SPENCER
COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2008

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SPENCER COMMUNITY SCHOOL DISTRICT

Officials

Name	Title	Term Expires
	Board of Education	
	(Before September, 2007 Election)	
Randy Van Dyke	President	2007
David Schlichtmeier	Vice President	2009
Dean Mechler		2008
Ed Ver Steeg		2009
Les Zobrist		2008
	(After September, 2007 Election)	
David Schlichtmeier	President	2009
Dean Mechler	Vice President	2008
Barb Van Wyk		2009
Ed Ver Steeg		2009
Les Zobrist		2008
	School Officials	
Greg Ebeling	Superintendent	
Sharon Slawson	District Secretary /Treasurer	

BRUCE D. FRINK
Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report

To the Board of Education of
Spencer 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 Spencer Community School District, Spencer, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Spencer Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2009 on our consideration of Spencer Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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P.O. Box 241
Clarion, IA 50525

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spencer Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

Bruce D. Frink

BRUCE D. FRINK
Certified Public Accountant

March 20, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

SPENCER COMMUNITY SCHOOL DISTRICT

Spencer Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- The Board approved the issuance of $2,310,000 principal amount of local option sales and service tax bonds. The local option sales and services tax revenues will be used in connection with the construction of public improvements.

- The Board approved the sale of $1,285,000 energy management improvement school capital loan note. The school capital loan note revenues will be used for facility improvement measures. The intent is the amount of money saved in utility costs will off-set the principal and interest payments of the capital loan note.

- Spencer School Foundation presented the Board with a check in the amount of $100,000 to be used for the purchase of technology and smart boards.

- As a continued effort to bring revenue into District, the Spencer School Foundation is now renting space at the Central Office for their office.

- The Board approved the sale of the second and third floors of the former Spencer Middle School for $1.00 to Community Housing Initiatives, Inc. The space will be remodeled to accommodate low-income housing, which will result in a reduction of liability and cost savings to the District.

- With the continued anticipation of declining enrollment the Board of Directors implemented budget reductions in the amount of $1,001,206.

- In an attempt to reduce costs the Board approved a change in the Elementary Administrative Structure.

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 Spencer Community School District as a whole and present on 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 Spencer Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details 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-1
Spencer Community School District Annual Financial Report

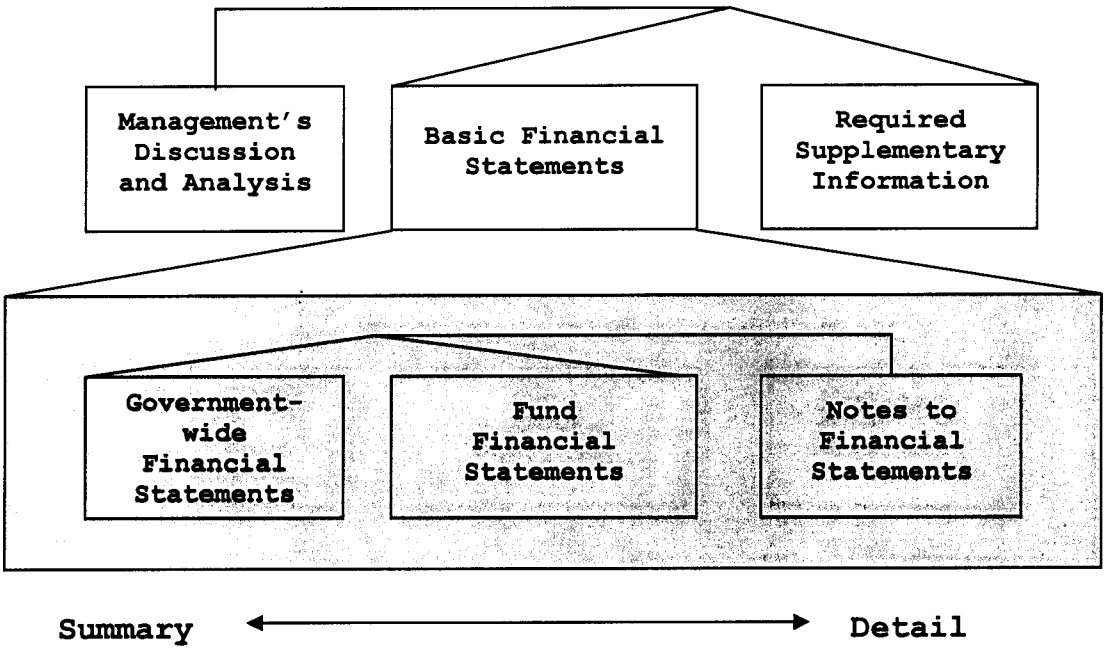

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in fund 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, 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 financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

- *Business type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets 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, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

   The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

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

   The required financial statements for proprietary funds include a Statement of Net Assets, a statement of revenues, expenses, changes in net assets and a Statement of cash flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2008 compared to 2007.

