

SPENCER COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

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Spencer Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u> (Before September 2009 Election)		
David Schlichtmeier	President	2009
Ed VerSteeg	Vice President	2009
Barb VanWyk	Board Member	2009
Todd Korbitz	Board Member	2011
Marti Bomgaars	Board Member	2011
<u>Board of Education</u> (After September 2009 Election)		
Todd Korbitz	President	2011
Marti Bomgaars	Vice President	2011
Dean Mechler	Board Member	2013
Bob Whittenburg	Board Member	2013
Bill Zinn	Board Member	2013
<u>School Officials</u>		
Greg Ebeling	Superintendent	2010
Sharon Slawson	Board Secretary/Treasurer	2010
Steve Avery	Attorney	Indefinite

SPENCER COMMUNITY
SCHOOL DISTRICT

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Spencer Community School District:

We have audited the accompanying financial statements of governmental activities, 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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

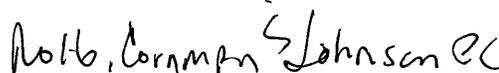
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Spencer Community School District at June 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof 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 8, 2011 on our consideration of the 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 Governmental Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information, Schedule of Funding Progress for the Retiree Health Plan and Component Unit Financial Statements on pages 7 through 16 and 42 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise 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 year ended June 30, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$17,871,433 in fiscal 2009 to \$17,626,518 in fiscal 2010, and General Fund expenditures decreased from \$17,543,638 in fiscal 2009 to \$17,211,255 in fiscal 2010. The District's General Fund balance increased from \$974,338 at the end of fiscal 2009 to \$1,275,920 at the end of fiscal 2010, a 30.96% increase.
- The decrease in General Fund revenues was attributable to a decrease in property tax and income surtax, as well as state aid revenues in 2010. The decrease in expenditures was due primarily to a decrease in support services. As a result of revenues being greater than expenses, the District's fund balance increased \$301,582.
- The District entered into sharing agreements with the Clay Central Everly School District for Director of Transportation and the City of Spencer for the Director of Human Resources. This will result in additional revenue for the Spencer District, and the possibility of sharing agreements in other areas in the future.
- The generosity of the Spencer School Foundation will enable the District to enhance curriculum and student achievement. A gift in the amount of \$20,000 per year for five years to be used for Core Curriculum. An additional Gift to Education of Students for \$110,000 over a five-year period.

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 an overall view of the District's finances.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

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

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

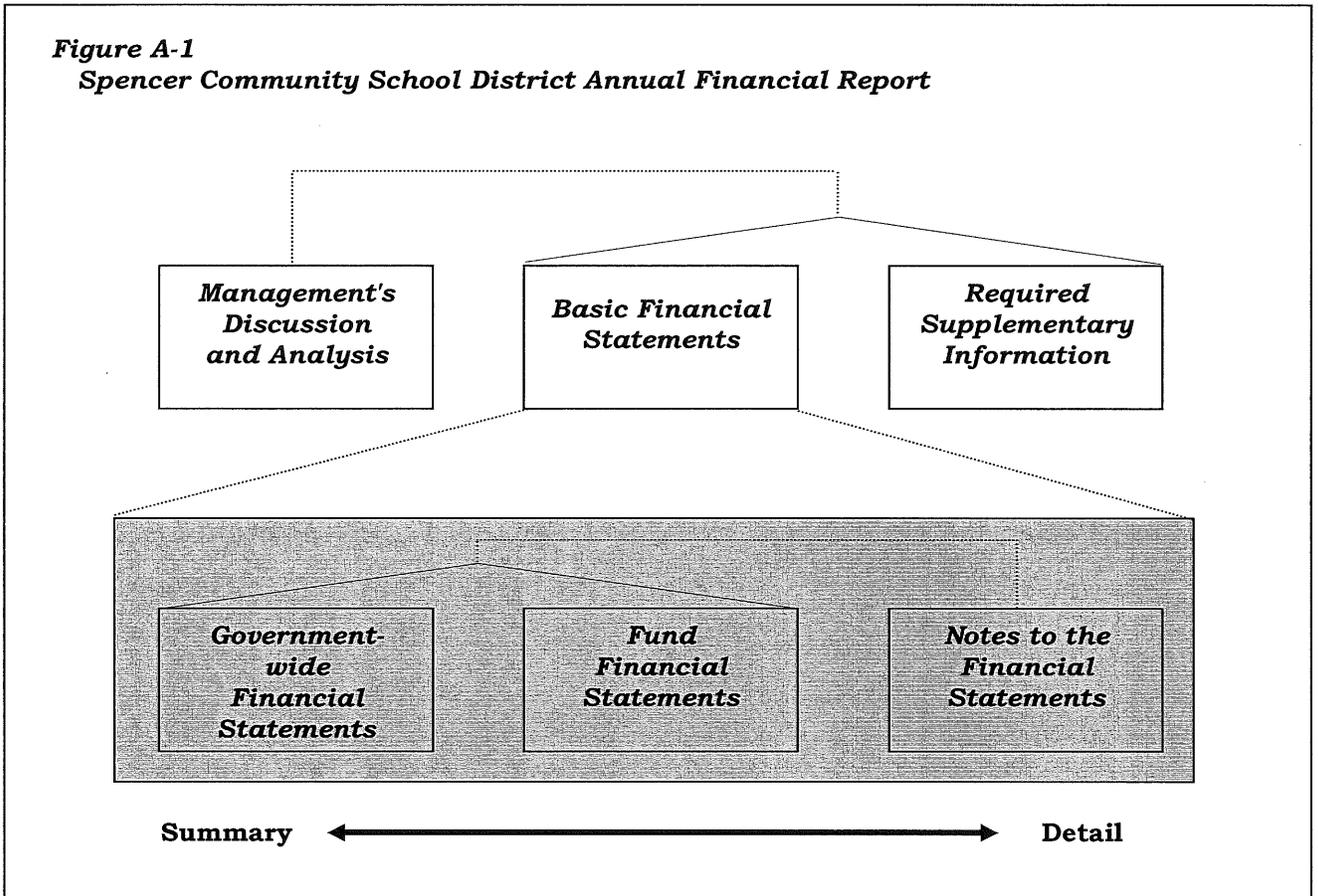


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary 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 child care	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
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	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide 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 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 position. Over time, increases or decreases in the District's net assets are an indicator of whether the financial position is improving or deteriorating, respectively. To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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 taxes 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 and child care programs are included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

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

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 District-wide 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 District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has one internal service fund, Self-Funded Insurance Fund.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District’s net assets for the year ended June 30, 2009 compared to June 30, 2010.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2008-09
Current and other assets	\$ 14,232,653	16,145,127	110,767	16,128	14,343,420	16,161,255	-11.25%
Capital assets	22,135,777	22,534,787	52,031	61,715	22,187,808	22,596,502	-1.81%
Total assets	36,368,430	38,679,914	162,798	77,843	36,531,228	38,757,757	-5.74%
Long-term obligations	10,461,586	10,845,682	7,196	3,559	10,468,782	10,849,241	-3.51%
Other liabilities	7,490,205	10,563,230	12,321	2,236	7,502,526	10,565,466	-28.99%
Total liabilities	17,951,791	21,408,912	19,517	5,795	17,971,308	21,414,707	-16.08%
Net assets:							
Invested in capital assets, net of related debt	14,905,777	12,174,787	52,031	61,715	14,957,808	12,236,502	22.24%
Restricted	2,433,072	3,915,336	-	-	2,433,072	3,915,336	-37.86%
Unrestricted	1,077,790	1,180,879	91,250	10,333	1,169,040	1,191,212	1.86%
Total net assets	\$ 18,416,639	17,271,002	143,281	72,048	18,559,920	17,343,050	7.02%

