

SPENCER COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>	
Officials	3	
Independent Auditor's Report	5-6	
Management Discussion and Analysis (MD&A)	7-16	
Basic Financial Statements:		<u>Exhibit</u>
Government-wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Net Assets	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	27
Notes to Financial Statements		28-41
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		44
Notes to Required Supplementary Information - Budgetary Reporting		45
Schedule of Funding Progress for the Retiree Health Plan		46
Component Unit Financial Statements:		
Statement of Assets, Liabilities, and Net Assets - Cash Basis - Component Unit		47
Statement of Support, Revenues and Expenses and Changes in Net Assets - Cash Basis - Component Unit		48
Other Supplementary Information:		<u>Schedule</u>
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	51
Capital Projects Funds:		
Combining Balance Sheet	3	52
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	4	53
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	54-55
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	6	56
Schedule of Expenditures of Federal Awards	7	57

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	58-59
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	60-61
Schedule of Findings and Questioned Costs	62-66

Spencer Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
-------------	--------------	---------------------

Board of Education

Todd Korbitz	President	2011
Bob Whittenburg	Vice President	2013
Dean Mechler	Board Member	2013
Marti Bomgaars	Board Member	2011
Bill Zinn	Board Member	2013

School Officials

Greg Ebeling	Superintendent	2011
Sharon Slawson	Board Secretary/Treasurer	2011
Steve Avery	Attorney	Indefinite

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, 2011, 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, 2011 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 February 14, 2012 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 44 through 48 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 two years ended June 30, 2010 (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.

A handwritten signature in black ink, reading "Nolte, Cornman & Johnson PC". The signature is written in a cursive, somewhat stylized font.

NOLTE, CORNMAN & JOHNSON, P.C.

February 14, 2012

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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$17,626,518 in fiscal 2010 to \$19,463,381 in fiscal 2011, and General Fund expenditures increased from \$17,211,255 in fiscal 2010 to \$18,383,427 in fiscal 2011. This resulted in the District's General Fund balance increasing from \$1,275,920 at the end of fiscal 2010 to \$2,355,874 at the end of fiscal 2011, an 84.64% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state aid revenue in 2011. In addition, the District received \$114,463 from the reorganization of South Clay Community School District. The increase in expenditures was due primarily to an increase in instructional and support services functions. As a result of revenues being greater than expenses, the District's fund balance increased \$1,079,954.
- The dissolution of the South Clay School District has increased the number of students attending the Spencer District, and the amount of assessed valuation which, allows for an increase in the tax dollars received by the District.
- The District received federal ARRA dollars allowing the District to maintain staff.
- The District's Revenue Purpose Statement was approved by the citizens of the District. This will allow the District to maintain and continue to enhance facilities to provide quality education to all students of the Districts.
- 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.

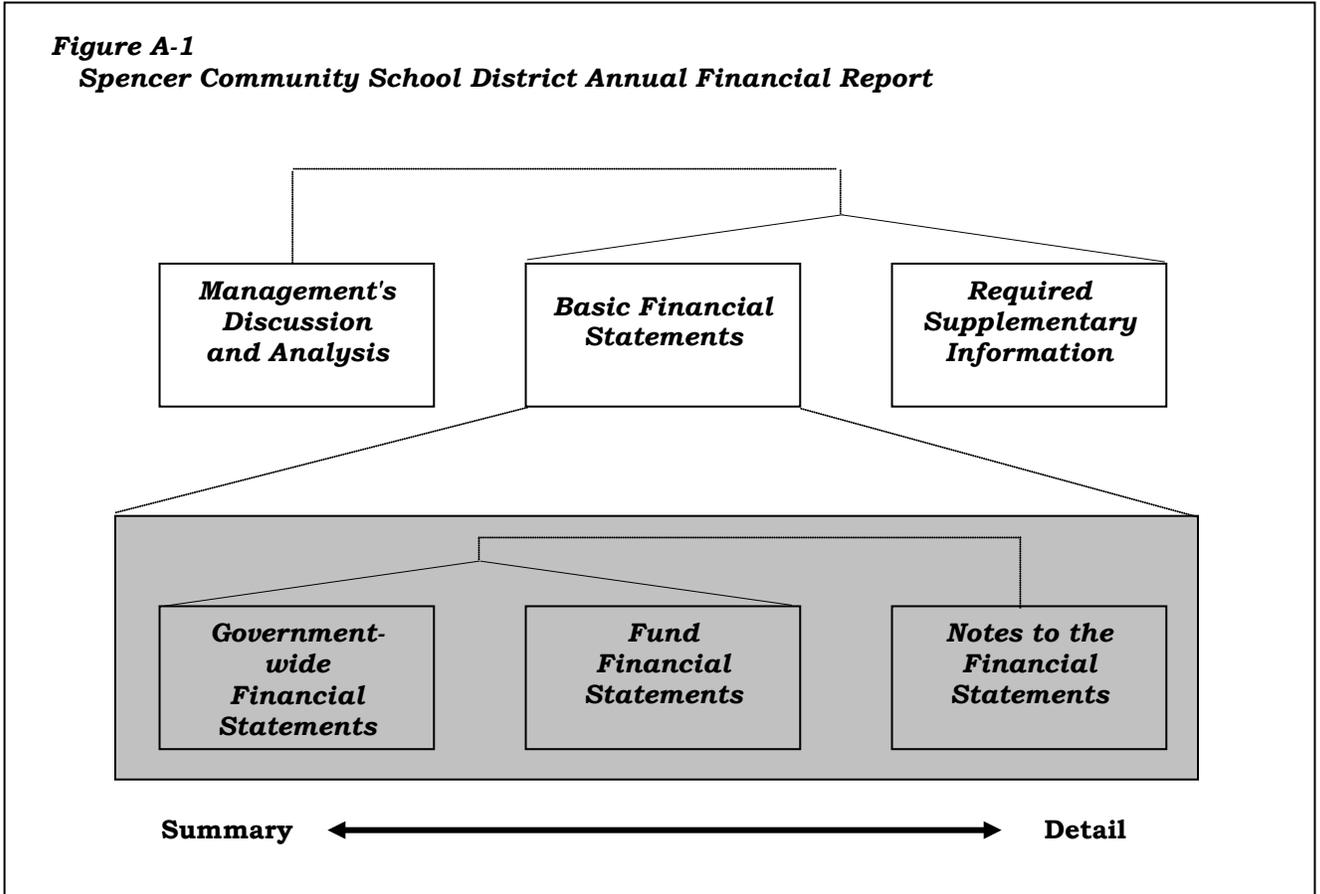


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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 at June 30, 2011 as 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,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 15,054,623	14,232,653	184,740	110,767	15,239,363	14,343,420	6.25%
Capital assets	23,355,344	22,135,777	51,949	52,031	23,407,293	22,187,808	5.50%
Total assets	38,409,967	36,368,430	236,689	162,798	38,646,656	36,531,228	5.79%
Long-term obligations	9,008,885	10,461,586	13,408	7,196	9,022,293	10,468,782	-13.82%
Other liabilities	8,039,047	7,490,205	42,765	12,321	8,081,812	7,502,526	7.72%
Total liabilities	17,047,932	17,951,791	56,173	19,517	17,104,105	17,971,308	-4.83%
Net assets:							
Invested in capital assets, net of related debt	15,305,344	14,905,777	51,949	52,031	15,357,293	14,957,808	2.67%
Restricted	3,295,829	2,433,072	-	-	3,295,829	2,433,072	35.46%
Unrestricted	2,760,862	1,077,790	128,567	91,250	2,889,429	1,169,040	147.16%
Total net assets	\$ 21,362,035	18,416,639	180,516	143,281	21,542,551	18,559,920	16.07%

The District's combined net assets increased by 16.07%, or \$2,982,631, 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 increased \$862,757, or 35.46% under the prior year. The increase was primarily a result of the increased fund balance in the Capital Projects Fund. This was the result of increased statewide and city sales, services and use tax revenue.