Figure A-3
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current assets	$ 18,438	$ 12,012	19	75	18,457	12,087	34.51%
Capital assets	20,345	20,084	71	79	20,416	20,163	1.24%
Total assets	38,783	32,096	90	154	38,873	32,250	17.04%
Current liabilities	11,744	7,960	12	9	11,756	7,969	32.21%
Non-current liabilities	11,865	9,258	-	-	11,865	9,258	21.97%
Total liabilities	23,609	17,218	12	9	23,621	17,227	27.07%
Net Assets							
Invested in capital assets, net of related debt	10,175	11,234	71	79	10,246	11,313	-10.41%
Restricted	5,745	2,695	-	-	5,745	2,695	53.09%
Unrestricted	(746)	949	7	66	(739)	1,015	-237.35%
Total net assets	$ 15,174	$ 14,878	78	145	15,252	15,023	1.50%

The District's combined net assets increased slightly, primarily in the capital projects fund, from the prior year. The District's General Fund decreased by nearly $500,000.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4
Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for service and sales	$ 1,095	1,395	564	545	1,659	1,940	-14.48%
Operating grants, contributions and restricted interest	3,619	3,230	356	386	3,975	3,616	9.93%
Capital grants, contributions and restricted interest	-	100	-	-	-	100	-100.00%
General revenues:							
Property tax	6,095	5,864	-	-	6,095	5,864	3.94%
Local option sales tax	864	1,342	-	-	864	1,342	-35.62%
Unrestricted state grants	7,882	7,443	-	-	7,882	7,443	5.90%
Unrestricted investment earnings	142	92	-	-	142	92	54.35%
Other	82	53	-	-	82	53	54.72%
Total revenues	$ 19,779	19,519	920	931	20,699	20,450	1.22%
Program expenses:							
Governmental activities:							
Instruction	$ 12,443	12,039	-	-	12,443	12,039	3.36%
Support Services	4,732	3,455	-	-	4,732	3,455	36.96%
Non-instructional programs	-	-	986	945	986	945	4.34%
Other expenses	2,307	1,896	-	-	2,307	1,896	21.68%
Total expenses	19,482	17,390	986	945	20,468	18,335	11.63%
Change in net assets	$ 297	2,129	(66)	(14)	231	2,115	-289.08%

Property tax, local option sales tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were $19,779,278 and expenses were $19,482,537. In a difficult budget year the District sought to balance the budget by reducing discretionary spending and seeking out alternative revenue sources, such as grants.

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

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	$ 12,443	12,039	3.36%	9,078	8,638	5.09%
Support Services	4,732	3,455	36.96%	4,719	2,940	60.51%
Other expenses	2,307	1,896	21.68%	971	1,088	-10.75%
Totals	$ 19,482	17,390	12.03%	14,768	12,666	16.60%

- The cost financed by users of the District's programs was $1,095,425.
- Federal and state governments subsidized certain programs with grants and contributions totaling $1,657,024.
- The net cost of governmental activities was financed with $6,095,515 in property tax, $7,881,477 in state foundation aid, $863,470 in local option sales tax and $141,916 in interest income.

Business Type Activities

Revenues of the District's business type activities were $919,473 and expenses were $985,791. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted the Spencer 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 balances of $6,719,264, 65% greater than last year's ending fund balances of $4,081,807.

The District used current resources to purchase fixed assets that will be depreciated over the useful lives of the assets. This trend will begin to reverse as major building projects are completed.

Governmental Fund Highlights

- The District's General Fund balance decreased by almost $500,000. Four percent or less allowable growth is not adequate to keep pace with rising costs across the board.
- With the passage of the bond issue and the use of LOSST dollars construction of the Middle School is completed. The facility is in full operation.

Proprietary Fund Highlights

Federal reimbursements increased due to price increases in Federal nutrition programs.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 34 and 35.

Legal Budgetary Highlights

The District's total actual receipts were approximately $820,000 less than the total budgeted receipts, a variance of 4%. The most significant change resulted in the District receiving less in federal revenues than originally anticipated.

Total expenditures were less in total 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 through its line item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008, the District has invested more than $20 million, net of accumulated depreciation, in a broad range of capital assets including school buildings, athletic facilities, central kitchen, maintenance and administrative buildings, computer and audiovisual equipment, maintenance equipment, school buses, library holdings and textbooks. Total depreciation expense for the year exceeded $900,000.

Figure A-6
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	$ 749	639	-	-	749	639	17.21%
Land improvements	445	478	-	-	445	478	-6.90%
Buildings	17,371	17,821	-	-	17,371	17,821	-2.53%
Construction in progress	698	-	-	-	698	-	100.00%
Furniture and equipment	1,083	1,146	71	79	1,154	1,225	-5.80%
Totals	$ 20,346	20,084	71	79	20,417	20,163	1.26%

Long - Term Debt

The District has $3,450,000 in outstanding general obligation bonds for the construction of a new middle school building. These bonds have an average interest rate of 4.65%. They will be paid off over the next 17 years.

In 2006, the District issued $5,250,000 in revenue bonds for the construction of the new middle school building. These funds have an average interest rate of 4.18%. They will be paid off over the next 9 years with proceeds from the 1% Clay County school infrastructure local option sales tax.

In 2007, the District issued $2,310,000 in revenue bonds for infrastructure projects. These will be repaid with sales tax proceeds over the 10 years.

In 2007, the District issued $1,285,000 of capital loan notes. These will be repaid over the next 10 years with savings on energy bills from conservation improvements.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District June 30, 2008	Total District June 30, 2007	Total Change June 30, 2007-08
General obligation bonds	$ 3,450	3,600	-4.17%
Revenue bonds	6,720	5,250	28.00%
Compensated absences	-	30	-100.00%
Capital loan notes	1,285	-	100.00%
Early retirement	410	377	8.75%
Total	$ 11,865	9,257	28.17%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District will continue to seek out new sources of revenue.