The District’s combined net assets increased by 7.02%, or \$1,216,870, over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets. The increase in invested in capital assets is primarily due to the assets capitalized in the year being greater than the current year depreciation.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets decreased \$1,482,264, or 37.86% under the prior year. The decrease was primarily a result of the decreased fund balance in the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$22,172, or 1.86%. This increase in unrestricted net assets was a result of the District’s increased net assets in the Internal Service Fund and increase in the General Fund balance.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 1,395,460	1,353,632	603,628	620,590	1,999,088	1,974,222	1.26%
Operating grants and contributions and restricted interest	4,126,531	2,968,694	443,243	374,171	4,569,774	3,342,865	36.70%
General revenues:							
Property tax	6,767,703	6,502,993	-	-	6,767,703	6,502,993	4.07%
Income surtax	553,241	827,735	-	-	553,241	827,735	100.00%
Statewide sales and services tax	1,329,640	1,511,361	-	-	1,329,640	1,511,361	-12.02%
City sales and services tax	296,750	407,976	-	-	296,750	407,976	100.00%
Unrestricted state grants	6,293,455	7,792,936	-	-	6,293,455	7,792,936	-19.24%
Unrestricted investment earnings	84,760	256,287	638	745	85,398	257,032	-66.78%
Other	261,097	352,983	2,942	-	264,039	352,983	-25.20%
Total revenues	21,108,637	21,974,597	1,050,451	995,506	22,159,088	22,970,103	-3.53%
Program expenses:							
Governmental activities:							
Instruction	13,909,216	13,365,558	-	-	13,909,216	13,365,558	4.07%
Support services	4,078,048	4,860,570	19,295	16,938	4,097,343	4,877,508	-16.00%
Non-instructional programs	-	-	959,923	984,743	959,923	984,743	-2.52%
Other expenses	1,975,736	1,651,862	-	-	1,975,736	1,651,862	19.61%
Total expenses	19,963,000	19,877,990	979,218	1,001,681	20,942,218	20,879,671	0.30%
Changes in net assets	1,145,637	2,096,607	71,233	(6,175)	1,216,870	2,090,432	-41.79%
Beginning net assets	17,271,002	15,174,395	72,048	78,223	17,343,050	15,252,618	13.71%
Ending net assets	\$ 18,416,639	17,271,002	143,281	72,048	18,559,920	17,343,050	7.02%

In fiscal 2010, property tax, income surtax, statewide sales and services tax, city sales and services tax and unrestricted state grants account for 72.20% of the governmental revenue while charges for services and operating grants and contributions account for 99.66% of the revenue from business type activities.

The District's total revenues were approximately \$22.2 million, of which \$21.1 million was for governmental activities and \$1.1 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.53% decrease in revenues and a .30% increase in expenses. The decrease in revenues was due to the cut in state aid. The increases in expenses related to increases in negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$21,108,637 and expenses were \$19,963,000.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 13,909,216	13,365,558	4.07%	\$ 9,196,974	9,778,067	-5.94%
Support services	4,078,048	4,860,570	-16.10%	4,054,333	4,832,902	-16.11%
Other expenses	1,975,736	1,651,862	19.61%	1,189,702	944,695	25.94%
Totals	<u>\$ 19,963,000</u>	<u>19,877,990</u>	<u>0.43%</u>	<u>\$ 14,441,009</u>	<u>15,555,664</u>	<u>-7.17%</u>

- The cost financed by users of the District’s programs was \$1,395,460.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$4,126,531.
- The net cost of governmental activities was financed with \$6,767,703 in property tax, \$553,241 in income surtax, \$1,329,640 in statewide sales and services tax, \$296,750 in city sales and services tax, \$6,293,455 in unrestricted state grants, \$84,760 in unrestricted investment earnings, \$261,097 in other general revenues.

Business Type Activities

Revenues of the District’s Business type activities were \$1,050,451 and expenses were \$979,218. 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 \$3,936,466, below last year’s ending fund balances of \$5,101,228. However, the primary reason for the decrease in combined fund balances in fiscal 2010 is due to the decrease in Capital Projects Fund balance.

Governmental Fund Highlights

- The District’s improving General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. The District’s increase in General Fund expenditures was less than the increase in revenues, allowing the fund balance to increase and to be used for future financial obligations.
- The General Fund balance increased from \$974,338 to \$1,275,920, due to expenses being less than revenues.
- The Capital Projects Fund balance decreased from \$2,837,420 in fiscal 2009 to \$1,149,566 in fiscal 2010. The District collected local option sales and services tax and had an increase in capital outlay expenditures, with the majority being part of the energy savings construction project in progress.
- The Debt Service Fund balance increased from \$693,365 in fiscal 2009 to \$786,571 in fiscal 2010. The District transfers in statewide and city sales and services tax monies from the Capital Projects Fund to pay for bond principal and interest.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$72,048 at June 30, 2009 to \$143,281 at June 30, 2010, representing an increase of 98.87%. Overall, expenditures decreased while revenues increased. Expenditures were less than revenues guaranteeing an increase in the fund balance.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,280,301 less than budgeted revenues, a variance of 5.49%. The most significant variance resulted from the District receiving more in federal source revenues than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$24 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 7.04% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$2,909,467.

The original cost of the District's capital assets was \$36.5 million. Governmental funds account for \$36.3 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2010, compared to \$3,362,297 reported at June 30, 2009. This decrease resulted from construction projects started and completed during the year. These projects include the ESG energy saving project, Lincoln Elementary parking lot, High School technology education project, Old Middle School renovation, High School roof project, and High School entry project.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	2009-10
Land	\$ 748,830	748,830	-	-	748,830	748,830	0.00%
Construction in progress	-	3,362,297	-	-	-	3,362,297	-100.00%
Buildings	21,429,381	17,003,592	-	-	21,429,381	17,003,592	26.03%
Land improvements	883,028	546,341	-	-	883,028	546,341	61.63%
Machinery and equipment	1,074,538	873,727	52,031	61,715	1,126,569	935,442	20.43%
Total	\$ 24,135,777	22,534,787	52,031	61,715	24,187,808	22,596,502	7.04%

Long-Term Debt

At June 30, 2010, the District had \$10,468,782 in general obligation and other long-term debt outstanding. This represents a decrease of 3.51% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonds of \$3,135,000 at June 30, 2010.

The District had outstanding revenue bonds of \$4,950,000 at June 30, 2010.

The District had early retirement payable of \$1,045,559 at June 30, 2010, which will be paid primarily out of the Special Revenue, Management Levy Fund.

The District also had compensated absences payable of \$47,267 at June 30, 2010, which will be paid primarily out of the General Fund.

The District had net OPEB liability payable of \$145,956 at June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
General obligation bonds	\$ 3,135,000	3,295,000	-	-	3,135,000	3,295,000	-4.86%
Revenue bonds	4,950,000	5,850,000	-	-	4,950,000	5,850,000	-15.38%
Capital loan notes	1,145,000	1,215,000	-	-	1,145,000	1,215,000	-5.76%
Early retirement	1,045,559	374,172	-	-	1,045,559	374,172	179.43%
Compensated absences	47,267	42,895	-	-	47,267	42,895	10.19%
Net OPEB liability	138,760	68,615	7,196	3,559	145,956	72,174	102.23%
Totals	\$ 10,461,586	10,845,682	7,196	3,559	10,468,782	10,849,241	-3.51%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of five 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 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 Statewide Sales and Services Tax Revenue Bonds the District will be able to enhance its infrastructure and implement energy saving 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.
- 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", "GASB 34", and "GASB 45" to name a few.

- The uncertain economy and loss of revenue by the State of Iowa will continue to have a negative effect on not only the School District, but also factions of business within the State.
- With the uncertain economy, the likelihood of layoffs, thus unemployment expenses, will increase the need for more dollars in the Management Fund. This will result in an increase in the tax levy for that fund.
- The increase in worker's compensation claims and settlements will increase the premium the District will have to pay, which will have a direct affect on the tax levy for the Management Fund.
- The dissolution of the South Clay School District will result in increased valuations of approximately \$41,070,361 and an approximate increase of 40 students on our certified enrollment. This will increase the revenue received by the District in both State Aid and Property Taxes.
- The Board of Directors is working to partner with Spencer Municipal Utilities to pursue projects in one of the following areas: Green Energy, Free Preschool, or Technology.
- The District continues to seek business partners to enhance vocational programs and provide financial support.