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 \$1,720,389, or 147.16%. 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. The General Fund saw an increase in revenue due to the reorganization of South Clay Community School District and an increase in property tax revenue.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 as compared to June 30, 2010.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total		Total Change
	2011	2010	2011	2010	2011	2010	2010-11
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 1,347,292	1,395,460	581,440	603,628	1,928,732	1,999,088	-3.52%
Operating grants and contributions and restricted interest	2,143,179	4,126,531	467,840	443,243	2,611,019	4,569,774	-42.86%
General revenues:							
Property tax	7,557,092	6,767,703	-	-	7,557,092	6,767,703	11.66%
Income surtax	622,686	553,241	-	-	622,686	553,241	12.55%
Statewide sales, services and use tax	1,497,262	1,329,640	-	-	1,497,262	1,329,640	12.61%
City sales, services and use tax	496,020	296,750	-	-	496,020	296,750	67.15%
Unrestricted state grants	8,614,402	6,293,455	-	-	8,614,402	6,293,455	36.88%
Nonspecific program federal grants	579,231	-	-	-	579,231	-	100.00%
Unrestricted investment earnings	47,135	84,760	1,025	638	48,160	85,398	-43.61%
Other	550,571	261,097	3,879	2,942	554,450	264,039	109.99%
Transfers	235	-	-	-	235	-	100.00%
Total revenues	23,455,105	21,108,637	1,054,184	1,050,451	24,509,289	22,159,088	10.61%
Program expenses:							
Governmental activities:							
Instruction	13,916,059	13,909,216	-	-	13,916,059	13,909,216	0.05%
Support services	5,005,569	4,078,048	13,098	19,295	5,018,667	4,097,343	22.49%
Non-instructional programs	-	-	1,004,754	959,923	1,004,754	959,923	4.67%
Other expenses	1,956,122	1,975,736	-	-	1,956,122	1,975,736	-0.99%
Total expenses	20,877,750	19,963,000	1,017,852	979,218	21,895,602	20,942,218	4.55%
Changes in net assets before extraordinary items	2,577,355	1,145,637	36,332	71,233	2,613,687	1,216,870	114.79%
Extraordinary items:							
Reorganization settlements	368,041	-	903	-	368,944	-	100.00%
Change in net assets	2,945,396	1,145,637	37,235	71,233	2,982,631	1,216,870	145.11%
Beginning net assets, as restated	18,416,639	17,271,002	143,281	72,048	18,559,920	17,343,050	7.02%
Ending net assets	\$ 21,362,035	18,416,639	180,516	143,281	21,542,551	18,559,920	16.07%

In fiscal 2011, property tax, income surtax, statewide sales, services and use tax, city sales, services and use tax and unrestricted state grants account for 80.10% of the governmental revenue while charges for services and operating grants and contributions account for 99.53% of the revenue from business type activities.

The District's total revenues were approximately \$24.5 million, of which approximately \$23.5 million was for governmental activities and approximately \$1.0 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 10.61% increase in revenues and a 4.55% increase in expenses. The increase in revenues was due to an increase in property tax, statewide and city sales, services and use tax and state aid. The increases in expenses related to increases in negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities, net of transfers were \$23,455,105 and expenses were \$20,877,750.

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		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 13,916,059	13,909,216	0.05%	\$ 11,308,985	9,196,974	22.96%
Support services	5,005,569	4,078,048	22.74%	4,932,811	4,054,333	21.67%
Other expenses	1,956,122	1,975,736	-0.99%	1,145,483	1,189,702	-3.72%
Totals	<u>\$ 20,877,750</u>	<u>19,963,000</u>	<u>4.58%</u>	<u>\$ 17,387,279</u>	<u>14,441,009</u>	<u>20.40%</u>

- The cost financed by users of the District's programs was \$1,347,292.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,143,179.
- The net cost of governmental activities was financed with \$7,557,092 in property tax, \$622,686 in income surtax, \$1,497,262 in statewide sales, services and use tax, \$496,020 in city sales, services and use tax, \$8,614,402 in unrestricted state grants, \$579,231 in nonspecific program federal grants, \$47,135 in unrestricted investment earnings, and \$550,571 in other general revenues.

Business Type Activities

Revenues of the District's Business type activities were \$1,055,087 expenses were \$1,017,852. 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 \$5,874,855, above last year's ending fund balances of \$3,936,466. The primary reason for the increase in combined fund balances in fiscal 2011 is due to the increase in Capital Projects: Statewide Sales, Services and Use Tax Fund and General Fund balances.

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 \$1,275,920 to \$2,355,874, due to expenses being less than revenues.
- The Capital Projects Fund balance increased from a restated balance of \$1,323,297 at the beginning of the fiscal year 2011 to \$2,133,170. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. The significant increase in revenues was the result of an increase in

statewide and local sales, services and use tax, as well as \$242,616 received from the reorganization of South Clay Community School District.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$143,281 at June 30, 2010 to \$180,516 at June 30, 2011, representing an increase of 25.99%.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District amended its budget one increasing budget expenditures by \$592,025.

The District’s revenues were \$883,721 less than budgeted revenues, a variance of 3.48%. 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, 2011, the District had invested \$23.4 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 decrease of 3.23% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$1,269,578.

The original cost of the District’s capital assets was approximately \$36.5 million. Governmental funds account for approximately \$36.3 million with the remainder of approximately \$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 \$105,929 at June 30, 2011, compared to \$0 reported at June 30, 2010. This increase resulted from a renovation project beginning at the Middle School.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 748,830	748,830	-	-	748,830	748,830	0.00%
Construction in progress	105,929	-	-	-	105,929	-	100.00%
Buildings	20,723,731	21,429,381	-	-	20,723,731	21,429,381	-3.29%
Land improvements	862,505	883,028	-	-	862,505	883,028	-2.32%
Machinery and equipment	914,349	1,074,538	51,949	52,031	966,298	1,126,569	-14.23%
Total	\$ 23,355,344	24,135,777	51,949	52,031	23,407,293	24,187,808	-3.23%

Long-Term Debt

At June 30, 2011, the District had \$9,022,293 in general obligation and other long-term debt outstanding. This represents a decrease of 13.82% from last year. (See Figure A-7) More detailed information about the District’s long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$2,965,000 at June 30, 2011.

The District had outstanding revenue bonds of \$4,015,000 at June 30, 2011 payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

The District had outstanding capital loan notes of \$1,070,000 at June 30, 2011 payable from the General Fund.

The District had early retirement payable of \$668,082 at June 30, 2011, which will be paid primarily out of the Special Revenue, Management Levy Fund.

The District also had compensated absences payable of \$36,996 at June 30, 2011, which will be paid primarily out of the General Fund.