- Future enrollment stability is a critical element in maintaining a sound financial foundation. The District continues to work with other city leaders to enhance economic development in order to increase student enrollment.

- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). Employee wage and benefit settlements exceeding the growth rate in State funding will continue to force the District to consider additional budget reductions to balance the General Fund budget. A solution needs to be found.

- The District continues its cost-containment endeavors by monitoring expenses and personnel costs, and reducing or eliminating such liabilities, without affecting the quality of education of each and every child in the District.

- With the Energy Management Improvement School Capital Loan Note, and the Local Option Sales and Services Tax Revenue Bonds the District will be able to enhance its infrastructure and implement energy savings measures to reduce the cost of energy in the future. With the rising cost of oil, measures need to be taken to provide the most cost effective ways to use our natural resources.

- The District continues to research health insurance coverage and cost. It is an ongoing effort of the District to provide the best possible coverage to its employees at the lowest possible cost. This becomes more of a struggle each year, but continues to be a high priority for the District.

- The Board approved the sale of the second and third floors of the former Middle School to Community Housing Initiatives (CHI) and is continuing to work with "The Friends of the Auditorium" and other entities to assume ownership of the rest of the building.

- Once again unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act" and "GASB 34" to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our 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 Greg Ebeling, Superintendent, Spencer Community School District, 23 East 7th Street, Spencer, Iowa 51301.

Basic Financial Statements

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities: School Nutrition	Total
Assets			
Cash and pooled investments	$ 7,216,134	2,280	7,218,414
ISCAP investments	4,055,043	-	4,055,043
Receivables:			
Property tax			
Current year	69,427	-	69,427
Succeeding year	6,479,295	-	6,479,295
Due from other governments	501,384	311	501,695
Other receivables	101,577	178	101,755
ISCAP accrued interest receivable	15,147	-	15,147
Inventories	-	16,107	16,107
Capital assets, net of accumulated depreciation	20,345,419	71,443	20,416,862
Total assets	38,783,426	90,319	38,873,745
Liabilities			
Accounts payable	169,486	-	169,486
Unearned revenue	-	12,096	12,096
Accrued interest payable	24,958	-	24,958
ISCAP drawdown payable	970,000	-	970,000
ISCAP warrants payable	4,027,000	-	4,027,000
ISCAP accrued interest payable	72,962	-	72,962
Deferred revenue:			
Succeeding year property tax	6,479,295	-	6,479,295
Long term liabilities:			
Portion due within one year:			
Early retirement	149,865	-	149,865
Capital loan notes	70,000	-	70,000
General obligation bonds	155,000	-	155,000
Revenue bonds	870,000	-	870,000
Portion due after one year:			
Early retirement	260,465	-	260,465
Capital loan notes	1,215,000	-	1,215,000
General obligation bonds	3,295,000	-	3,295,000
Revenue bonds	5,850,000	-	5,850,000
Total liabilities	23,609,031	12,096	23,621,127
Net Assets			
Invested in capital assets, net of related debt	8,890,419	71,443	8,961,862
Restricted for:			
Management levy	65,553	-	65,553
Physical plant and equipment levy	915,564	-	915,564
Capital projects	4,082,605	-	4,082,605
Debt service	681,617	-	681,617
Unrestricted	538,637	6,780	545,417
Total net assets	$ 15,174,395	78,223	15,252,618

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:	$ 12,442,897	1,095,425	2,269,471	(9,078,001)	-	(9,078,001)
Support services:						
Student services	181,649	-	-	(181,649)	-	(181,649)
Instructional staff services	363,734	-	-	(363,734)	-	(363,734)
Administration services	2,089,894	-	-	(2,089,894)	-	(2,089,894)
Operation and maintenance of plant services	1,598,687	-	13,391	(1,585,296)	-	(1,585,296)
Transportation services	498,411	-	-	(498,411)	-	(498,411)
	4,732,375	-	13,391	(4,718,984)	-	(4,718,984)
Other expenditures:						
Facilities acquisition	147,542	-	625,743	478,201	-	478,201
AEA flowthrough	684,941	-	684,941	-	-	-
Long-term debt interest	573,837	-	25,896	(547,941)	-	(547,941)
Long-term debt services	1,800	-	-	(1,800)	-	(1,800)
Depreciation (unallocated)*	899,145	-	-	(899,145)	-	(899,145)
	2,307,265	-	1,336,580	(970,685)	-	(970,685)
Total governmental activities	19,482,537	1,095,425	3,619,442	(14,767,670)	-	(14,767,670)

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities:						
Non-instructional programs						
Nutrition services	985,791	563,707	355,766	-	(66,318)	(66,318)
Total	$ 20,468,328	1,659,132	3,975,208	(14,767,670)	(66,318)	(14,833,988)
General Revenues:						
Property tax levied for:						
General purposes				$ 4,973,044	-	4,973,044
Management Fund				350,417	-	350,417
Capital outlay				452,255	-	452,255
Debt service				309,419	-	309,419
School Infrastructure Local Option Sales Tax				863,470	-	863,470
Unrestricted state grants				7,881,477	-	7,881,477
Unrestricted investment earnings				141,916	-	141,916
Other				92,413	-	92,413
Total general revenues				15,064,411	-	15,064,411
Change in net assets				296,741	(66,318)	230,423
Net assets beginning of year				14,877,654	144,541	15,022,195
Net assets end of year				$ 15,174,395	78,223	15,252,618