CONTACTING THE DISTRICT'S FINANCIAL MANAGMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Slawson, Board Secretary, Spencer Community School District, 23 East 7th Street, Spencer, Iowa, 51301.

Basic Financial Statements

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government			Component Unit +
	Governmental Activities	Business Type Activities	Total	Spencer Community School Foundation
ASSETS				
Cash and pooled investments:	\$ 4,080,201	94,215	4,174,416	1,379,296
Receivables:				
Property tax:				
Delinquent	60,725	-	60,725	-
Succeeding year	6,953,316	-	6,953,316	-
Income surtax	526,602	-	526,602	-
Accounts	135,172	-	135,172	893
Due from other governments	476,637	-	476,637	-
Inventories	-	16,552	16,552	-
Capital assets not being depreciated:				
Land	748,830	-	748,830	-
Capital assets being depreciated, net of accumulated depreciation:				
Buildings	21,429,381	-	21,429,381	1,147
Land improvements	883,028	-	883,028	-
Machinery and equipment	1,074,538	52,031	1,126,569	-
TOTAL ASSETS	36,368,430	162,798	36,531,228	1,381,336
LIABILITIES				
Accounts payable	287,711	-	287,711	-
Benefits payable	-	217	217	439
Interest payable	11,740	-	11,740	-
Deferred revenue:				
Succeeding year property tax	6,953,316	-	6,953,316	-
Other	237,438	-	237,438	-
Unearned revenue	-	12,104	12,104	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	170,000	-	170,000	-
Revenue bonds payable	745,000	-	745,000	745,000
Early retirement payable	337,711	-	337,711	-
Compensated absences payable	47,267	-	47,267	-
Portion due after one year:				
General obligation bonds payable	2,965,000	-	2,965,000	-
Revenue bonds payable	4,205,000	-	4,205,000	4,205,000
Capital loan notes payable	1,145,000	-	1,145,000	-
Early retirement payable	707,848	-	707,848	-
Net OPEB liability	138,760	7,196	145,956	-
TOTAL LIABILITIES	17,951,791	19,517	17,971,308	4,950,439
NET ASSETS				
Invested in capital assets, net of related debt	14,905,777	52,031	14,957,808	-
Restricted for:				
Debt service	786,571	-	786,571	-
Categorical funding	176,079	-	176,079	-
Capital projects	1,149,566	-	1,149,566	-
Physical plant and equipment levy	173,731	-	173,731	-
Other special revenue purposes	147,125	-	147,125	-
Unrestricted	1,077,790	91,250	1,169,040	(3,569,103)
TOTAL NET ASSETS	\$ 18,416,639	143,281	18,559,920	(3,569,103)

+ The component unit year end is December 31, 2009.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

**SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Primary Government		Component Unit + Spencer Community School Foundation
				Governmental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 8,793,564	826,120	2,195,177	(5,772,267)	-	(5,772,267)
Special	2,810,159	396,040	792,044	(1,622,075)	-	(1,622,075)
Other	2,305,493	168,167	334,694	(1,802,632)	-	(1,802,632)
	<u>13,909,216</u>	<u>1,390,327</u>	<u>3,321,915</u>	<u>(9,196,974)</u>	<u>-</u>	<u>(9,196,974)</u>
Support services:						
Student	200,191	-	-	(200,191)	-	(200,191)
Instructional staff	300,616	-	-	(300,616)	-	(300,616)
Administration	1,798,610	-	-	(1,798,610)	-	(1,798,610)
Operation and maintenance of plant	1,472,818	-	1,918	(1,470,900)	-	(1,470,900)
Transportation	305,813	5,133	16,664	(284,016)	-	(284,016)
	<u>4,078,048</u>	<u>5,133</u>	<u>18,582</u>	<u>(4,054,333)</u>	<u>-</u>	<u>(4,054,333)</u>
Other expenditures:						
Long-term debt interest	424,576	-	-	(424,576)	-	(424,576)
AEA flowthrough	786,034	-	786,034	-	-	-
Depreciation(unallocated)*	765,126	-	-	(765,126)	-	(765,126)
	<u>1,975,736</u>	<u>-</u>	<u>786,034</u>	<u>(1,189,702)</u>	<u>-</u>	<u>(1,189,702)</u>
Total governmental activities	<u>19,963,000</u>	<u>1,395,460</u>	<u>4,126,531</u>	<u>(14,441,009)</u>	<u>-</u>	<u>(14,441,009)</u>
Business Type activities:						
Support services:						
Operation and maintenance of plant	19,295	-	-	-	(19,295)	(19,295)
Non-instructional programs:						
Food service operations	959,923	603,628	443,243	-	86,948	86,948
Total business type activities	<u>979,218</u>	<u>603,628</u>	<u>443,243</u>	<u>-</u>	<u>67,653</u>	<u>67,653</u>
Total primary government	<u>\$ 20,942,218</u>	<u>1,999,088</u>	<u>4,569,774</u>	<u>(14,441,009)</u>	<u>67,653</u>	<u>(14,373,356)</u>
Total component unit	<u>\$ 106,247</u>	<u>-</u>	<u>86,358</u>			<u>(19,889)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 5,975,682	-	5,975,682
Debt service				307,452	-	307,452
Capital outlay				484,569	-	484,569
Income surtax				553,241	-	553,241
Statewide sales and services tax				1,329,640	-	1,329,640
City sales and services tax				296,750	-	296,750
Unrestricted state grants				6,293,455	-	6,293,455
Unrestricted investment earnings				84,760	638	85,398
Realized gain or loss on investments				-	-	-
Other general revenues				261,097	2,942	264,039
Total general revenues				<u>15,586,646</u>	<u>3,580</u>	<u>15,590,226</u>
Changes in net assets				1,145,637	71,233	1,216,870
Net assets beginning of year				17,271,002	72,048	17,343,050
Net assets end of year				<u>\$ 18,416,639</u>	<u>143,281</u>	<u>18,559,920</u>

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

+ The component unit year end is December 31, 2009.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:	\$ 1,046,640	989,936	1,504,615	3,541,191
Receivables:				
Property tax				
Delinquent	49,347	-	11,378	60,725
Succeeding year	5,619,468	-	1,333,848	6,953,316
Income surtax	526,602	-	-	526,602
Interfund	247,890	-	-	247,890
Accounts	135,172	-	-	135,172
Due from other governments	238,638	237,948	51	476,637
TOTAL ASSETS	\$ 7,863,757	1,227,884	2,849,892	11,941,533
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 204,329	78,318	5,064	287,711
Deferred revenue:				
Succeeding year property tax	5,619,468	-	1,333,848	6,953,316
Income surtax	526,602	-	-	526,602
Other	237,438	-	-	237,438
Total liabilities	6,587,837	78,318	1,338,912	8,005,067
Fund balances:				
Reserved for:				
Debt service	-	-	786,571	786,571
Categorical funding	176,079	-	-	176,079
Unreserved:				
Undesignated	1,099,841	1,149,566	724,409	2,973,816
Total fund balances	1,275,920	1,149,566	1,510,980	3,936,466
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,863,757	1,227,884	2,849,892	11,941,533