The District had net OPEB liability payable of \$267,215 at June 30, 2011.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
General obligation bonds	\$ 2,965,000	3,135,000	-	-	2,965,000	3,135,000	-5.42%
Revenue bonds	4,015,000	4,950,000	-	-	4,015,000	4,950,000	-18.89%
Capital loan notes	1,070,000	1,145,000	-	-	1,070,000	1,145,000	-6.55%
Early retirement	668,082	1,045,559	-	-	668,082	1,045,559	-36.10%
Compensated absences	36,996	47,267	-	-	36,996	47,267	-21.73%
Net OPEB liability	253,807	138,760	13,408	7,196	267,215	145,956	83.08%
Totals	\$ 9,008,885	10,461,586	13,408	7,196	9,022,293	10,468,782	-13.82%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following 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.
- The approval of a bond issue to refinance bonds and allowing for additional dollars to be received by the District will enable the District to add a sixth grade pod to the Middle School, Elementary security entrances, Field House bleachers, Football bleachers, and track enhancement at the High School.
- The Board approved a Grade-Alike Structure which will enable more collaboration within the staff, and a coordination of materials and services which will be a cost savings to the District.

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, 2011

	Primary Government			Component Unit +
	Governmental Activities	Business Type Activities	Total	Spencer Community School Foundation
ASSETS				
Cash and pooled investments:	\$ 5,643,953	161,045	5,804,998	1,445,605
Receivables:				
Property tax:				
Delinquent	99,940	-	99,940	-
Succeeding year	7,837,497	-	7,837,497	-
Income surtax	559,755	-	559,755	-
Accounts	-	-	-	247
Due from other funds	328,628	903	329,531	-
Due from other governments	584,850	-	584,850	-
Inventories	-	22,792	22,792	-
Capital assets not being depreciated:				
Land	748,830	-	748,830	-
Construction in progress	105,929	-	105,929	-
Capital assets being depreciated, net of accumulated depreciation:				
Buildings	20,723,731	-	20,723,731	286
Land improvements	862,505	-	862,505	-
Machinery and equipment	914,349	51,949	966,298	-
TOTAL ASSETS	38,409,967	236,689	38,646,656	1,446,138
LIABILITIES				
Due to other funds	-	3,563	3,563	-
Accounts payable	190,405	678	191,083	-
Benefits payable	-	-	-	726
Interest payable	11,145	-	11,145	-
Deferred revenue:				
Succeeding year property tax	7,837,497	-	7,837,497	-
Unearned revenue	-	38,524	38,524	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	175,000	-	175,000	-
Revenue bonds payable	775,000	-	775,000	-
Early retirement payable	161,246	-	161,246	-
Compensated absences payable	36,996	-	36,996	-
Portion due after one year:				
General obligation bonds payable	2,790,000	-	2,790,000	-
Revenue bonds payable	3,240,000	-	3,240,000	-
Capital loan notes payable	1,070,000	-	1,070,000	-
Early retirement payable	506,836	-	506,836	-
Net OPEB liability	253,807	13,408	267,215	-
TOTAL LIABILITIES	17,047,932	56,173	17,104,105	726
NET ASSETS				
Invested in capital assets, net of related debt	15,305,344	51,949	15,357,293	-
Restricted for:				
Categorical funding	205,005	-	205,005	-
School infrastructure	1,831,237	-	1,831,237	-
Physical plant and equipment	301,933	-	301,933	-
Student activities	148,617	-	148,617	-
Debt service	809,037	-	809,037	-
Unassigned	2,760,862	128,567	2,889,429	1,445,412
TOTAL NET ASSETS	\$ 21,362,035	180,516	21,542,551	1,445,412

+ The component unit year end is December 31, 2010.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

**SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Functions/Programs:	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	
Governmental activities:						
Instruction:						
Regular	\$ 7,527,179	794,893	222,441	(6,509,845)	-	(6,509,845)
Special	3,233,327	322,069	442,768	(2,468,490)	-	(2,468,490)
Other	3,155,553	224,496	600,407	(2,330,650)	-	(2,330,650)
	<u>13,916,059</u>	<u>1,341,458</u>	<u>1,265,616</u>	<u>(11,308,985)</u>	<u>-</u>	<u>(11,308,985)</u>
Support services:						
Student	94,329	-	-	(94,329)	-	(94,329)
Instructional staff	380,440	-	4,653	(375,787)	-	(375,787)
Administration	1,977,163	-	52,578	(1,924,585)	-	(1,924,585)
Operation and maintenance of plant	2,031,335	-	-	(2,031,335)	-	(2,031,335)
Transportation	522,302	5,834	9,693	(506,775)	-	(506,775)
	<u>5,005,569</u>	<u>5,834</u>	<u>66,924</u>	<u>(4,932,811)</u>	<u>-</u>	<u>(4,932,811)</u>
Other expenditures:						
Long-term debt interest	378,307	-	-	(378,307)	-	(378,307)
AEA flowthrough	810,639	-	810,639	-	-	-
Depreciation (unallocated)*	767,176	-	-	(767,176)	-	(767,176)
	<u>1,956,122</u>	<u>-</u>	<u>810,639</u>	<u>(1,145,483)</u>	<u>-</u>	<u>(1,145,483)</u>
Total governmental activities	<u>20,877,750</u>	<u>1,347,292</u>	<u>2,143,179</u>	<u>(17,387,279)</u>	<u>-</u>	<u>(17,387,279)</u>
Business Type activities:						
Support services:						
Administration	1,706	-	-	-	(1,706)	(1,706)
Operation and maintenance of plant	11,392	-	-	-	(11,392)	(11,392)
Non-instructional programs:						
Food service operations	1,004,754	581,440	467,840	-	44,526	44,526
Total business type activities	<u>1,017,852</u>	<u>581,440</u>	<u>467,840</u>	<u>-</u>	<u>31,428</u>	<u>31,428</u>
Total primary government	<u>\$ 21,895,602</u>	<u>1,928,732</u>	<u>2,611,019</u>	<u>(17,387,279)</u>	<u>31,428</u>	<u>(17,355,851)</u>
Total component unit	<u>\$ 101,324</u>	<u>-</u>	<u>147,658</u>			<u>46,334</u>
General Revenues and Transfers:						
General Revenues:						
Property tax levied for:						
General purposes				\$ 6,705,432	-	6,705,432
Debt service				311,516	-	311,516
Capital outlay				540,144	-	540,144
Income surtax				622,686	-	622,686
Statewide sales, services and use tax				1,497,262	-	1,497,262
City sales, services and use tax				496,020	-	496,020
Unrestricted state grants				8,614,402	-	8,614,402
Nonspecific program federal grants				579,231	-	579,231
Unrestricted investment earnings				47,135	1,025	48,160
Other general revenues				550,571	3,879	554,450
Transfers				235	-	235
				<u>19,964,634</u>	<u>4,904</u>	<u>19,969,538</u>
Total general revenues				<u>19,964,634</u>	<u>4,904</u>	<u>19,969,538</u>
Changes in net assets before extraordinary items				<u>2,577,355</u>	<u>36,332</u>	<u>2,613,687</u>
Extraordinary items:						
Reorganization settlements				368,041	903	368,944
				<u>2,945,396</u>	<u>37,235</u>	<u>2,982,631</u>
Changes in net assets				<u>2,945,396</u>	<u>37,235</u>	<u>2,982,631</u>
Net assets beginning of year				<u>18,416,639</u>	<u>143,281</u>	<u>18,559,920</u>
Net assets end of year				<u>\$ 21,362,035</u>	<u>180,516</u>	<u>21,542,551</u>