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

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2008

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Assets						
Cash and pooled investments	$ 1,309,636	910,806	678,157	3,925,574	391,961	7,216,134
ISCAP investments	4,055,043	-	-	-	-	4,055,043
Receivables:						
Property tax:						
Current year	56,907	5,058	3,460	-	4,002	69,427
Succeeding year	5,205,441	465,204	308,650	-	500,000	6,479,295
Due from other governments	329,403	-	-	171,981	-	501,384
Other receivables	99,885	-	-	-	1,692	101,577
ISCAP accrued interest receivable	15,147	-	-	-	-	15,147
Total assets	$ 11,071,462	1,381,068	990,267	4,097,555	897,655	18,438,007

SPENCER COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2008

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$ 149,516	300	-	14,950	4,720	169,486
ISCAP drawdown payable	970,000	-	-	-	-	970,000
ISCAP warrants payable	4,027,000	-	-	-	-	4,027,000
ISCAP accrued interest payable	72,962	-	-	-	-	72,962
Deferred revenue:						
Succeeding year property tax	5,205,441	465,204	308,650	-	500,000	6,479,295
Total liabilities	10,424,919	465,504	308,650	14,950	504,720	11,718,743
Fund balances:						
Reserved for:						
Debt service	-	-	681,617	-	-	681,617
Construction project	-	-	-	4,082,605	-	4,082,605
Unreserved	646,543	915,564	-	-	392,935	1,955,042
Total fund balances	646,543	915,564	681,617	4,082,605	392,935	6,719,264
Total liabilities and fund balances	$ 11,071,462	1,381,068	990,267	4,097,555	897,655	18,438,007

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2008

Total fund balances of governmental funds (Exhibit C)	$ 6,719,264
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.	20,345,419
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.	(24,958)
Long-term liabilities, including early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Early retirement	(410,330)
Capital loan notes	(1,285,000)
General obligation bonds	(3,450,000)
Sales tax revenue bonds	(6,720,000)
Net assets of governmental activities (Exhibit A)	$ 15,174,395

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2008

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:						
Local sources:						
Local tax	$ 4,973,044	452,255	309,419	863,470	349,687	6,947,875
Tuition	1,095,425	-	-	-	-	1,095,425
Other	465,059	467,800	25,634	167,659	385,435	1,511,587
State sources	9,694,768	383	262	-	304	9,695,717
Federal sources	528,674	-	-	-	-	528,674
Total revenues	16,756,970	920,438	335,315	1,031,129	735,426	19,779,278
Expenditures:						
Instruction:	11,958,091	159,349	-	-	561,437	12,678,877
Support services						
Student services	180,157	-	-	-	1,492	181,649
Instructional staff services	362,362	-	-	-	1,372	363,734
Administration services	2,085,872	-	-	15,841	18,581	2,120,294
Operation and maintenance of plant services	1,456,151	33,850	-	-	108,686	1,598,687
Transportation services	476,544	4,262	-	-	17,605	498,411
	4,561,086	38,112	-	15,841	147,736	4,762,775

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2008

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Other expenditures:						
Facilities acquisition and construction services	-	520,068	-	519,260	-	1,039,328
Long-term debt:						
Principal	-	-	990,000	-	-	990,000
Interest	-	-	579,100	-	-	579,100
Services	-	-	1,800	-	-	1,800
AEA flowthrough	684,941	-	-	-	-	684,941
	684,941	520,068	1,570,900	519,260	-	3,295,169
Total expenditures	17,204,118	717,529	1,570,900	535,101	709,173	20,736,821
Excess (deficiency) of revenues over (under) expenditures	(447,148)	202,909	(1,235,585)	496,028	26,253	(957,543)
Other financing sources (uses):						
Proceeds of long-term debt issuance	-	-	-	3,595,000	-	3,595,000
Operating transfers in	-	-	1,261,775	-	-	1,261,775
Operating transfers out	(45,515)	-	-	(1,216,260)	-	(1,261,775)
Total other financing sources	(45,515)	-	1,261,775	2,378,740	-	3,595,000
Net change in fund balances	(492,663)	202,909	26,190	2,874,768	26,253	2,637,457
Fund balances beginning of year	1,139,206	712,655	655,427	1,207,837	366,682	4,081,807
Fund balances end of year	$ 646,543	915,564	681,617	4,082,605	392,935	6,719,264

See notes to financial statements.

SPENCER 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, 2008

Net change in fund balances - total governmental funds (Exhibit E)		$ 2,637,457
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	#REF!	
Depreciation expense	(899,145)	#REF!
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.		5,263
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:		
Issued	(3,595,000)	
Repaid	990,000	(2,605,000)
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	76,631	
Compensated absences	30,400	107,031
Change in net assets of governmental activities (Exhibit B)		#REF!