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total fund balances of governmental funds(page 20)	\$ 3,936,466
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	24,135,777
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.	(11,740)
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	291,120
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	526,602
Long-term liabilities, including bonds payable, capital loan notes payable, early retirement payable, compensated absences payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(10,461,586)</u>
Net assets of governmental activities(page 18)	<u><u>\$ 18,416,639</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 5,907,936	1,329,640	1,291,705	8,529,281
Tuition	1,108,358	-	-	1,108,358
Other	191,216	15,888	417,573	624,677
Intermediate sources	-	296,750	-	296,750
State sources	8,369,547	-	978	8,370,525
Federal sources	2,049,461	-	-	2,049,461
Total revenues	<u>17,626,518</u>	<u>1,642,278</u>	<u>1,710,256</u>	<u>20,979,052</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,508,421	-	406,980	7,915,401
Special	2,814,710	-	26,533	2,841,243
Other	1,996,269	-	344,195	2,340,464
	<u>12,319,400</u>	<u>-</u>	<u>777,708</u>	<u>13,097,108</u>
Support services:				
Student	91,743	108,700	480	200,923
Instructional staff	300,728	-	1,423	302,151
Administration	1,959,865	-	58,512	2,018,377
Operation and maintenance of plant	1,383,247	-	103,000	1,486,247
Transportation	370,238	-	146,942	517,180
	<u>4,105,821</u>	<u>108,700</u>	<u>310,357</u>	<u>4,524,878</u>
Other expenditures:				
Facilities acquisitions	-	2,027,758	161,526	2,189,284
Long-term debt:				
Principal	-	-	1,130,000	1,130,000
Interest and fiscal charges	-	-	425,110	425,110
AEA flowthrough	786,034	-	-	786,034
	<u>786,034</u>	<u>2,027,758</u>	<u>1,716,636</u>	<u>4,530,428</u>
Total expenditures	<u>17,211,255</u>	<u>2,136,458</u>	<u>2,804,701</u>	<u>22,152,414</u>
Excess(deficiency) of revenues over(under) expenditures	415,263	(494,180)	(1,094,445)	(1,173,362)
Other financing sources(uses):				
Proceeds from disposal of assets	8,600	-	-	8,600
Transfers in	-	-	1,315,955	1,315,955
Transfers out	(122,281)	(1,193,674)	-	(1,315,955)
Total other financing sources(uses)	<u>(113,681)</u>	<u>(1,193,674)</u>	<u>1,315,955</u>	<u>8,600</u>
Net change in fund balances	301,582	(1,687,854)	221,510	(1,164,762)
Fund balances beginning of year	<u>974,338</u>	<u>2,837,420</u>	<u>1,289,470</u>	<u>5,101,228</u>
Fund balances end of year	<u>\$ 1,275,920</u>	<u>1,149,566</u>	<u>1,510,980</u>	<u>3,936,466</u>

SEE NOTES TO BASIC 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, 2010

Net change in fund balances - total governmental funds(page 22) \$ (1,164,762)

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

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

Capital outlays	\$	4,501,091	
Depreciation expense		(2,899,783)	
Loss on disposal of capital assets		(318)	
		1,600,990	

Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

1,130,000

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.

534

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.

203,476

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

121,303

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	(671,387)		
Compensated absences	(4,372)		
Other postemployment benefits	(70,145)		
	(745,904)		(745,904)

Changes in net assets of governmental activities(page 19) \$ 1,145,637

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	Business Type Activities: Enterprise Fund <u>School Nutrition</u>	Governmental Activities: Internal Service Fund <u>Self-Funded Insurance</u>
<u>ASSETS</u>		
Current assets:		
Cash and pooled investments	\$ 94,215	539,010
Inventories	16,552	-
Total current assets	<u>110,767</u>	<u>539,010</u>
Non-current assets:		
Capital assets:		
Machinery and equipment, net of accumulated depreciation	52,031	-
Total non-current assets	<u>52,031</u>	<u>-</u>
TOTAL ASSETS	<u>162,798</u>	<u>539,010</u>
<u>LIABILITIES</u>		
Current liabilities:		
Interfund payable	-	247,890
Salaries and benefits payable	217	-
Unearned revenue	12,104	-
Total current liabilities	<u>12,321</u>	<u>247,890</u>
Long-term liabilities:		
Net OPEB liability	7,196	-
Total long-term liabilities	<u>7,196</u>	<u>-</u>
TOTAL LIABILITIES	<u>19,517</u>	<u>247,890</u>
<u>NET ASSETS</u>		
Invested in capital assets	52,031	-
Unrestricted	91,250	291,120
Total net assets	<u>\$ 143,281</u>	<u>291,120</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	Business Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund Self-Funded Insurance
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 603,628	2,270,343
Miscellaneous	2,942	-
	606,570	2,270,343
OPERATING EXPENSES:		
Instruction:		
Regular:		
Benefits	-	7,405
Total instruction	-	7,405
Support services:		
Administration:		
Benefits	-	2,060,559
Services	1,750	-
	1,750	2,060,559
Operation and maintenance of plant:		
Services	6,580	-
Supplies	10,965	-
	17,545	-
Total support services	19,295	2,060,559
Non-instructional programs:		
Food service operations:		
Salaries	381,874	-
Benefits	149,097	-
Services	3,040	-
Supplies	416,228	-
Depreciation	9,684	-
Total non-instructional programs	959,923	-
TOTAL OPERATING EXPENSES	979,218	2,067,964
OPERATING INCOME(LOSS)	(372,648)	202,379
NON-OPERATING REVENUES:		
State sources	8,492	-
Federal sources	434,751	-
Interest on investments	638	1,097
TOTAL NON-OPERATING REVENUES	443,881	1,097
Change in net assets	71,233	203,476
Net assets beginning of year	72,048	87,644
Net assets end of year	\$ 143,281	291,120

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2010

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Self-Funded Insurance
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 613,496	\$ -
Cash received from miscellaneous sources	2,942	2,270,343
Cash payments to employees for services	(527,334)	(2,067,964)
Cash payments to suppliers for goods or services	(388,639)	-
Net cash provided by(used in) operating activities	<u>(299,535)</u>	<u>202,379</u>
Cash flows from non-capital financing activities:		
State grants received	8,492	-
Federal grants received	383,604	-
Interfund loan borrowings	-	(100,000)
Net cash provided by(used in) non-capital financing activities	<u>392,096</u>	<u>(100,000)</u>
Cash flows from investing activities:		
Interest on investments	638	1,097
Net cash provided by investing activities	<u>638</u>	<u>1,097</u>
Net increase(decrease) in cash and cash equivalents	93,199	103,476
Cash and cash equivalents at beginning of year	<u>1,016</u>	<u>435,534</u>
Cash and cash equivalents at end of year	<u>\$ 94,215</u>	<u>\$ 539,010</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (372,648)	\$ 202,379
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities used	51,147	-
Depreciation	9,684	-
Increase in inventories	(1,440)	-
Increase in accounts payable	217	-
Increase in unearned revenue	9,868	-
Increase in other postemployment benefits	3,637	-
Net cash provided by(used in) operating activities	<u>\$ (299,535)</u>	<u>\$ 202,379</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$51,147.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

Note 1. Summary of Significant Accounting Policies

The 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 the predominate 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 Government Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Spencer Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District.

These financial statements present the Spencer Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit - The Spencer Community District Foundation was created to facilitate the distribution of scholarship money to students in Clay County. The Foundation is a separate legal entity with its own accounting records and board of trustees. The trustees are elected for 3-year terms from nominations submitted by a nominating committee comprised of the Board of Directors of the Foundation. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a component unit in these financial statements.

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

B. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities report information on all of the activities of the District, with omission of the fiduciary funds. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

The District also reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund and Internal Service, Self-Funded Insurance Fund. The Enterprise, School Nutrition Fund is used to account for the food service operations of the District. The Internal Service, Self-Funded Insurance Fund is used to account for the self-funded health insurance of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary 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.

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the accrual basis.

D. Cash, Pooled Investments and Cash Equivalents

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

For purpose 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.

E. Property Taxes

Property taxes in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. 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 Board of Education is required to certify its

budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recorded as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

F. Inventories

The Enterprise Fund inventories are accounted for using the consumption method by which inventory acquisitions are recorded in inventory accounts when purchased or received by other means and are charged to operations when consumed or sold. The enterprise fund inventory consists primarily of food, with purchased food recorded at the lower cost (first-in, first-out method) or market and food commodities which were received from the federal government recorded at the contributed value as of the date received.