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

+ The component unit year end is December 31, 2010.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:	\$ 1,704,179	1,722,043	1,477,730	4,903,952
Receivables:				
Property tax				
Delinquent	80,927	7,005	12,008	99,940
Succeeding year	6,369,872	558,070	909,555	7,837,497
Income surtax	559,755	-	-	559,755
Due from other funds	373,681	202,204	8,094	583,979
Due from other governments	358,005	226,784	61	584,850
TOTAL ASSETS	\$ 9,446,419	2,716,106	2,407,448	14,569,973
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ -	-	107,461	107,461
Accounts payable	160,918	24,866	4,621	190,405
Deferred revenue:				
Succeeding year property tax	6,369,872	558,070	909,555	7,837,497
Income surtax	559,755	-	-	559,755
Total liabilities	7,090,545	582,936	1,021,637	8,695,118
Fund balances:				
Restricted for:				
Categorical funding	205,005	-	-	205,005
School infrastructure	-	1,831,237	-	1,831,237
Physical plant and equipment	-	301,933	-	301,933
Management levy purposes	-	-	428,215	428,215
Student activities	-	-	148,617	148,617
Debt service	-	-	809,037	809,037
Unassigned for:				
General fund	2,150,869	-	-	2,150,869
Student activities	-	-	(58)	(58)
Total fund balances	2,355,874	2,133,170	1,385,811	5,874,855
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,446,419	2,716,106	2,407,448	14,569,973

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, 2011

Total fund balances of governmental funds(page 20)	\$	5,874,855
 <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.		23,355,344
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.		(11,145)
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		592,111
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		559,755
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>(9,008,885)</u>
Net assets of governmental activities(page 18)	\$	<u>21,362,035</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, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 6,694,447	2,037,406	912,034	9,643,887
Tuition	977,964	-	-	977,964
Other	347,084	6,588	627,022	980,694
Intermediate sources	-	496,020	-	496,020
State sources	9,875,919	371	639	9,876,929
Federal sources	1,446,223	-	-	1,446,223
Total revenues	<u>19,341,637</u>	<u>2,540,385</u>	<u>1,539,695</u>	<u>23,421,717</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,416,627	152,244	414,363	7,983,234
Special	3,230,212	-	34,704	3,264,916
Other	2,584,453	-	578,536	3,162,989
	<u>13,231,292</u>	<u>152,244</u>	<u>1,027,603</u>	<u>14,411,139</u>
Support services:				
Student	93,602	-	1,577	95,179
Instructional staff	295,853	-	1,577	297,430
Administration	1,999,197	-	22,366	2,021,563
Operation and maintenance of plant	1,448,818	48,795	98,972	1,596,585
Transportation	379,734	34,995	37,882	452,611
	<u>4,217,204</u>	<u>83,790</u>	<u>162,374</u>	<u>4,463,368</u>
Other expenditures:				
Facilities acquisitions	-	614,942	-	614,942
Long-term debt:				
Principal	-	-	1,180,000	1,180,000
Interest and fiscal charges	-	-	378,902	378,902
AEA flowthrough	810,639	-	-	810,639
	<u>810,639</u>	<u>614,942</u>	<u>1,558,902</u>	<u>2,984,483</u>
Total expenditures	<u>18,259,135</u>	<u>850,976</u>	<u>2,748,879</u>	<u>21,858,990</u>
Excess(deficiency) of revenues over(under) expenditures	1,082,502	1,689,409	(1,209,184)	1,562,727
Other financing sources(uses):				
Proceeds from sale of capital assets	7,046	575	-	7,621
Reorganization settlement	114,463	242,616	10,727	367,806
Transfers in	235	-	1,247,019	1,247,254
Transfers out	(124,292)	(1,122,727)	-	(1,247,019)
Total other financing sources(uses)	<u>(2,548)</u>	<u>(879,536)</u>	<u>1,257,746</u>	<u>375,662</u>
Net change in fund balances	1,079,954	809,873	48,562	1,938,389
Fund balances beginning of year, as restated	<u>1,275,920</u>	<u>1,323,297</u>	<u>1,337,249</u>	<u>3,936,466</u>
Fund balances end of year	<u>\$ 2,355,874</u>	<u>2,133,170</u>	<u>1,385,811</u>	<u>5,874,855</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, 2011

Net change in fund balances - total governmental funds(page 22) \$ 1,938,389

*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	\$ 480,141	
Depreciation expense	(1,259,711)	
Loss on disposal of capital assets	(863)	(780,433)

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. 1,180,000

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. 595

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 300,991

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 33,153

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	377,477	
Compensated absences	10,271	
Other postemployment benefits	(115,047)	272,701

Changes in net assets of governmental activities(page 19) \$ 2,945,396

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	Business Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund Self-Funded Insurance
<u>ASSETS</u>		
Current assets:		
Cash and pooled investments	\$ 161,045	740,001
Due from other funds	903	-
Inventories	22,792	-
Total current assets	184,740	740,001
Non-current assets:		
Capital assets:		
Machinery and equipment, net of accumulated depreciation	51,949	-
Total non-current assets	51,949	-
TOTAL ASSETS	236,689	740,001
<u>LIABILITIES</u>		
Current liabilities:		
Due to other funds	3,563	147,890
Accounts payable	678	-
Unearned revenue	38,524	-
Total current liabilities	42,765	147,890
Long-term liabilities:		
Net OPEB liability	13,408	-
Total long-term liabilities	13,408	-
TOTAL LIABILITIES	56,173	147,890
<u>NET ASSETS</u>		
Invested in capital assets	51,949	-
Unrestricted	128,567	592,111
Total net assets	\$ 180,516	592,111

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, 2011

	Business Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund Self-Funded Insurance
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 581,440	2,357,860
Miscellaneous	3,879	-
	<u>585,319</u>	<u>2,357,860</u>
OPERATING EXPENSES:		
Instruction:		
Regular:		
Benefits	-	7,670
Total instruction	<u>-</u>	<u>7,670</u>
Support services:		
Administration:		
Benefits	-	2,050,822
Services	1,706	-
	<u>1,706</u>	<u>2,050,822</u>
Operation and maintenance of plant:		
Services	795	-
Supplies	10,597	-
	<u>11,392</u>	<u>-</u>
Total support services	<u>13,098</u>	<u>2,050,822</u>
Non-instructional programs:		
Food service operations:		
Salaries	400,640	-
Benefits	158,513	-
Services	1,884	-
Supplies	433,850	-
Depreciation	9,867	-
Total non-instructional programs	<u>1,004,754</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>1,017,852</u>	<u>2,058,492</u>
OPERATING INCOME(LOSS)	<u>(432,533)</u>	<u>299,368</u>
NON-OPERATING REVENUES:		
State sources	7,996	-
Federal sources	459,844	-
Interest on investments	1,025	1,623
Transfer out	-	(235)
TOTAL NON-OPERATING REVENUES	<u>468,865</u>	<u>1,388</u>
Change in net assets before extraordinary items	36,332	300,756
Extraordinary items:		
Reorganization settlements	<u>903</u>	<u>235</u>
Change in net assets	37,235	300,991
Net assets beginning of year	<u>143,281</u>	<u>291,120</u>
Net assets end of year	<u>\$ 180,516</u>	<u>592,111</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2011