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2008

	School Nutrition
Operating revenue:	
Local sources:	
Charges for services	$ 563,707
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	377,444
Benefits	129,899
Services	7,153
Supplies	461,332
Depreciation	9,963
Total operating expenses	985,791
Operating (loss)	(422,084)
Non-operating revenues:	
Interest on investments	2,899
State sources	9,293
Federal sources	343,574
	355,766
Change in net assets	(66,318)
Net assets beginning of year	144,541
Net assets end of year	$ 78,223

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2008

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	$ 584,287
Cash payments to employees for services	(507,343)
Cash payments to suppliers for goods or services	(411,929)
Net cash provided by (used in) operating activities	(334,985)
Cash flows from non-capital financing activities:	
State grants received	9,293
Federal grants received	307,226
Net cash provided by non-capital financing activities	316,519
Cash flows from capital financing activities:	
Acquisition of capital assets	(2,764)
Cash flows from investing activities:	
Interest on investments	2,899
Net (decrease) in cash and cash equivalents	(18,331)
Cash and cash equivalents beginning of year	20,611
Cash and cash equivalents end of year	$ 2,280
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	$ (422,084)
Adjustments to reconcile operating profit (loss) to net cash provided (used in) operating activities:	
Depreciation	9,963
Commodities used	36,037
Decrease in other receivables	17,581
Decrease in inventory	20,519
Increase in unearned revenue	2,999
	$ (334,985)
Reconciliation of cash and cash equivalents at year end to speciific assets included on Combined Balance Sheet:	
Current assets:	
Cash	$ 2,280

Non-cash investing, capital and financing activities:

During the year ended June 30, 2008, the District received federal commodities valued at $36,037.

See notes to financial statements.

(1) Summary of Significant Accounting Policies

Spencer 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 Spencer, Iowa, and agricultural territory in Clay 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, Spencer Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Spencer Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clay County Assessor's Conference Board.

B. Basis of Presentation

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

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 attributable to the acquisition, construction, or improvement of those assets.

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are 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 and proprietary 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 expenditures, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

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

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

The District reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under the 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 non-operating 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 non-operating 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 Balance

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 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 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 become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2007.

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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	$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible 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 - This represents money received by the District but not yet earned. It includes School Nutrition Fund lunch ticket credits of $8,913.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2008.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures did not exceed the amended amounts budgeted in any of the four functions.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2008 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; 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.

The District had no investments at June 30, 2008.

(3) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 639,299	109,531	-	748,830
Construction in progress	-	697,518	-	697,518
	639,299	807,049	-	1,446,348
Capital assets being depreciated:				
Buildings	22,624,542	-	-	22,624,542
Improvements other than buildings	849,478	-	-	849,478
Furniture and Equipment	4,358,151	353,617	39,639	4,672,129
Total capital assets being depreciated	27,832,171	353,617	39,639	28,146,149
Less accumulated depreciation for:				
Buildings	4,803,629	449,991	-	5,253,620
Improvements other than buildings	371,826	32,619	-	404,445
Furniture and Equipment	3,212,117	416,535	39,639	3,589,013
Total accumulated depreciation	8,387,572	899,145	39,639	9,247,078
Total capital assets being depreciated, net	19,444,599	(545,528)	-	18,899,071
Governmental activities, capital assets, net	$ 20,083,898	261,521	-	20,345,419

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	$ 356,170	2,764	146,078	212,856
Less accumulated depreciation	277,528	9,963	146,078	141,413
Business type activities capital assets, net	$ 78,642	(7,199)	-	71,443

Depreciation expense was charged to the following functions:

Governmental activities:	
Unallocated	$ 899,145
Business Type activities:	
Food service operations	$ 9,963

(4) 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual payroll, for the year ended June 30, 2008. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were $697,145, $630,206, and $571,392 respectively, equal to the required contributions for each year.

(5) 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 $684,941 for year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

Spencer 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.

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation bonds	$3,600,000	-	150,000	3,450,000	155,000
Revenue bonds	5,250,000	2,310,000	840,000	6,720,000	870,000
Early retirement	377,430	112,758	79,858	410,330	149,865
Capital loan note	-	1,285,000	-	1,285,000	70,000
Total	$9,227,430	3,707,758	1,069,858	11,865,330	1,244,865

(8) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must have reached the age of 55 when the benefit is elected and must have completed at least 10 years of continuous full-time service in the district. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 30% of their full time equivalent salary (not including extended contract and extra duty pay amounts). Benefits may be placed in a bona fide 403b plan or applied to the cost of health insurance offered through the district's group health insurance plan. Benefits for part time employees will be determined on a prorata basis. Early retirement benefits paid during the year ended June 30, 2008 totaled $79,858. The cost of early retirement benefits expected to be paid both currently and long-term are recorded as long-term liabilities on the Statement of Net Assets (Exhibit A).

