0	0	221,474
Support services:						
Administration	76,994	0	76,994	0	0	76,994
Operation and maintenance of plant	75,233	0	75,233	0	0	75,233
Student transportation	15,529	0	15,529	0	0	15,529
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	1,068,025	1,068,025
Interest	0	0	0	0	213,418	213,418
TOTAL EXPENDITURES	431,301	221,474	652,775	0	1,281,443	1,934,218
Excess(Deficiency) of revenues over(under) expenditures	92,754	(38,219)	54,535	1,369,671	(1,280,028)	144,178
Other financing sources(uses):						
Transfer in	9,688	0	9,688	0	1,199,782	1,209,470
Transfer out	0	0	0	(1,106,464)	(1,443)	(1,107,907)
Total other financing sources(uses)	9,688	0	9,688	(1,106,464)	1,198,339	101,563
Excess(Deficiency) of revenues and other financing sources(uses) over(under) expenditures	102,442	(38,219)	64,223	263,207	(81,689)	245,741
Fund balance beginning of year	479,463	115,662	595,125	0	959,237	1,554,362
Fund balance end of year	\$ 581,905	77,443	659,348	263,207	877,548	1,800,103

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, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
MS Drama	\$ 1,923	340	0	2,263
HS Drama	2,836	3,720	5,397	1,159
MS Vocal	0	74	0	74
HS Vocal	592	8,712	9,304	0
MS Instrumental Music	4,689	2,984	5,866	1,807
HS Instrumental Music	3,838	11,050	10,693	4,195
Co-Ed Athletics	29,612	68,854	92,211	6,255
Cross Country	0	790	786	4
Boys Basketball	0	6,040	5,054	986
Boys Football	6,658	17,444	13,548	10,554
Boys Soccer	0	1,389	1,389	0
Boys Baseball	0	1,522	1,242	280
Boys Track	782	3,932	3,774	940
Boys Golf	0	220	220	0
Boys Wrestling	0	4,357	3,105	1,252
Girls Basketball	0	6,892	6,871	21
Girls Volleyball	0	4,675	4,675	0
Girls Soccer	0	826	826	0
Girls Softball	140	3,119	3,259	0
Girls Track	0	1,439	1,439	0
Girls Golf	0	497	497	0
Class of 2009	270	0	270	0
Class of 2010	885	452	1,337	0
Class of 2011	1,983	950	2,315	618
Class of 2012	1,123	1,872	50	2,945
Class of 2013	214	712	0	926
Class of 2014	104	0	0	104
Investments	0	138	0	138
Student Insurance	0	1,500	1,500	0
Activity Tickets	0	285	0	285
Mexico Club	1,793	0	0	1,793
Video Club	378	0	0	378
Skills-USA	109	0	109	0
Annual	14,213	8,665	11,202	11,676
SLHS Quiz Bowl	1,540	710	245	2,005
Classes	4,835	3,476	3,933	4,378
Mock Trial	0	0	66	(66)
MS SAC	861	1,774	2,665	(30)
HS SAC	10,495	4,059	1,706	12,848
MOC	793	609	1,039	363
Due Other Fund	24,996	9,177	24,881	9,292
Total	\$ 115,662	183,255	221,474	77,443

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, 2010

	Debt Service Fund		
	Debt Service	Debt Sinking	Total
REVENUES:			
Local sources:			
Other	\$ 0	1,415	1,415
Total revenues	0	1,415	1,415
EXPENDITURES:			
Current:			
Other expenditures:			
Long-term debt:			
Principal	88,025	980,000	1,068,025
Interest and fiscal charges	5,293	208,125	213,418
Total expenditures	93,318	1,188,125	1,281,443
Deficiency of revenues under expenditures	(93,318)	(1,186,710)	(1,280,028)
Other financing sources(uses):			
Transfer in	93,318	1,106,464	1,199,782
Transfer out	(1,443)	0	(1,443)
Total other financing sources(uses)	91,875	1,106,464	1,198,339
Net change in fund balances	(1,443)	(80,246)	(81,689)
Fund balances beginning of year	1,443	957,794	959,237
Fund balances end of year	\$ 0	877,548	877,548