G. Capital Assets

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Land improvements	20 years
Intangibles	5-12 years
Machinery and equipment	5-12 years

H. Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents 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 revenues consist of unspent

federal grant proceeds, succeeding year property tax receivable, and other receivables not collected within sixty days after year end.

I. Unearned Revenues

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

J. Compensated Absences

District employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Compensated absences are reported in governmental funds only if they have matured. The cost of vacation payments expected to be liquidated currently is recorded as a long-term liability on the statement of net assets and will be paid in the future out of the General Fund. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The full balance is shown as due within a year using first-in, first-out basis.

K. 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.

L. Fund Balances

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

M. 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.

N. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The District's deposits at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the District had no investments in the Iowa Schools Joint Investment Trust Direct Government Obligations pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Note 3. 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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

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. The District 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. The interest rate on the Series 2009-10A warrants was 2.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Accrued Interest Payable
2009-10A	6/25/09	6/23/10	\$ -	\$ 800,000	\$ 800,000	\$ -
Total						

During the year ended June 30, 2010, the District paid \$24,246 of interest on the ISCAP warrants.

Note 4. Interfund Receivable and Payable

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Due to	Due from	Amount
General	Internal Service - Self-Funded Insurance	\$ 247,890

The Internal Service - Self-Funded Insurance Fund is repaying the General Fund for benefits paid and not transferred during the year. The balance will be repaid by June 30, 2011.

Note 5. Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales and Services Tax	\$ 924,582
Debt Service	Capital Projects: City Sales and Services Tax	269,092
Debt Service	General	122,281
Total		\$ 1,315,955

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

The Capital Projects is transferring money to finance the revenue bonds payments made from the Debt Service Fund.

The General Fund is transferring money to finance the energy loan debt payments made from the Debt Service Fund.

Note 6. Capital Assets

A summary of changes in property and equipment comprising capital assets is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 748,830	-	-	748,830
Construction in progress	3,362,297	-	3,362,297	-
Total capital assets not being depreciated	<u>4,111,127</u>	<u>-</u>	<u>3,362,297</u>	<u>748,830</u>
Capital assets being depreciated:				
Buildings	22,706,291	5,131,439	-	27,837,730
Land improvements	990,453	396,163	-	1,386,616
Machinery and equipment	4,332,592	2,335,786	299,033	6,369,345
Total capital assets being depreciated	<u>28,029,336</u>	<u>7,863,388</u>	<u>299,033</u>	<u>35,593,691</u>
Less accumulated depreciation for:				
Buildings	5,702,699	705,650	-	6,408,349
Land improvements	444,112	59,476	-	503,588
Machinery and equipment	3,458,865	2,134,657	298,715	5,294,807
Total accumulated depreciation	<u>9,605,676</u>	<u>2,899,783</u>	<u>298,715</u>	<u>12,206,744</u>
Total capital assets being depreciated, net	<u>18,423,660</u>	<u>4,963,605</u>	<u>318</u>	<u>23,386,947</u>
Governmental activities capital assets, net	<u>\$ 22,534,787</u>	<u>4,963,605</u>	<u>3,362,615</u>	<u>24,135,777</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 212,856	-	-	212,856
Less accumulated depreciation	151,141	9,684	-	160,825
Business type activities capital assets, net	<u>\$ 61,715</u>	<u>(9,684)</u>	<u>-</u>	<u>52,031</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Regular instruction	\$ 2,134,657
	<u>2,134,657</u>
Unallocated depreciation	<u>765,126</u>
Total governmental activities depreciation expense	<u>\$ 2,899,783</u>
Business type activities:	
Food services	<u>\$ 9,684</u>

Note 7. Long-Term Debt

A summary of changes in long-term debt for business type activities and governmental activities for the year ended June 30, 2010 are as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 3,295,000	\$ -	\$ 160,000	\$ 3,135,000	\$ 170,000
Revenue Bonds	5,850,000	-	900,000	4,950,000	745,000
Capital Loan Notes	1,215,000	-	70,000	1,145,000	-
Early Retirement	374,172	815,716	144,329	1,045,559	337,711
Compensated Absences	42,895	47,267	42,895	47,267	47,267
Net OPEB Liability	68,615	70,145	-	138,760	-
Total	<u>\$ 10,845,682</u>	<u>\$ 933,128</u>	<u>\$ 1,317,224</u>	<u>\$ 10,461,586</u>	<u>\$ 1,299,978</u>
<u>Business Type Activities:</u>					
Net OPEB Liability	<u>\$ 3,559</u>	<u>\$ 3,637</u>	<u>\$ -</u>	<u>\$ 7,196</u>	<u>\$ -</u>

Bonded debt

On July 1, 2004 the District issued general obligation bonds of \$4,000,000 for capital facility construction of the new middle school. The General Obligation Bonds will be paid with property taxes collected in the Debt Service Fund. Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			
	Rate	Principal	Interest	Total
2011	4.20 %	\$ 170,000	\$ 140,882	\$ 310,882
2012	4.20	175,000	133,743	308,743
2013	4.30	185,000	126,392	311,392
2014	4.30	190,000	118,438	308,438
2015	4.30	200,000	110,267	310,267
2015-2019	4.30-4.45	1,125,000	415,263	1,540,263
2020-2024	4.55-4.90	1,090,000	134,192	1,224,192
Total		<u>\$ 3,135,000</u>	<u>\$ 1,179,177</u>	<u>\$ 4,314,177</u>

On July 1, 2004, the District issued statewide sales and service tax revenue bonds of \$5,900,000 for capital facility construction of the new middle school. On September 5, 2007, the District issued city sales and service tax revenue bonds of \$2,310,000 for school infrastructure. The revenue bonds will be paid with statewide and city sales and services taxes collected in the Capital Projects Fund. Details of the District's June 30, 2010 statewide and city sales and service tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			Bond Issue of September 5, 2007		
	Rate	Principal	Interest	Rate	Principal	Interest
2011	3.90 %	\$ 745,000	126,712	3.60 %	-	79,742
2012	3.95	775,000	97,658	3.60	190,000	71,736
2013	4.00	810,000	67,045	3.60	200,000	63,409
2014	4.10	845,000	34,645	3.65	210,000	54,656
2015	-	-	-	3.65	215,000	45,582
2016-2018	-	-	-	3.65	960,000	68,427
Total		<u>\$ 3,175,000</u>	<u>326,060</u>		<u>\$ 1,775,000</u>	<u>383,552</u>

Year Ending June 30,	Total		
	Principal	Interest	Total
2011	\$ 745,000	206,454	951,454
2012	965,000	169,394	1,134,394
2013	1,010,000	130,454	1,140,454
2014	1,055,000	89,301	1,144,301
2015	215,000	45,582	260,582
2016-2018	960,000	68,427	1,028,427
Total	<u>\$ 4,950,000</u>	<u>709,612</u>	<u>5,659,612</u>

The District has pledged future local option sales and services tax revenues to repay the \$5,850,000. The bonds are payable solely from the proceeds of the statewide and city sales and services tax revenues received by the District in accordance with Chapter 423E of the Code of Iowa and are payable through 2018. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitations of the District. The total principal and interest paid remaining to be paid is \$5,633,459. For the current year \$900,000 in principal and \$238,290 in interest was paid on the bonds and total statewide and city sales and services tax revenues were \$1,329,640.