	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	\$ 607,860	\$ -
Cash received from miscellaneous sources	3,879	2,357,860
Cash payments to employees for services	(552,941)	(2,058,492)
Cash payments to suppliers for goods or services	(407,894)	-
Net cash provided by(used in) operating activities	<u>(349,096)</u>	<u>299,368</u>
Cash flows from non-capital financing activities:		
State grants received	7,996	-
Federal grants received	413,127	-
Reorganization settlements	903	235
Interfund loan borrowings	2,660	(100,000)
Transfer to general fund	-	(235)
Net cash provided by(used in) non-capital financing activities	<u>424,686</u>	<u>(100,000)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(9,785)	-
Net cash used in capital and related financing activities	<u>(9,785)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	1,025	1,623
Net cash provided by investing activities	<u>1,025</u>	<u>1,623</u>
Net increase in cash and cash equivalents	66,830	200,991
Cash and cash equivalents at beginning of year	<u>94,215</u>	<u>539,010</u>
Cash and cash equivalents at end of year	<u>\$ 161,045</u>	<u>\$ 740,001</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (432,533)	\$ 299,368
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities used	46,717	-
Depreciation	9,867	-
Increase in inventories	(6,240)	-
Increase in accounts payable	461	-
Increase in unearned revenue	26,420	-
Increase in other postemployment benefits	6,212	-
Net cash provided by(used in) operating activities	<u>\$ (349,096)</u>	<u>\$ 299,368</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2011, the District received Federal commodities valued at \$46,717.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2011

	Agency Fund
ASSETS	
Cash and pooled investments	\$ 651,545
TOTAL ASSETS	651,545
 LIABILITIES	
Due to other funds	325,968
Due to Sioux Central Community School District	296,453
Due to Laurens-Marathon Community School District	21,110
Due to Ruthven Aryshire Community School District	3,127
Due to Clay Central Everly Community School District	4,887
TOTAL LIABILITIES	\$ 651,545

SPENCER COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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. Combining schedules are also included for the Capital Project Fund accounts.

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. Combining schedules are also included for the Capital Project Fund accounts.

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 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.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - restricted and then unassigned fund balances.

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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, 2011. 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 Equity – In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

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, 2011 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, 2011, 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. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2011 is as follows:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
General	Internal Service - Self-Funded Insurance	\$ 147,890
General	School Nutrition	3,563
General	Management Levy	107,461
General	Agency	114,767
Management Levy	Agency	8,094
Capital Projects: Physical Plant and Equipment Levy	Agency	3,666
Capital Projects: Statewide Sales, Services and Use Tax	Agency	198,538
School Nutrition	Agency	<u>903</u>
Total		<u>\$ 584,882</u>

The Internal Service - Self-Funded Insurance Fund is repaying the General Fund for benefits paid and not transferred during the year.

The School Nutrition Fund is repaying the General Fund for payroll paid and not transferred during the year.

The Management Fund is repaying the General Fund for early retirement benefits paid and not transferred during the year.

The Agency Fund will be transferring money to the above funds for money held by the District from the closure of South Clay Community School District. This transfer will be made before June 30, 2012.

Note 4. Transfers

The detail of transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales and Services Tax	\$ 857,585
Debt Service	Capital Projects: City Sales and Services Tax	265,142
Debt Service	General	124,292
General	Internal Service	235
Total		<u>\$ 1,247,254</u>

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.

The Internal Service Fund transferred money to the General Fund for money received from the reorganization of South Clay Community School District.

Note 5. 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	-	105,929	-	105,929
Total capital assets not being depreciated	<u>748,830</u>	<u>105,929</u>	<u>-</u>	<u>854,759</u>
Capital assets being depreciated:				
Buildings	27,837,730	-	-	27,837,730
Land improvements	1,386,616	41,003	-	1,427,619
Machinery and equipment	6,369,345	333,209	502,425	6,200,129
Total capital assets being depreciated	<u>35,593,691</u>	<u>374,212</u>	<u>502,425</u>	<u>35,465,478</u>
Less accumulated depreciation for:				
Buildings	6,408,349	705,650	-	7,113,999
Land improvements	503,588	61,526	-	565,114
Machinery and equipment	5,294,807	492,535	501,562	5,285,780
Total accumulated depreciation	<u>12,206,744</u>	<u>1,259,711</u>	<u>501,562</u>	<u>12,964,893</u>
Total capital assets being depreciated, net	<u>23,386,947</u>	<u>(885,499)</u>	<u>863</u>	<u>22,500,585</u>
Governmental activities capital assets, net	<u>\$ 24,135,777</u>	<u>(779,570)</u>	<u>863</u>	<u>23,355,344</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 212,856	9,785	-	222,641
Less accumulated depreciation	160,825	9,867	-	170,692
Business type activities capital assets, net	<u>\$ 52,031</u>	<u>(82)</u>	<u>-</u>	<u>51,949</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 170,800
Special		28,456
Other		23,993
Support services:		
Instructional staff		85,400
Administration		50,234
Operation and maintenance of plant		32,655
Transportation		100,997
		<u>492,535</u>
Unallocated depreciation		<u>767,176</u>
Total governmental activities depreciation expense		<u>\$ 1,259,711</u>
Business type activities:		
Food services		<u>\$ 9,867</u>

Note 6. Long-Term Debt

A summary of changes in long-term debt for business type activities and governmental activities for the year ended June 30, 2011 are as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 3,135,000	\$ -	\$ 170,000	\$ 2,965,000	\$ 175,000
Revenue Bonds	4,950,000	-	935,000	4,015,000	775,000
Capital Loan Notes	1,145,000	-	75,000	1,070,000	-
Early Retirement	1,045,559	-	377,477	668,082	161,246
Compensated Absences	47,267	36,996	47,267	36,996	36,996
Net OPEB Liability	138,760	115,047	-	253,807	-
Total	<u>\$ 10,461,586</u>	<u>\$ 152,043</u>	<u>\$ 1,604,744</u>	<u>\$ 9,008,885</u>	<u>\$ 1,148,242</u>
<u>Business Type Activities:</u>					
Net OPEB Liability	\$ 7,196	\$ 6,212	\$ -	\$ 13,408	\$ -

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, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004				
	Rate	Principal	Interest	Total	
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	
2016	4.30	205,000	101,768	306,768	
2017-2021	4.35-4.65	1,175,000	365,590	1,540,590	
2022-2024	4.75-4.90	835,000	82,097	917,097	
Total		\$ 2,965,000	\$ 1,038,295	\$ 4,003,295	

On July 1, 2004, the District issued statewide sales, services and use 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, services and use taxes collected in the Capital Projects Fund. Details of the District's June 30, 2011 statewide and city sales, services and use 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
2012	3.95 %	\$ 775,000	97,658	3.60 %	-	71,736
2013	4.00	810,000	67,045	3.60	200,000	63,410
2014	4.10	845,000	34,645	3.60	210,000	54,655
2015	-	-	-	3.65	215,000	45,582
2016	-	-	-	3.65	225,000	36,188
2017-2019	-	-	-	3.65	735,000	47,931
Total		\$ 2,430,000	199,348		\$ 1,585,000	319,502
Year Ending June 30,	Total					
	Principal	Interest	Total			
2012	\$ 775,000	169,394	944,394			
2013	1,010,000	130,455	1,140,455			
2014	1,055,000	89,300	1,144,300			
2015	215,000	45,582	260,582			
2016	225,000	36,188	261,188			
2017-2019	735,000	47,931	782,931			
Total	\$ 4,015,000	518,850	4,533,850			

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 2019. 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 \$4,533,850. For the current year \$935,000 in principal and \$191,927 in interest was paid on the bonds and total statewide and city sales, services and use tax revenues were \$1,993,282.