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 TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues:										
Local sources:										
Local tax	\$ 9,121,902	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	610,212	560,536	654,005	695,443	696,195	884,949	689,358	658,805	709,038	656,330
Other	450,845	541,292	629,124	631,605	874,633	347,694	1,501,512	1,686,729	1,561,555	865,483
Intermediate sources	8,949	2,790	0	0	0	0	445	1,383	37,098	217
State sources	2,550,547	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	1,000,553	462,377	290,032	340,617	250,098	740,807	693,673	252,925	296,099	230,016
Total	\$ 13,743,008	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	\$ 5,344,333	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	1,267,017	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	1,335,949	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	171,910	133,574	228,904	220,123	241,135	208,887	190,887	201,786	200,983	210,931
Instructional staff	1,660,441	618,992	568,030	592,780	595,803	453,087	454,653	395,621	388,613	410,773
Administration	992,752	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	1,128,098	1,163,728	1,189,843	1,137,986	1,094,590	876,437	909,186	810,144	649,243	794,469
Transportation	278,570	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	0	90,050	0
Other expenditures:										
Facilities acquisitions	139,602	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	1,068,025	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	213,418	174,509	495,682	538,964	581,337	207,437	434,408	369,272	331,964	161,422
AEA flow-through	491,706	447,173	419,742	385,591	372,754	347,962	344,284	361,532	363,407	369,071
Total	\$ 14,091,821	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, 2010

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 10	\$ 13,511
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	164,862 *
			<u>178,373</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	74,053
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - RECOVERY ACT	84.389	FY 10	18,406
			<u>92,459</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	<u>6,597</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	<u>3,357</u>
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	84.196	FY 10	<u>25,621</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 10	<u>40,674</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 10	<u>8,093</u>
EDUCATION FOR HOMELESS CHILDREN AND YOUTH, RECOVERY ACT	84.387	FY 10	<u>10,444</u>
STATE FISCAL STABILIZATION FUND(SFSF) EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	<u>515,231</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 10	60,089
SPECIAL EDUCATION - TRANSITION TRAINING	84.027	FY 10	629
SPECIAL EDUCATION GRANTS TO STATES(PART B), RECOVERY ACT	84.391	FY 10	131,444
			<u>192,162</u>
IOWA LAKES COMMUNITY COLLEGE:			
COMPREHENSIVE CENTERS (TECH-PREP EDUCATION TITLE II)	84.243	FY 10	<u>2,500</u>
NATIONAL ENDOWMENT FOR THE ARTS:			
IOWA ARTS COUNCIL:			
PROMOTION OF THE ARTS - PARTNERSHIP AGREEMENTS(BIG YELLOW SCHOOL BUS)	45.025	FY 09	33
PROMOTION OF THE ARTS - PARTNERSHIP AGREEMENTS(BIG YELLOW SCHOOL BUS)	45.025	FY 10	90
			<u>123</u>
TOTAL			<u>\$ 1,075,634</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)

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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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 23, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-10 to be significant deficiency.

Compliance and Other Matters

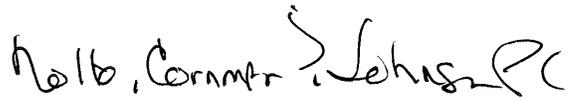
As part of obtaining reasonable assurance about whether Spirit Lake Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have 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, 2010 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 23, 2011

NOLTE, CORNMAN & JOHNSON P.C.

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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, 2010. 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, 2010.

Internal Control Over Compliance

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

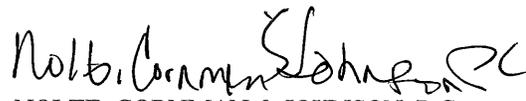
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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 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 have expressed our conclusions on the District's response 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 23, 2011

SPIRIT LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (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 84.027 - Special Education - Grants to States(Part B)
 - CFDA Number 84.027 - Special Education - Grants to States(Transition Training)
 - CFDA Number 84.391 - Special Education - Grants to States(Part B), 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 AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 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 - About February 2010, our procedure for handling cash was changed. Since then our receptionist opens the mail and writes receipts for checks received. The receipts and checks are then sent to the Director of Business and Finance who records the receipt numbers, codes the receipts and performs the bank reconciliations.

Conclusion - Response accepted.

II-B-10 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements to the general ledger on a timely basis.