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

- a) \$590,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available on the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide and city sales and services tax shall be placed in a revenue account.
- c) 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.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Capital Loan Notes

During the year ended June 30, 2008, the District issued Energy Management Capital Loan Notes of \$1,285,000 for school infrastructure. The capital loan notes are payable from the General Fund. Details of the District's June 30, 2010 capital loan notes indebtedness are as follows:

Year Ending June 30,	Bond Issue of September 5, 2007			
	Rate	Principal	Interest	Total
2011	4.27 %	\$ -	\$ 50,386	\$ 50,386
2012	4.27	75,000	47,290	122,290
2013	4.27	80,000	43,981	123,981
2014	4.27	80,000	40,565	120,565
2015	4.27	85,000	37,042	122,042
2016-2020	4.27	480,000	137,603	617,603
2021-2022	4.27	345,000	22,524	367,524
Total		<u>\$ 1,145,000</u>	<u>\$ 379,391</u>	<u>\$ 1,524,391</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to 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 37.5% 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 prorated basis. Early retirement benefits paid during the year ended June 30, 2010, totaled \$144,329. The cost of early retirement payments expected to be paid are recorded as a long-term liability of the Governmental Activities in the Government-wide financial statements.

Note 8. Other Postemployment Benefits(OPEB)

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

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 201 active and 17 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$ 124,567
Interest on net OPEB obligation	1,804
Adjustment to annual required contribution	<u>(3,363)</u>
Annual OPEB cost	123,008
Contributions made	<u>(49,226)</u>
Increase in net OPEB obligation	73,782
Net OPEB obligation beginning of year	<u>72,174</u>
Net OPEB obligation end of year	<u>\$ 145,956</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$49,226 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 123,008	40.0%	\$ 145,956

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2010, the actuarial accrued liability was \$1,056,071, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,056,071. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9,752,360, and the ratio of the UAAL to covered payroll was 10.8%. As of June 30, 2010, there were no trust fund assets.

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

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

As of the July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Current claim costs of the medical plan are as follows: Plan 1 single for \$542.24 per month; Plan 1 family for \$1,263.85 per month; Plan 2 single for \$507.24 per month; and Plan 2 family for \$1,177.85 per month. Post age 65 expected claims cost are assumed to equal retiree contributions. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 9. Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered payroll for the years ended June 30, 2010, 2009 and 2008. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$742,989, \$729,985 and \$697,145 respectively, equal to the required contributions for each year.

Note 10. Risk Management

Spencer Community School District is a member in the Iowa Governmental Health Care Plan, an Iowa Code Chapter 28E organization. The Iowa Governmental Health Care Plan (IGHCP) is a local government risk-sharing pool whose members include various schools, counties and other governmental entities throughout the State of Iowa. IGHCP was formed for the purpose of managing and funding employee benefits. IGHCP provides coverage and protection in the following categories: medical, dental, life/accidental death and dismemberment, dependent life, and long-term disability insurance.

Each members' contributions to the IGHCP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, IGHCP's general and administrative expenses, claims, claims expenses and insurance expense due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to IGHCP for the year ended June 30, 2010 were \$1,563,323.

Payments from participating members are used to buy health insurance from Wellmark. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. IGHCP will pay claims incurred before the termination date.

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. There have been no significant reductions in insurance coverage from coverage in the prior year.

Note 11. 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 \$786,034 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. 28E Agreement

The District continues to participate in a Chapter 28E agreement with the City of Spencer. In accordance with the agreement, the City of Spencer will acquire, store and dispense fuel for the Spencer School District. The District pays for fuel used monthly at the most recent truck transport price plus an administrative and shrinkage fee. This agreement is reviewed annually; the most recent review was October 2008.

Note 13. Anticipatory Warrant

On June 8, 2010, the District entered into an agreement with Farmers Trust and Savings Bank of Spencer, Iowa to provide for the issuance of a \$2,000,000 warrant in anticipation of General Fund receipts. The warrant, which bears interest at 2.15% per annum and matures on April 30, 2010, is payable solely from the revenues of General Fund. As of June 30, 2010 no borrowings have been made on this line of credit.

Note 14. Subsequent Event

Effective, July 1, 2010 the South Clay School District was closed. Due to the dissolution, the property of the District was divided between Spencer, Sioux Central, Laurens-Marathon, Ruthven-Ayrshire and Clay-Central-Everly Community School Districts.

Note 15. Categorical Funding

Categorical funding balances for the District as of June 30, 2010 were as follows:

<u>Project</u>	<u>Amount</u>
Market factor	\$ 11,805
Educator quality, market factor	13,593
Model core curriculum	68,875
Educator quality, basic salary	<u>81,806</u>
Total reserved for cateforical funding	<u>\$ 176,079</u>

SPENCER COMMUNITY
SCHOOL DISTRICT

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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 10,262,316	607,208	10,869,524	10,934,108	10,934,108	(64,584)
Intermediate sources	296,750	-	296,750	400,000	400,000	(103,250)
State sources	8,370,525	8,492	8,379,017	10,755,223	10,755,223	(2,376,206)
Federal sources	2,049,461	434,751	2,484,212	1,220,473	1,220,473	1,263,739
Total revenues	20,979,052	1,050,451	22,029,503	23,309,804	23,309,804	(1,280,301)
Expenditures/Expenses:						
Instruction	13,097,108	-	13,097,108	14,018,183	14,500,000	1,402,892
Support services	4,524,878	19,295	4,544,173	5,308,807	5,400,000	855,827
Non-instructional programs	-	959,923	959,923	1,115,000	1,200,000	240,077
Other expenditures	4,530,428	-	4,530,428	4,303,577	6,000,000	1,469,572
Total expenditures/expenses	22,152,414	979,218	23,131,632	24,745,567	27,100,000	3,968,368
Deficiency of revenues under expenditures/expenses	(1,173,362)	71,233	(1,102,129)	(1,435,763)	(3,790,196)	2,688,067
Other financing sources, net	8,600	-	8,600	2,721	2,721	5,879
Deficiency of revenues and other financing sources under expenditures/expenses	(1,164,762)	71,233	(1,093,529)	(1,433,042)	(3,787,475)	2,693,946
Balance beginning of year	5,101,228	72,048	5,173,276	2,508,128	2,508,128	2,665,148
Balance end of year	\$ 3,936,466	143,281	4,079,747	1,075,086	(1,279,347)	5,359,094

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards 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 the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$2,354,433.

SPENCER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION

For Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1 ,2008	\$ -	\$ 1,056,071	\$ 1,056,071	0.00%	\$ 9,605,444	11.0%
2010	July 1 ,2008	-	1,056,071	1,056,071	0.00%	9,752,360	10.8%

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

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITES AND NET ASSETS - CASH BASIS
COMPONENT UNIT
DECEMBER 31, 2009

	Spencer Community School Foundation
ASSETS	
Cash, savings, and investments	\$ 1,379,296
Accounts Receivable	893
Capital assets being depreciated, net of accumulated depreciation:	
Land and buildings	1,147
TOTAL ASSETS	1,381,336
 LIABILITIES	
Benefits payable	439
TOTAL LIABILITIES	439
 NET ASSETS	 \$ 1,380,897

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2009

	Spencer Community School Foundation
Revenue:	
Contributions, gifts, grants and similar amounts	\$ 86,358
Interest	40,143
Other	596
Total revenue	127,097
Expenses:	
Grants and similar amounts paid:	
Scholarships	43,500
Mini Grants	27,837
Salaries and benefits	20,096
Other	14,814
Total expenses	106,247
Deficiency of revenue under expenses	20,850
Net assets beginning of year	1,360,047
Net assets end of year	\$ 1,380,897

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Other Supplementary Information

SPENCER COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2010

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
ASSETS						
Cash and pooled investments	\$ 399,030	151,559	170,136	720,725	783,890	1,504,615
Receivables:						
Property tax:						
Delinquent	4,503	-	4,206	8,709	2,669	11,378
Succeeding year	550,319	-	496,933	1,047,252	286,596	1,333,848
Due from other governments	20	-	19	39	12	51
TOTAL ASSETS	\$ 953,872	151,559	671,294	1,776,725	1,073,167	2,849,892
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	4,434	630	5,064	-	5,064
Deferred revenue:						
Succeeding year property tax	550,319	-	496,933	1,047,252	286,596	1,333,848
Total liabilities	550,319	4,434	497,563	1,052,316	286,596	1,338,912
Fund equity:						
Fund balances:						
Reserved for Debt Service	-	-	-	-	786,571	786,571
Unreserved fund balances	403,553	147,125	173,731	724,409	-	724,409
	403,553	147,125	173,731	724,409	786,571	1,510,980
TOTAL LIABILITIES AND FUND BALANCES	\$ 953,872	151,559	671,294	1,776,725	1,073,167	2,849,892