The resolution providing for the issuance of the statewide and city sales, services and use 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, services and use 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, 2009, 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, 2011 capital loan notes indebtedness are as follows:

Year Ending June 30,	Bond Issue of September 5, 2007			
	Rate	Principal	Interest	Total
2012	4.27 %	\$ -	47,290	47,290
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	4.27	90,000	33,306	123,306
2017-2021	4.27	500,000	105,680	605,680
2022-2023	4.27	235,000	10,141	245,141
Total		\$ 1,070,000	\$ 318,005	\$ 1,388,005

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 pro rata basis. Early retirement benefits paid during the year ended June 30, 2011, totaled \$377,477. 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 7. Other Postemployment Benefits(OPEB)

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 179 active and 31 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, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	145,786
Interest on net OPEB obligation		5,774
Adjustment to annual required contribution		84,993
Annual OPEB cost		<u>236,553</u>
Contributions made		<u>(115,294)</u>
Increase in net OPEB obligation		121,259
Net OPEB obligation beginning of year		<u>145,956</u>
Net OPEB obligation end of year	\$	<u><u>267,215</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. 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, 2011.

For the year ended June 30, 2011, the District contributed \$115,294 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, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 124,567	42.10 %	\$ 72,174
2010	123,008	40.00 %	145,956
2011	236,553	48.74 %	267,215

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$1,661,056, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,661,056. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9,481,344, and the ratio of the UAAL to covered payroll was 17.5%. As of June 30, 2011, 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, 2010 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 \$679.63 per month; Plan 1 family for \$1,586.43 per month; Plan 2 single for \$620.18 per month; and Plan 2 family for \$1,467.51 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 8. 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 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$816,783, \$742,989, and \$729,985 respectively, equal to the required contributions for each year.

Note 9. 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, 2011 were \$1,633,443.

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 10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$810,639 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 11. 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 2010.

Note 12. Anticipatory Warrant

On March 28, 2011, 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 2.40% per annum and matures on February 28, 2012, is payable solely from the revenues of General Fund. As of June 30, 2011 no borrowings have been made on this line of credit.

Note 13. Categorical Funding

The District’s restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Programs</u>	<u>Amount</u>
Market factor	\$ 11,805
Home school assistance program	1,765
Dropout and dropout prevention	3,546
Educator quality, market factor	13,593
Model core curriculum	92,491
Educator quality, basic salary	<u>81,805</u>
Total restricted for categorical funding	<u>\$ 205,005</u>

Note 14. Construction Commitments

As of June 30, 2011 the District has incurred costs of \$105,929 for the renovation of the Middle School. The project will continue in the 2011-12 school year and will be capitalized upon completion.

Note 15. Extraordinary Items

On February 2, 2010 voters in Clay county voted to dissolve the South Clay Community School District at the end of the 2009-2010 school year. Property of the District was divided between Spencer, Sioux Central, Laurens-Marathon, Ruthven-Ayrshire and Clay-Central-Everly Community School Districts.

The breakout of South Clay Community School District balances to other districts per the voted resolution of distribution are as follows:

School District	Percent	Total Received
Spencer	50.03 %	\$ 368,940.46
Sioux Central	45.50	335,534.50
Ruthven-Ayrshire	3.24	23,893.01
Laurens-Marathon	0.75	5,530.79
Clay-Central-Everly	0.48	3,539.71
	<u>100.00 %</u>	<u>\$ 737,438.47</u>

Spencer Community School District recorded this revenue \$368,973.33 as other financing sources on the fund financial statements and as extraordinary items on the government-wide Statement of Activities.

Note 16. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010 as previously reported	\$ 1,149,566	\$ 173,731
Change in fund type classification per implementation of GASB Statement No. 54	173,731	(173,731)
Balance July 1, 2010 as restated	<u>\$ 1,323,297</u>	<u>\$ -</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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 11,602,545	586,344	12,188,889	12,301,478	12,301,478	(112,589)
Intermediate sources	496,020	-	496,020	720,000	720,000	(223,980)
State sources	9,876,929	7,996	9,884,925	10,808,010	10,808,010	(923,085)
Federal sources	1,446,223	459,844	1,906,067	1,530,369	1,530,369	375,698
Total revenues	23,421,717	1,054,184	24,475,901	25,359,857	25,359,857	(883,956)
Expenditures/Expenses:						
Instruction	14,411,139	-	14,411,139	14,989,282	15,118,000	706,861
Support services	4,463,368	13,098	4,476,466	5,382,575	5,845,882	1,369,416
Non-instructional programs	-	1,004,754	1,004,754	1,400,000	1,400,000	395,246
Other expenditures	2,984,483	-	2,984,483	4,182,897	4,182,897	1,198,414
Total expenditures/expenses	21,858,990	1,017,852	22,876,842	25,954,754	26,546,779	3,669,937
Deficiency of revenues under expenditures/expenses	1,562,727	36,332	1,599,059	(594,897)	(1,186,922)	2,785,981
Other financing sources, net	375,662	903	376,565	-	-	376,565
Deficiency of revenues and other financing sources under expenditures/expenses	1,938,389	37,235	1,975,624	(594,897)	(1,186,922)	3,162,546
Balance beginning of year	3,936,466	143,281	4,079,747	1,708,980	1,708,980	2,370,767
Balance end of year	\$ 5,874,855	180,516	6,055,371	1,114,083	522,058	5,533,313

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2011

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 \$592,025.

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		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
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%
2011	July 1 ,2010	-	1,661,056	1,661,056	0.00%	9,481,344	17.5%

See Note 7 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, 2010

	Spencer Community School Foundation
ASSETS	
Cash, savings, and investments	\$ 1,445,605
Accounts Receivable	247
Capital assets being depreciated, net of accumulated depreciation:	
Land and buildings	286
TOTAL ASSETS	1,446,138
 LIABILITIES	
Benefits payable	726
TOTAL LIABILITIES	726
 NET ASSETS	 \$ 1,445,412

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, 2010

	Spencer Community School Foundation
Revenue:	
Contributions, gifts, grants and similar amounts	\$ 147,658
Interest	17,764
Other	417
Total revenue	165,839
Expenses:	
Grants and similar amounts paid:	
Scholarships	46,750
Mini Grants	24,330
Salaries and benefits	16,702
Other	13,542
Total expenses	101,324
Excess of revenue over expenses	64,515
Net assets beginning of year	1,380,897
Net assets end of year	\$ 1,445,412

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Other Supplementary Information

SPENCER COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2011

	Special Revenue		Total		Total
	Manage- ment Levy	Student Activity	Special Revenue Funds	Debt Service	Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	\$ 523,145	149,608	672,753	804,977	1,477,730
Receivables:					
Property tax:					
Delinquent	7,968	-	7,968	4,040	12,008
Succeeding year	599,999	-	599,999	309,556	909,555
Due from other funds	8,094	-	8,094	-	8,094
Due from other governments	41	-	41	20	61
TOTAL ASSETS	\$ 1,139,247	149,608	1,288,855	1,118,593	2,407,448
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	\$ 107,461	-	107,461	-	107,461
Accounts payable	3,572	1,049	4,621	-	4,621
Deferred revenue:					
Succeeding year property tax	599,999	-	599,999	309,556	909,555
Total liabilities	711,032	1,049	712,081	309,556	1,021,637
Fund Balances:					
Restricted for:					
Management levy purposes	428,215	-	428,215	-	428,215
Student activities	-	148,617	148,617	-	148,617
Debt Service	-	-	-	809,037	809,037
Unassigned for student activities	-	(58)	(58)	-	(58)
	428,215	148,559	576,774	809,037	1,385,811
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,139,247	149,608	1,288,855	1,118,593	2,407,448