(9) General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of July 1, 2004			
	Rates	Interest	Principal	Total
2009	3.85%	$ 153,250	155,000	308,250
2010	4.00	147,283	160,000	307,283
2011	4.20	140,882	170,000	310,882
2012	4.20	133,743	175,000	308,743
2013	4.30	126,392	185,000	311,392
2014-2018	4.35-4.35	507,025	1,035,000	1,542,025
2019-2023	4.40-4.75	256,925	1,280,000	1,536,925
2024	4.90	14,210	290,000	304,210
Total		$1,479,710	3,450,000	4,929,710

(10) Revenue Bonds Payable

Details of the District's June 30, 2008 local option sales and service tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			
	Rates	Interest	Principal	Total
2009	3.75%	$180,472	690,000	870,472
2010	3.90	154,598	715,000	869,598
2011	3.90	126,712	745,000	871,712
2012	3.95	97,658	775,000	872,658
2013	4.00	67,045	810,000	877,045
2014	4.10	34,645	845,000	879,645
Total		$661,130	4,580,000	5,241,130

Year Ending June 30,	Bond Issue of September 5, 2007			
	Rates	Interest	Principal	Total
2009	4.27%	$ 91,378	180,000	271,378
2010	4.27	83,692	185,000	268,692
2011	4.27	75,793	190,000	265,793
2012	4.27	67,679	200,000	267,679
2013	4.27	59,139	210,000	269,139
2014	4.27	50,173	215,000	265,173
2015	4.27	40,992	225,000	265,992
2016	4.27	31,385	235,000	266,385
2017	4.27	21,350	245,000	266,350
2018	4.27	10,888	255,000	265,888
Total		$532,469	2,140,000	2,672,469

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

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

a) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.

b) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.

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.

The District did not comply with all of the revenue bond provisions during the year ended June 30, 2008. The required Reserve Account was not established by the District and no transfers were made to the Sinking Account.

(11) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investment	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/27/07	6/27/08	$ -	622	-	-
2007-08B	1/23/08	1/23/09	970,104	13,355	967,000	19,583
2008-09A	6/25/08	6/25/09	3,084,939	1,170	3,060,000	53,379
Total			$4,055,043	15,147	4,027,000	72,962

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08A	$ -	1,000,000	1,000,000	-
2007-08B	-	970,000	-	970,000
	$ -	1,970,000	1,000,000	970,000

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%
2007-08B	3.750%	3.451%
2008-09A	3.500%	3.469%

(12) Interfund Transfers

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

Transfer to	Transfer From	Amount
Debt Service	Capital projects	$1,216,260
Debt Service	General Fund	45,515
		$1,261,775

(13) Capital Loan Notes

In September, 2007 the District issued $1,285,000 of Capital Loan Notes to be used for energy management projects throughout the District. Payments will be made from the General Fund.

Details of the Capital Loan Notes are as follows:

Year Ending June 30,	Capital Loan Notes of September 5, 2007			
	Rates	Interest	Principal	Total
2009	4.27%	$ 54,869	70,000	124,869
2010	4.27	51,881	70,000	121,881
2011	4.27	48,892	75,000	123,892
2012	4.27	45,689	80,000	125,689
2013	4.27	42,273	80,000	122,273
2014	4.27	38,857	85,000	123,857
2015	4.27	35,227	90,000	125,227
2016	4.27	31,384	90,000	121,384
2017	4.27	27,542	95,000	122,542
2018	4.27	23,485	100,000	123,485
2019	4.27	19,215	105,000	124,215
2020	4.27	14,732	110,000	124,732
2021	4.27	10,034	115,000	125,034
2022	4.27	5,124	120,000	125,124
Total		$449,204	1,285,000	1,734,204

Required Supplementary Information

SPENCER COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
Revenues:						
Local sources	$ 9,554,887	566,606	10,121,493	10,408,619	10,408,619	(287,126)
State sources	9,695,717	9,293	9,705,010	9,795,713	9,795,713	(90,703)
Federal sources	528,674	343,574	872,248	1,314,735	1,314,735	(442,487)
Total revenues	19,779,278	919,473	20,698,751	21,519,067	21,519,067	(820,316)
Expenditures:						
Instruction	12,678,877	-	12,678,877	13,194,784	13,119,812	440,935
Support services	4,762,775	-	4,762,775	5,661,807	5,102,551	339,776
Non-instructional programs	-	985,791	985,791	962,500	1,040,000	54,209
Other expenditures	3,295,169	-	3,295,169	2,777,357	5,405,658	2,110,489
Total expenditures	20,736,821	985,791	21,722,612	22,596,448	24,668,021	2,945,409
Excess (deficiency) of revenues over (under) expenditures	(957,543)	(66,318)	(1,023,861)	(1,077,381)	(3,148,954)	2,125,093
Other financing sources (uses)	3,595,000	-	3,595,000	-	-	3,595,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	2,637,457	(66,318)	2,571,139	(1,077,381)	(3,148,954)	5,720,093
Balance beginning of year	4,081,807	144,541	4,226,348	1,962,491	1,962,491	2,263,857
Balance end of year	$ 6,719,264	78,223	6,797,487	885,110	(1,186,463)	7,983,950

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting 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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District amended the budget once during the year increasing budgeted expenditures by $2,071,573.

During the year ended June 30, 2008, expenditures did not exceed the amended amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

SPENCER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2008

	Management Levy	Student Activity	Total
Assets			
Cash and pooled investments	$ 209,931	182,030	391,961
Property tax receivable:			
Current year	4,002	-	4,002
Succeeding year	500,000	-	500,000
Other receivables	1,485	207	1,692
Total assets	$ 715,418	182,237	897,655
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	$ -	4,720	4,720
Deferred revenue:			
Succeeding year property tax	500,000	-	500,000
	500,000	4,720	504,720
Fund balance:			
Unreserved fund balance	215,418	177,517	392,935
	215,418	177,517	392,935
Total liabilities and fund balance	$ 715,418	182,237	897,655