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2010

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total	Debt Service	Total Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 499,684	-	484,569	984,253	307,452	1,291,705
Other	35,564	356,614	716	392,894	24,679	417,573
State sources	386	-	362	748	230	978
TOTAL REVENUES	535,634	356,614	485,647	1,377,895	332,361	1,710,256
EXPENDITURES:						
Current:						
Instruction						
Regular	217,902	-	189,078	406,980	-	406,980
Special	26,533	-	-	26,533	-	26,533
Other	4,763	339,432	-	344,195	-	344,195
Support services:						
Student	480	-	-	480	-	480
Instructional staff	1,423	-	-	1,423	-	1,423
Administration	58,512	-	-	58,512	-	58,512
Operation and maintenance of plant	76,241	8,581	18,178	103,000	-	103,000
Transportation	17,618	25,975	103,349	146,942	-	146,942
Other expenditures:						
Facilities acquisition	-	-	161,526	161,526	-	161,526
Long-term Debt:						
Principal	-	-	-	-	1,130,000	1,130,000
Interest and fiscal charges	-	-	-	-	425,110	425,110
TOTAL EXPENDITURES	403,472	373,988	472,131	1,249,591	1,555,110	2,804,701
Excess(deficiency) of revenues over(under) expenditures	132,162	(17,374)	13,516	128,304	(1,222,749)	(1,094,445)
OTHER FINANCING USES:						
Transfer in	-	-	-	-	1,315,955	1,315,955
Total other financing uses	-	-	-	-	1,315,955	1,315,955
Net change in fund balances	132,162	(17,374)	13,516	128,304	93,206	221,510
FUND BALANCES BEGINNING OF YEAR	271,391	164,499	160,215	596,105	693,365	1,289,470
FUND BALANCES END OF YEAR	\$ 403,553	147,125	173,731	724,409	786,571	1,510,980

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
SYSTEM WIDE:				
ASSEMBLIES	\$ 26	-	-	26
CONCESSIONS	3	30,204	26,532	3,675
SPECIAL EVENTS	1,004	-	-	1,004
STAFF COURTESY	6,897	-	-	6,897
DRUG FREE FUNDRAISER	2,273	-	-	2,273
CLEARING	475	-	-	475
	<u>10,678</u>	<u>30,204</u>	<u>26,532</u>	<u>14,350</u>
ELEMENTARY:				
AT RICK CYCLE	374	-	-	374
JUMP ROPE FOR HEART	1,046	-	700	346
ART/TECHNOLOGY	782	-	-	782
READING	398	-	-	398
SUCCESS	130	-	113	17
TAKE HOME BAGS	477	-	-	477
	<u>3,207</u>	<u>-</u>	<u>813</u>	<u>2,394</u>
FAIRVIEW ELEMENTARY:				
PHOTO CLUB	1,830	329	-	2,159
	<u>1,830</u>	<u>329</u>	<u>-</u>	<u>2,159</u>
JOHNSON ELEMENTARY:				
SPECIAL EDUCATION FUNDRAISER	250	-	-	250
STAFF COURTESY	332	-	332	-
PHOTO CLUB	3,701	90	(332)	4,123
	<u>4,283</u>	<u>90</u>	<u>-</u>	<u>4,373</u>
LINCOLN ELEMENTARY:				
STAFF COURTESY	917	-	-	917
PHOTO CLUB	2,615	666	23	3,258
	<u>3,532</u>	<u>666</u>	<u>23</u>	<u>4,175</u>
MIDDLE SCHOOL:				
BAND	211	4,116	3,597	730
CONCESSIONS	1,936	4,112	2,584	3,464
STAFF COURTESY	1,890	-	1,890	-
TIGER'S PRAIRIE	1,000	-	708	292
STUDENT COUNCIL	1,610	-	112	1,498
PHOTO CLUB	9,084	1,219	4,717	5,586
	<u>15,731</u>	<u>9,447</u>	<u>13,608</u>	<u>11,570</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 3

Account (Continued)	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HIGH SCHOOL:				
DRAMA	5,441	8,971	12,714	1,698
SPEECH CLUB	3,000	7,236	10,038	198
VOCAL	10,746	22,995	30,192	3,549
BAND	500	7,785	5,857	2,428
BAND/CHOIR	-	8,938	6,434	2,504
ARCHERY	1,715	10,062	11,189	588
TRACK	7,000	319	6,406	913
CROSS COUNTRY	2,009	2,043	3,390	662
BOYS BASKETBALL	6,955	-	6,955	-
FOOTBALL	11,941	17,486	26,974	2,453
BOYS SOCCER	3,500	8	3,508	-
BASEBALL	7,581	5,520	13,101	-
BOYS TRACK	68	-	-	68
BOYS TENNIS	1,067	1,865	2,932	-
BOYS GOLF	1,000	725	1,725	-
BOYS SWIMMING	2,500	2,253	4,109	644
WRESTLING	7,084	1,550	8,029	605
GIRLS BASKETBALL	9,433	1,594	10,409	618
VOLLEYBALL	5,300	2,146	6,362	1,084
GIRLS SOCCER	3,500	20	3,520	-
SOFTBALL	6,096	250	5,611	735
GIRLS TENNIS	1,009	540	1,113	436
GIRLS GOLF	1,083	510	1,304	289
GIRLS SWIMMING	2,987	3,585	5,521	1,051
GENERAL ATHLETICS	(172)	84,321	34,965	49,184
FFA	5,036	13,376	16,185	2,227
BUSINESS MANAGEMENT CLUB	787	-	184	603
SKILLS USA	700	1,460	1,530	630
CUSTODIAL	446	-	446	-
ENVIRONMENT CLUB	195	-	-	195
STUDENT COUNCIL	5,289	10,894	9,785	6,398
PEP CLUB	2,561	2,940	4,658	843
GERMAN CLUB	(1,855)	2,855	-	1,000
SPANISH CLUB	3,873	1,645	2,501	3,017
PHOTO CLUB	2,398	2,914	471	4,841
NATIONAL HONOR SOCIETY	-	736	736	-
ART	632	-	-	632
JUNIOR CLASS	444	7,160	5,915	1,689
SENIOR CLASS	-	3,320	3,320	-
MOCK TRIAL	1,000	471	1,471	-
DEBATE	1,500	2,729	4,229	-
SPECERIAN	-	9,753	9,753	-
DANCE TEAM	-	9,850	9,850	-
ATHLETIC REVOLVING	8	9,449	364	9,093
ATHLETIC ENHANCEMENT	864	-	550	314
TOURNEY AND HOSTED EVENTS	17	45,604	38,706	6,915
	<u>125,238</u>	<u>315,878</u>	<u>333,012</u>	<u>108,104</u>
TOTALS	<u>\$ 164,499</u>	<u>356,614</u>	<u>373,988</u>	<u>147,125</u>

SPENCER COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS

JUNE 30, 2010

	Capital Projects Funds		
	Statewide Sales and Services Tax	City Sales and Services Tax	Total
ASSETS			
Cash and pooled investments	\$ 735,987	253,949	989,936
Receivables:			
Interfund	-	-	-
Due from other governments	237,948	-	237,948
TOTAL ASSETS	\$ 973,935	253,949	1,227,884
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 77,910	408	78,318
Total liabilities	77,910	408	78,318
Fund balances:			
Unreserved fund balances	896,025	253,541	1,149,566
TOTAL LIABILITIES AND FUND BALANCES	\$ 973,935	253,949	1,227,884