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2011

	Special Revenue		Total		Total
	Manage-	Student	Special	Debt	Nonmajor
	ment	Activity	Revenue	Service	Governmental
	Levy		Funds		Funds
REVENUES:					
Local sources:					
Local tax	\$ 600,518	-	600,518	311,516	912,034
Other	5,517	598,886	604,403	22,619	627,022
State sources	425	-	425	214	639
Total revenues	606,460	598,886	1,205,346	334,349	1,539,695
EXPENDITURES:					
Current:					
Instruction					
Regular	414,363	-	414,363	-	414,363
Special	34,704	-	34,704	-	34,704
Other	4,732	573,804	578,536	-	578,536
Support services:					
Student	1,577	-	1,577	-	1,577
Instructional staff	1,577	-	1,577	-	1,577
Administration	22,366	-	22,366	-	22,366
Operation and maintenance of plant	98,710	262	98,972	-	98,972
Transportation	14,496	23,386	37,882	-	37,882
Other expenditures:					
Long-term Debt:					
Principal	-	-	-	1,180,000	1,180,000
Interest and fiscal charges	-	-	-	378,902	378,902
Total expenditures	592,525	597,452	1,189,977	1,558,902	2,748,879
Excess(Deficiency) of revenues over(under) expenditures	13,935	1,434	15,369	(1,224,553)	(1,209,184)
Other financing sources:					
Reorganization settlement	10,727	-	10,727	-	10,727
Transfer in	-	-	-	1,247,019	1,247,019
Total other financing sources	10,727	-	10,727	1,247,019	1,257,746
Net change in fund balances	24,662	1,434	26,096	22,466	48,562
Fund balances beginning of year, as restated	403,553	147,125	550,678	786,571	1,337,249
Fund balances end of year	\$ 428,215	148,559	576,774	809,037	1,385,811

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
CAPITAL PROJECTS ACCOUNTS

JUNE 30, 2011

	Capital Projects			
	Statewide Sales, Services and Use Tax	City Sales and Services Tax	Physical Plant and Equipment Levy	Total
ASSETS				
Cash and pooled investments	\$ 1,158,048	272,768	291,227	1,722,043
Receivables:				
Property tax:				
Delinquent	-	-	7,005	7,005
Succeeding year	-	-	558,070	558,070
Due from other funds	198,538	-	3,666	202,204
Due from other governments	226,749	-	35	226,784
TOTAL ASSETS	\$ 1,583,335	272,768	860,003	2,716,106
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 24,866	-	-	24,866
Deferred revenue:				
Succeeding year property tax	-	-	558,070	558,070
Total liabilities	24,866	-	558,070	582,936
Fund balances:				
Restricted for:				
School infrastructure	1,558,469	272,768	-	1,831,237
Physical plant and equipment	-	-	301,933	301,933
	1,558,469	272,768	301,933	2,133,170
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,583,335	272,768	860,003	2,716,106

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, 2011

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	City Sales and Services Tax	Physical Plant and Equipment Levy	
REVENUES:				
Local sources:				
Local tax	\$ 1,497,262	-	540,144	2,037,406
Other	4,242	914	1,432	6,588
Intermediate sources:				
City tax	-	496,020	-	496,020
State sources	-	-	371	371
Total revenues	1,501,504	496,934	541,947	2,540,385
EXPENDITURES:				
Current:				
Instruction				
Regular	-	-	152,244	152,244
Support services:				
Operation and maintenance of plant	-	-	48,795	48,795
Transportation	-	-	34,995	34,995
Other expenditures:				
Facilities acquisition	220,439	212,565	181,938	614,942
Total expenditures	220,439	212,565	417,972	850,976
Excess of revenues over expenditures	1,281,065	284,369	123,975	1,689,409
Other financing sources(uses):				
Reorganization settlement	238,964	-	3,652	242,616
Proceeds from sale of capital assets	-	-	575	575
Transfer out	(857,585)	(265,142)	-	(1,122,727)
Total other financing sources(uses)	(618,621)	(265,142)	4,227	(879,536)
Net change in fund balances	662,444	19,227	128,202	809,873
Fund balances beginning of year, as restated	896,025	253,541	173,731	1,323,297
Fund balances end of year	\$ 1,558,469	272,768	301,933	2,133,170

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
SYSTEM WIDE:				
ASSEMBLIES	\$ 26	-	-	26
CONCESSIONS	3,675	31,319	34,966	28
SPECIAL EVENTS	1,004	-	-	1,004
STAFF COURTESY	6,897	-	-	6,897
DRUG FREE FUNDRAISER	2,273	1,005	-	3,278
CLEARING	475	-	-	475
	<u>14,350</u>	<u>32,324</u>	<u>34,966</u>	<u>11,708</u>
ELEMENTARY:				
AT RICK CYCLE	374	-	374	-
JUMP ROPE FOR HEART	346	-	231	115
ART/TECHNOLOGY	782	-	-	782
READING	398	9,758	397	9,759
SUCCESS	17	-	17	-
TAKE HOME BAGS	477	-	477	-
	<u>2,394</u>	<u>9,758</u>	<u>1,496</u>	<u>10,656</u>
FAIRVIEW ELEMENTARY:				
PHOTO CLUB	2,159	569	2,728	-
	<u>2,159</u>	<u>569</u>	<u>2,728</u>	<u>-</u>
JOHNSON ELEMENTARY:				
SPECIAL EDUCATION FUNDRAISER	250	-	250	-
PHOTO CLUB	4,123	1,858	5,981	-
	<u>4,373</u>	<u>1,858</u>	<u>6,231</u>	<u>-</u>
LINCOLN ELEMENTARY:				
STAFF COURTESY	917	-	917	-
PHOTO CLUB	3,258	582	3,840	-
	<u>4,175</u>	<u>582</u>	<u>4,757</u>	<u>-</u>
MIDDLE SCHOOL:				
BAND	730	4,410	4,497	643
CONCESSIONS	3,464	3,848	4,339	2,973
TIGER'S PRAIRIE	292	-	-	292
STUDENT COUNCIL	1,498	-	232	1,266
PHOTO CLUB	5,586	12,162	9,863	7,885
	<u>11,570</u>	<u>20,420</u>	<u>18,931</u>	<u>13,059</u>

SCHEDULE 5

Account (Continued)	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HIGH SCHOOL:				
DRAMA	1,698	7,941	9,639	-
SPEECH CLUB	198	7,579	7,777	-
VOCAL	3,549	221,544	221,084	4,009
BAND	2,428	5,040	6,391	1,077
BAND/CHOIR	2,504	11,815	14,319	-
ARCHERY	588	2,961	3,518	31
TRACK	913	4,732	5,645	-
CROSS COUNTRY	662	2,871	3,383	150
BOYS BASKETBALL	-	1,712	1,712	-
FOOTBALL	2,453	24,201	26,654	-
BOYS SOCCER	-	1,134	1,134	-
BASEBALL	-	4,094	2,897	1,197
BOYS TRACK	68	-	68	-
BOYS TENNIS	-	961	902	59
BOYS GOLF	-	940	940	-
BOYS SWIMMING	644	3,182	3,671	155
WRESTLING	605	1,197	1,079	723
GIRLS BASKETBALL	618	1,106	1,724	-
VOLLEYBALL	1,084	3,677	4,761	-
GIRLS SOCCER	-	405	-	405
SOFTBALL	735	537	1,272	-
GIRLS TENNIS	436	354	790	-
GIRLS GOLF	289	1,053	1,342	-
GIRLS SWIMMING	1,051	2,702	3,753	-
GENERAL ATHLETICS	49,184	101,916	84,660	66,440
FFA	2,227	17,183	13,510	5,900
BUSINESS MANAGEMENT CLUB	603	-	175	428
SKILLS USA	630	1,343	150	1,823
ENVIRONMENT CLUB	195	-	195	-
STUDENT COUNCIL	6,398	4,767	4,330	6,835
PEP CLUB	843	4,004	4,286	561
GERMAN CLUB	1,000	-	1,000	-
SPANISH CLUB	3,017	2,554	1,143	4,428
PHOTO CLUB	4,841	676	628	4,889
NATIONAL HONOR SOCIETY	-	584	584	-
ART	632	-	632	-
JUNIOR CLASS	1,689	6,378	8,009	58
SENIOR CLASS	-	1,425	1,425	-
MOCK TRIAL	-	173	231	(58)
DEBATE	-	939	767	172
SPECERIAN	-	11,820	11,820	-
DANCE TEAM	-	4,648	4,376	272
ATHLETIC REVOLVING	9,093	5,287	9,229	5,151
ATHLETIC ENHANCEMENT	314	57,940	49,823	8,431
TOURNEY AND HOSTED EVENTS	6,915	-	6,915	-
	<u>108,104</u>	<u>533,375</u>	<u>528,343</u>	<u>113,136</u>
TOTALS	<u>\$ 147,125</u>	<u>598,886</u>	<u>597,452</u>	<u>148,559</u>