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2008

	Management Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	$ 349,687	-	349,687
Other	3,717	381,718	385,435
State sources	304	-	304
Total revenues	353,708	381,718	735,426
Expenditures:			
Instruction:	186,844	374,593	561,437
Support services:			
Student support services	1,492	-	1,492
Instructional staff support	1,372	-	1,372
Administration services	18,581	-	18,581
Plant operation and maintenance	108,686	-	108,686
Student transportation	17,605	-	17,605
Non-instructional programs:			
Food service operations	-	-	-
Total expenditures	334,580	374,593	709,173
Excess (deficiency) of revenues over (under) expenditures	19,128	7,125	26,253
Fund balances beginning of year	196,290	170,392	366,682
Balance end of year	$ 215,418	177,517	392,935

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2008

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
System Wide				
Assemblies	$ 2,256	-	2,246	10
Concessions	510	24,230	24,669	71
Special Events	1,004	-	-	1,004
Staff Courtesy	6,897	-	-	6,897
Drug Free Fundraiser	2,273	-	-	2,273
Clearing	-	302	-	302
	12,940	24,532	26,915	10,557
Middle School				
Concessions	1,159	3,349	2,405	2,103
Band	486	1,024	1,024	486
Special Education Fundraiser	51	(51)	-	-
Staff Courtesy	1,542	1,048	698	1,892
Student Council	2,361	4,228	3,984	2,605
Photo Club	10,938	355	473	10,820
	16,537	9,953	8,584	17,906
Elementary				
At Risk Cycle	167	500	293	374
Jump Rope for Heart	2,278	-	858	1,420
Art/Technology	782	-	-	782
Reading	397	-	-	397
Success	130	-	-	130
Take Home Bags	51	426	-	477
Fairview:				
Photo Club	1,468	1,798	-	3,266
Art/Technology	208	-	-	208
Jefferson:				
Staff Courtesy	46	-	46	-
Photo Club	380	-	380	-
Johnson:				
Special Education Fundraiser	919	-	456	463
Staff Courtesy	1,026	890	1,759	157
Student Council	288	-	-	288
Photo Club	1,281	2,798	2,966	1,113
Johnson Store	543	115	-	658
Art/Technology	183	-	-	183
Computer Club	1,626	-	-	1,626
Lincoln:				
Special Education Fundraiser	457	-	251	206
Staff Courtesy	29	793	-	822
Environment Club	192	1	179	14
Photo Club	2,047	558	-	2,605
Computer Club	390	-	-	390
	14,888	7,879	7,188	15,579

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2008

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School				
Drama	6,000	16,367	16,367	6,000
Speech Club	5,000	5,804	9,899	905
Vocal	1,038	23,847	19,371	5,514
Band	1,000	5,186	5,186	1,000
Band/Choir	-	6,384	6,384	-
Intramurals	1,161	1,540	2,135	566
Track	6,923	10,334	8,257	9,000
Cross Country	2,406	601	1,166	1,841
Boys Basketball	7,131	9,865	6,501	10,495
Football	14,138	19,158	18,357	14,939
Boys Soccer	3,500	4,050	3,348	4,202
Baseball	7,000	10,273	8,258	9,015
Boys Track	68	-	-	68
Boys Tennis	1,593	300	674	1,219
Boys Golf	1,686	750	1,216	1,220
Boys Swimming	2,224	2,155	1,954	2,425
Wrestling	6,219	8,451	8,170	6,500
Girls Basketball	7,532	11,293	10,075	8,750
Volleyball	5,000	8,348	6,848	6,500
Girls Soccer	6,727	3,200	6,440	3,487
Softball	6,500	8,337	7,337	7,500
Girls Tennis	1,557	200	548	1,209
Girls Golf	1,404	1,444	1,648	1,200
Girls Swimming	3,271	2,384	2,466	3,189
General Athletics	(15,349)	40,696	25,347	-
Athletic Revolving	247	7,557	7,796	8
Athletic Enhancement	1,008	5,720	5,446	1,282
Tourney and Hosted Events	10,567	55,820	66,380	7
FFA	5,733	10,532	12,878	3,387
Business Management	725	3,303	3,241	787
Skills USA	-	3,700	275	3,425
Staff Courtesy	739	1,149	1,604	284
Custodial	258	1,061	1,315	4
Environment Club	195	-	-	195
Student Council	10,213	10,028	15,420	4,821
Pep Club	1,088	4,733	2,251	3,570
German Club	1,707	2,599	3,026	1,280
Spanish Club	4,169	2,012	2,678	3,503
Photo Club	-	6,529	6,529	-
Art	532	-	-	532
Class of 2009	-	3,633	3,609	24
Class of 2008	25	2,369	1,148	1,246
Class of 2007	1,195	-	1,195	-
Mock Trial	1,611	-	1,531	80
Debate Club	1,653	3,686	3,791	1,548
Spencerian	633	13,956	13,841	748
	126,027	339,354	331,906	133,475
Total	$ 170,392	381,718	374,593	177,517