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS

YEAR ENDED JUNE 30, 2010

	Capital Project Funds			Total
	Statewide Sales and Services Tax	City Sales and Services Tax	Energy Project	
REVENUES:				
Local sources:				
Local tax	\$ 1,329,640	-	-	1,329,640
Other	3,399	2,105	10,384	15,888
Intermediate sources:				
City tax	-	296,750	-	296,750
TOTAL REVENUES	1,333,039	298,855	10,384	1,642,278
EXPENDITURES:				
Current:				
Instruction				
Student transportation	108,700	-	-	108,700
Other expenditures:				
Facilities acquisition	1,034,173	327,273	666,312	2,027,758
TOTAL EXPENDITURES	1,142,873	327,273	666,312	2,136,458
Excess(deficiency) of revenues over(under) expenditures	190,166	(28,418)	(655,928)	(494,180)
OTHER FINANCING SOURCES(USES):				
Transfer out	(924,582)	(269,092)	-	(1,193,674)
Total other financing sources(uses)	(924,582)	(269,092)	-	(1,193,674)
Net change in fund balances	(734,416)	(297,510)	(655,928)	(1,687,854)
FUND BALANCES BEGINNING OF YEAR	1,630,441	551,051	655,928	2,837,420
FUND BALANCES END OF YEAR	\$ 896,025	253,541	-	1,149,566

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 SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 8,529,281	8,436,790	6,947,875	7,206,303	6,633,075	7,813,540	5,692,784
Tuition	1,108,358	1,089,092	1,095,425	1,339,680	1,112,866	1,030,567	993,454
Other	624,677	887,012	1,511,587	1,203,973	1,333,398	1,912,346	877,192
Intermediate sources	296,750	407,976	-	-	-	-	-
State sources	8,370,525	9,840,187	9,695,717	8,907,401	8,376,770	8,279,593	7,859,562
Federal sources	2,049,461	908,241	528,674	771,965	872,062	991,030	489,174
Total	\$ 20,979,052	21,569,298	19,779,278	19,429,322	18,328,171	20,027,076	15,912,166
Expenditures:							
Instruction	\$ 13,097,108	13,097,108	12,678,877	12,276,059	11,270,942	11,005,690	10,912,812
Support services:							
Student	200,923	86,271	181,649	198,050	138,449	384,533	429,090
Instructional staff	302,151	278,099	363,734	343,820	269,397	235,468	509,008
Administration	2,018,377	2,117,177	2,120,294	1,942,757	1,723,695	1,557,864	1,123,929
Operation and maintenance of plant	1,486,247	1,732,313	1,598,687	1,645,762	1,354,485	1,194,718	1,216,383
Transportation	517,180	648,619	498,411	561,278	603,875	400,540	392,553
Non-instructional programs	-	-	-	-	-	34,369	68,357
Other expenditures:							
Facilities acquisitions	2,189,284	2,981,502	1,039,328	2,136,536	9,638,500	4,733,468	479,966
Long-term debt:							
Principal	1,130,000	1,095,000	990,000	790,000	135,000	125,000	-
Interest and other charges	425,110	468,633	580,900	389,683	394,410	385,130	-
AEA flow-through	786,034	707,167	684,941	641,561	601,508	600,878	591,211
Total	\$ 22,152,414	23,211,889	20,736,821	20,925,506	26,130,261	20,657,658	15,723,309

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

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	FY 10	\$ 383,604 *
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	51,147
			<u>434,751</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6102-G	248,821
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES RECOVERY ACT	84.389	FY 09	15,091
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES RECOVERY ACT	84.389	FY 10	40,172
			<u>304,084</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATES GRANTS	84.186	FY 10	<u>6,124</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 10	<u>77,696</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 10	<u>12,630</u>
STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	<u>841,040</u>
PRAIRIE LAKES AREA EDUCATION AGENCY: VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	<u>11,425</u>
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 10	104,082
ARRA-SPECIAL EDUCATION - GRANTS TO STATES (PART B), RECOVERY ACT	85.391	FY 09	56,920
ARRA - SPECIAL EDUCATION - GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 10	87,806
			<u>248,808</u>
COMPREHENSIVE CENTERS (TECH-PREP EDUCATION)	84.243	FY 10	<u>2,500</u>
DEPARTMENT OF HOMELAND SECURITY:			
IOWA DEPARTMENT OF EDUCATION:			
DISASTER GRANTS - PUBLIC ASSISTANCE	97.036	FY 10	<u>1,918</u>
TOTAL			<u>\$ 1,940,976</u>

* - Includes \$51,147 of non-cash awards.

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

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 8, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 to be material weaknesses.

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

Compliance and Other Matters

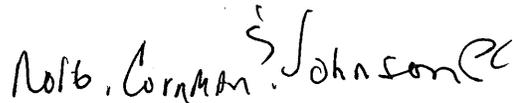
As part of obtaining reasonable assurance about whether Spencer Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a 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, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2011

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

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

To the Board of Education of
Spencer Community School District

Compliance

We have audited the compliance of Spencer Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. 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 grant 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, 2010.

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.

A 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 material weakness in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

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

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.


NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2011

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

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose 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 84.394 - State Fiscal Stabilization Fund (SFSF)- Grants to States

Clustered Programs:

Title I Cluster

CFDA Number 84.010 - Title I Grants to Local Educational Agencies

CFDA Number 84.389 - ARRA - Title I Grants to Local Educational Agencies

Special Education Cluster

CFDA Number 84.027 - Special Education - Grants to States (Part B)

CFDA Number 84.391 - Special Education - Grants to States, Recovery Act

- (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 Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the duties of two individuals include preparing checks and recording the transactions in the general ledger.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - 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.

II-B-10 Cell Phone Policy - We noted during our audit that the District pays for district owned cell phones. In addition, we noted that the District does not have board policy in place for the district owned cell phones.

Recommendation - The District should adopt a board policy in regard to district owned cell phones. The policy should identify who has district cell phones and include an additional review of usage to ensure cell phones are not being abused.

Response - The District has written a Cell Phone Policy which will be approved by the Board.

Conclusion - Response accepted.

OTHER MATTERS:

II-C-10 Intangible Asset Policy - Although the District implemented Governmental Accounting Standards Board Statement No. 51 with regard to intangible assets, the District does not have a board policy addressing capitalization of intangible assets.

Recommendation - The District's Board of Directors should adopt an intangible asset policy addressing the capitalization of intangible assets.

Response - The Board of Directors have adopted an intangible asset policy as required by GASB.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.394 - State Fiscal Stabilization Fund - Grants to States
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.010 - Title I Grants to Local Educational Agencies
CFDA Number 84.389 - ARRA - Title I Grants to Local Educational Agencies
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

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

III-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the duties of two individuals include preparing checks and recording the transactions in the general ledger.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - 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 -

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District expenditures for the year ended June 30, 2010, did not exceed the amount budgeted.

IV-B-10 Questionable Disbursements - - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-10 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jason Moser, Bus Driver Owner of Moser Construction	Purchased services	\$ 200
Larry Untiet, Teacher	Painting and frame	\$ 13,580
Diane Fuller, Custodian Owner of Good Booty BBQ	Purchased services	\$ 600

In accordance with Attorney's General Opinion dated July 2, 1990, the above transactions with Jason Moser, Larry Untiet, and Diane Fuller do not appear to represent a conflict of interest.

IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

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

IV-G-10 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students on Line 1 was overstated by 0.2 students.

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

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

Conclusion - Response accepted.

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

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

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

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

IV-L-10 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance	\$	573,493	
Statewide sales and services tax revenue		1,329,640	
Interest		3,399	
Expenditures/transfers out:			
School infrastructure:			
Buildings	\$	981,950	
Debt service for school infrastructure:			
Revenue debt		924,582	1,906,532
		<u>924,582</u>	<u>1,906,532</u>
Ending balance	\$		<u><u>-</u></u>

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

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Physical Plant and Equipment Levy	\$ 0.67000	\$ 324,902

IV-M-10 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District will research outstanding checks and determine the proper process to handle the issue.

Conclusion - Response accepted.