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 EIGHT YEARS

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 9,643,887	8,529,281	8,436,790	6,947,875	7,206,303	6,633,075	7,813,540	5,692,784
Tuition	977,964	1,108,358	1,089,092	1,095,425	1,339,680	1,112,866	1,030,567	993,454
Other	980,694	624,677	887,012	1,511,587	1,203,973	1,333,398	1,912,346	877,192
Intermediate sources	496,020	296,750	407,976	-	-	-	-	-
State sources	9,876,929	8,370,525	9,840,187	9,695,717	8,907,401	8,376,770	8,279,593	7,859,562
Federal sources	1,446,223	2,049,461	908,241	528,674	771,965	872,062	991,030	489,174
Total	\$ 23,421,717	20,979,052	21,569,298	19,779,278	19,429,322	18,328,171	20,027,076	15,912,166
Expenditures:								
Instruction	\$ 14,411,139	13,097,108	13,097,108	12,678,877	12,276,059	11,270,942	11,005,690	10,912,812
Support services:								
Student	95,179	200,923	86,271	181,649	198,050	138,449	384,533	429,090
Instructional staff	297,430	302,151	278,099	363,734	343,820	269,397	235,468	509,008
Administration	2,021,563	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	1,596,585	1,486,247	1,732,313	1,598,687	1,645,762	1,354,485	1,194,718	1,216,383
Transportation	452,611	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	614,942	2,189,284	2,981,502	1,039,328	2,136,536	9,638,500	4,733,468	479,966
Long-term debt:								
Principal	1,180,000	1,130,000	1,095,000	990,000	790,000	135,000	125,000	-
Interest and other charges	378,902	425,110	468,633	580,900	389,683	394,410	385,130	-
AEA flow-through	810,639	786,034	707,167	684,941	641,561	601,508	600,878	591,211
Total	\$ 21,858,990	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, 2011

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 11	\$ 81,973
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 11	377,871 *
			<u>459,844</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6102-G	274,596
TITLE I SCHOOLS IN NEED OF ASSISTANCE	84.010	FY 11	20,841
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES RECOVERY ACT	84.389	FY 10	97,565
			<u>393,002</u>
TITLE IIA FEDERAL QUALITY PROGRAMS	84.367	FY 10	<u>81,509</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 10	<u>12,346</u>
STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 11	101,768
STATE FISCAL STABILIZATION FUND (SFSF) - GOVERNMENT SERVICES, RECOVERY ACT	84.397	FY 11	90,770
			<u>192,538</u>
ARRA - EDUCATION JOBS FUND	84.410	FY 11	<u>386,691</u>
PRAIRIE LAKES AREA EDUCATION AGENCY: VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	<u>10,906</u>
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 11	104,880
ARRA - SPECIAL EDUCATION - GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 10	139,873
			<u>244,753</u>
TOTAL			<u>\$ 1,781,589</u>

* - Includes \$46,717 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.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 14, 2012. 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-11 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 deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-1 and II-C-11 to be significant deficiencies.

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, 2011 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.

February 14, 2012

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on 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 could have a direct and material effect on each of Spencer Community School District's major federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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.

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

A deficiency in 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 is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 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.

February 14, 2012

SPENCER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and a 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:

Individual Program:

CFDA Number 84.410 - ARRA - Education Jobs Fund

Clustered Programs:

Nutrition Cluster

CFDA Number 10.553 - School Breakfast Program

CFDA Number 10.555 - National School Lunch Program

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

- (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.

SPENCER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-11 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-11 Checks Written as Bearer Paper - We noted during our audit that the District is writing checks to the bank which are later cashed at that bank for student meal allowances.

Recommendation - The District writes various checks throughout the year for student meal allowances. It was noted that these checks were being written to the bank instead of the custodian/sponsor for these events and the bank. Checks made out to the bank alone are bearer paper and in the event the check would be lost or stolen, anyone could cash the check. In the future the District should write the check payable to the custodian/sponsor.

Response - In the future the District will write the check payable to the custodian/sponsor.

Conclusion - Response accepted.

II-C-11 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements to the general ledger on a timely basis.

Recommendation - The District should reconcile bank statement balances to financial statement balances on a monthly basis. The bank reconciliation when performed timely, and reconciling items adjusted would provide support for the cash position. This would allow the user of the monthly financial statements a higher confidence in the amount of cash reflected on the balance sheet.

If the accounting staff is not comfortable using the accounting software to perform bank reconciliations, the District should consider sending their accounting staff to software training on bank reconciliations.

Response - The District maintains the ability to properly reconcile bank statements. The required movement of money involved with the ARRA funds, South Clay dissolution and

Bond money(crossing two fiscal years) has mandated and complicated the movement of money by requiring new account development and the transfer of money between accounts.

Conclusion - Response acknowledged.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.410 - ARRA - Education Jobs Fund
Federal Award Year: 2011
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 10.553 - School Breakfast Program
CFDA Number 10.555 - National School Lunch Program
Federal Award Year: 2011
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 and 2011
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-11 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.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - District expenditures for the year ended June 30, 2011, did not exceed the amount budgeted.

IV-B-11 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-11 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-11 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Diane Fuller, Custodian Owner of Good Booty BBQ	Purchased services	\$ 875

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

IV-E-11 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-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-11 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-11 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-11 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-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified annual reports (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	896,025
Revenues:			
Sales tax revenues	\$	1,497,262	
Other local revenues		4,242	
Other		238,964	1,740,468
			<u>2,636,493</u>
Expenditures/transfers out:			
School infrastructure construction	\$	83,414	
Other		137,025	
Transfers to other funds:			
Debt service fund		857,585	1,078,024
			<u>1,078,024</u>
Ending balance		\$	<u>1,558,469</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

IV-M-11 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Donations made to the school should be recorded in the fund in which they could be expended from.

Interest Allocation: We noted that the District received interest on Student Activity Funds, but that the interest was not allocated to the various Student Activity Fund accounts.

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

Response - Interest will be allocated in the future.

Conclusion - Response accepted.

Student Activity Fund Receipts: We noted that the District currently receipts money received for Target donations and Lifetouch commissions in the Student Activity Fund.

Recommendation -Target donations are considered an undesignated donation; therefore, they should be receipted into the General Fund for use as determined by the District's Board of Directors. The designation should be noted annually in the District's board minutes.

The General Fund is the only allowable fund for commission revenue recognition. In the future, Lifetouch picture commissions should be receipted to the General Fund.

Response - The Board will make the proper designation notes annually in the Board minutes.

Conclusion - Response accepted.