Recommendation - The District should reconcile bank statement balances to financial statement bank balances on a monthly basis.

Response - In late December 2009, the Business Manager left the District. In early January, the superintendent was offered the services of the Terril Community School District's Business Manager on a part-time basis. Due to the complexity of school business and the unlikelihood of finding another person with experience in school business, the offer was accepted. With state reports, budget work and general day to day requirements, bank reconciliations fell by the wayside.

In the future, bank reconciliations will be completed on a timely basis.

Conclusion - Response accepted.

OTHER MATTERS:

II-C-10 Student Activity Fund Interest - We noted during our audit that the Student Activity Fund has an interest account. It appears that interest earned during the year has not been allocated to individual accounts in the Student Activity Fund.

Recommendation - Interest earned each year should be allocated out on an annual basis to the individual activity accounts.

Response - Interest is now allocated to the three Activity accounts with the largest balances on a monthly basis.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 84.027: Special Education - Grants to States(Part B)
CFDA Number 84.027: Special Education - Grants to States(Transition Training)
CFDA Number 84.391: Special Education - Grants to States(Part B), Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.394: State Fiscal Stabilization Fund(SFSF)
Education State Grants, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-10 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 - About February 2010, our procedure for handling cash was changed. Since then our receptionist opens the mail and writes receipts for checks received. The receipts and checks are then sent to the Director of Business and Finance who records the receipt numbers, codes the receipts and performs the bank reconciliations.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-10 Certified Budget - District expenditures for the year ended June 30, 2010, exceeded the certified budget amounts in the support services and other expenditures program functions. Although the budget was exceeded in two functional areas, 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 - 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-10 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-10 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-10 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	\$7,295

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.

IV-E-10 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-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-10 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-10 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IV-L-10 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, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance	\$	0
Statewide sales and services tax revenue		1,369,671
Expenditures/transfers out:		
Debt service for school infrastructure:		
Revenue debt		1,106,464
Ending balance	\$	263,207

As a result of the statewide sales, services and use tax revenue received during the year ended June 30, 2010, the District reduced the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Physical plant & equipment levy	\$ 1.34000	\$ 1,213,340

IV-M-10 Financial Condition - The Before and After Programs Fund had a deficit unreserved undesignated fund balance of \$5,741. The Student Activity Fund had two individual accounts with a total deficit balance of \$96.

Recommendation - The District should continue to monitor the Before and After Programs Fund and the individual Student Activity Fund accounts and investigate alternatives to eliminate the deficits.

Response - As of September 1, 2010, the District's daycare services were discontinued and the local YMCA expanded their program to incorporate the needs of Spirit Lake Community School's parents. Normally, Activity Fund accounts are brought to a zero balance at the end of the fiscal year via intrafund transfers. This was an oversight for this year.

Conclusion - Response accepted.

IV-N-10 Authorized Check Signatures - We noted during our audit that checks written from the Student Activity do not always have two signatures. We also noted instances of Student Activity Fund checks not having the Board Secretary's signature.

Recommendation - The Board President and Board Secretary are required to sign all checks written by the District in compliance with Chapter 291.1 of the Code of Iowa. However, the Board President may designate an authorized signer to sign in his/her absence. The District should review this process and make necessary changes to ensure all checks are signed in compliance with Chapter 291.1 of the Code of Iowa.

Response - The District was made aware of one instance where an Activity Fund check did not have two signatures. The District will be sure to check for two signatures when checks are prepared for mailing. All checks are now signed by the Board Secretary.

Conclusion - Response accepted.

IV-O-10 Contract Signatures - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts.

Although the District's Board of Education approved the lease-purchase agreement with Apple Computer Company, we noted the agreement was signed by the District's Superintendent.

Recommendation - According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District. The District should have the Board President sign all contracts entered into by the District to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - The District has changed procedures to make sure all contracts the District enters into are signed by the Board President.

Conclusion -

IV-P-10 Student Activity Fund - The District receives money for use of facilities when hosting district and regional events. Currently the District's practice is to receipt rents for hosting district and regional events into the Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. In the future, the District needs to receipt rent collected for facility usage into the General Fund.

Response - Any receipts for use of District facilities are now deposited into the General Fund.

Conclusion - Response accepted.