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	$ 6,947,875	7,206,303	6,633,075	7,813,540	6,633,075
Tuition	1,095,425	1,339,680	1,112,866	1,030,567	1,112,866
Other	1,511,587	1,203,973	1,333,398	1,912,346	1,333,398
State sources	9,695,717	8,907,401	8,376,770	8,279,593	8,376,770
Federal sources	528,674	771,695	872,062	991,030	872,062
Total	$ 19,779,278	19,429,052	18,328,171	20,027,076	18,328,171
Expenditures:					
Instruction	$ 12,678,877	12,276,059	11,270,942	11,005,690	11,270,942
Support services:					
Student	181,649	198,050	138,449	384,533	138,449
Instructional staff	363,734	343,820	269,397	235,468	269,397
Administration	2,120,294	1,942,757	1,723,695	1,557,864	1,723,695
Operation and maintenance of plant	1,598,687	1,645,762	1,354,485	1,194,718	1,354,485
Transportation	498,411	561,278	603,875	400,540	603,875
Non-instructional programs	-	-	-	34,369	-
Other expenditures:					
Facilities acquisition	1,039,328	2,136,536	9,638,500	4,733,468	9,638,500
Debt service:					
Principal	990,000	790,000	135,000	125,000	135,000
Interest and services	580,900	389,683	394,410	385,130	394,410
AEA flowthrough	684,941	641,561	601,508	600,878	601,508
Total	$ 20,736,821	20,925,506	26,130,261	20,657,658	26,130,261

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
National School Lunch Program	10.555	FY08	$ 251,777
Food Distribution (non-cash)	10.555	FY08	36,037
School Breakfast Program	10.553	FY08	55,449
			343,263
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6102-G-07	209,434
Innovative Education Program Strategies	84.298	FY08	2,671
Improving Teacher Quality - Grants to States	84.367	FY08	75,530
Grants for Assessments and Related Activities	84.369A	FY08	14,042
Tech Prep Demonstration Grants	84.353	FY08	2,300
Vocational Education - Basic Grants to States	84.048	FY08	12,824
Safe and Drug-Free Schools and Communities	84.186	FY08	6,917
Prairie Lakes Area Education Agency:			
Special Education - Grants to States (IDEA Part B)	84.027	FY08	106,549
Corporation for National and Community Service:			
Learn and Serve America (Comserv Iowa 2007)	94.004	FY08	6,192
Total			$ 779,722

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Spencer 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.

BRUCE D. FRINK
Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

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
Spencer 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 Spencer Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 20, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer 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 Spencer Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spencer Community School District's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 08-II-A to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer 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, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Spencer 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 Spencer 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 Spencer Community School District and other parties to whom Spencer 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 Spencer 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.

Bruce D. Frink

BRUCE D. FRINK
Certified Public Accountant

March 20, 2009

BRUCE D. FRINK
Certified Public Accountant

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- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

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
Spencer Community School District:

Compliance

We have audited the compliance of Spencer Community School District with the types of compliance requirements described in the 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, 2008. Spencer 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 grants agreements applicable to each of its major federal programs is the responsibility of Spencer Community School District's management. Our responsibility is to express an opinion on Spencer 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 Spencer 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 Spencer Community School District's compliance with those requirements.

In our opinion Spencer 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, 2008.

Internal Control Over Compliance

The management of Spencer 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 Spencer Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Spencer 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 would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 08-III-A to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that result in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 08-III-A to be a material weakness.

Spencer Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Spencer 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 Spencer Community School District and other parties to whom Spencer 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.

Bruce D. Frink

BRUCE D. FRINK
Certified Public Accountant

March 20, 2009

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part I: Summary of the Independent Auditor's Results

(a) An unqualified opinion was issued on the financial statements.

(b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) A significant deficiencies in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.

(e) An unqualified opinion was issued on compliance with requirements applicable to each major program.

(f) The audit disclosed no 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:

- CFDA Number 84.027 - Special Education - Grants to States

School Nutrition Clustered Programs:

- CFDA Number 10.555 - National School Lunch Program
- CFDA Number 10.555 - Food Distribution (non-cash)
- CFDA Number 10.553 - School Breakfast Program

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) Spencer Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

08-II-A 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. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - Over the years the district has looked at various ways of dividing duties. As a result, responsibilities of individuals have been altered. We will, however, continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number: 10.553 School Breakfast Program
10.555 National School Lunch Program
10.555 Food Distribution (non-cash)
Federal Award Year: 2008
US Department of Agriculture
Passed through Iowa Department of Education

CFDA Number: 84.027 Special Education - Grants to States
Federal Award Year: 2008
US Department of Education
Prairie Lakes Area Educational Agency

Part III: Findings For Federal Awards: continued:

08-III-A Segregation of Duties over Federal Funds - The District did not properly segregate custody, record-keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - Over the years the District has looked at various ways of dividing duties. As a result, responsibilities of individuals have been altered. We will, however, continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

08-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2008.

08-IV-B Certified Budget - Expenditures for the year ended June 30, 2008 did not exceed the amended certified budget amounts in any of the four functions.

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

08-IV-D 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.

08-IV-E 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.

08-IV-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

08-IV-G Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

08-IV-H 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.

Part III: Findings For Federal Awards:
continued:

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

08-IV-J Business Transactions - No business transactions between the District and District officials or employees were noted.

08-IV-K Revenue Bonds - The District has not established the Reserve Account required by the revenue bond resolution. In addition, the required monthly transfers from the Revenue Account to the Sinking Account were not made by the District.

Recommendation - The District should establish the Reserve Account in the amount required and make the monthly transfers to the Sinking Account as required by the bond resolution.

Response - We will establish a Reserve Account and begin making transfers to a Sinking Account

Conclusion - Response accepted.