CITY OF SPENCER

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2013

CITY OF SPENCER

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CITY OF SPENCER

DIRECTORY OF CITY OFFICIALS AND RELATED ORGANIZATIONS' TRUSTEES

AS OF JUNE 30, 2013

MAYOR
Reynold L. Peterson

MAYOR PRO-TEM
David A. Scott

COUNCIL MEMBERS
George Kruger
Randy Swanson
Rich Prentice
Edward J. Krebs
Ron Hanson
Steve Bomgaars
David A. Scott

CITY MANAGER
Bob Fagen

CITY CLERK
Theresa Reardon

FINANCE DIRECTOR
Brian Weuve

DIRECTOR OF PUBLIC WORKS
Mark White

CHIEF OF POLICE
Mark Lawson

FIRE CHIEF
Douglas Duncan

PLANNING DIRECTOR
Kirby Schmidt

CEMETERY SUPT.
Irwin Martin

PARK DIRECTOR
DelRay Bredehoeft

STREET SUPERINTENDENT
Dwayne Sebby

CITY ATTORNEY
Donald J. Hemphill

GOLF COURSE SUPT.
Brian Mohr

LANDFILL SUPT.
Chuck Duhn

SOLID WASTE SUPT.
Kent Herbold

LIBRARY DIRECTOR
Mandy Roberts

COUNCIL STANDING COMMITTEES

PUBLIC SAFETY
Edward Krebs, Chairperson
Randy Swanson
George Kruger

PUBLIC WORKS
David Scott, Chairperson
Rich Prentice
Ron Hanson

FINANCE & PERSONNEL
Rich Prentice, Chairperson
Steve Bomgaars
Ron Hanson

PROGRESS & DEVELOPMENT
Randy Swanson, Chairperson
Steve Bomgaars
David Scott

BOARDS AND COMMISSIONS

MUNICIPAL UTILITIES TRUSTEES
Dave Hultgren
Sandi Schmidt
Alison Simpson
Murray Hart
Dave Cronk

GOLF COURSE BOARD
Larry Slota
Steve Fox
Lavonne Peterson
Roberta Meyer
Dennis Manley

PLANNING & ZONING COMMISSION
Kari Roskens
Dean Jacobsen
Duane Willrett
Craig Wampler
Ed Nygaard
Kristen Sonder
Marjorie Eeten

COMPENSATION ADVISORY BOARD
Jeff Bohnenkamp
Mary Rahn
Ken Sandvig, Jr.
Susan Zulk
Diane Quist Zinn
Kari Roskens
Dave Woodcock

CIVIL SERVICE COMMISSION
Michaela Sailer-Matthiesen
Kevin Robinson
Connie Larson

COLLECTION RATE REVIEW BOARD
Anita Jorgensen
Randy Wiemers
Bob Fagen

AIRPORT BOARD OF TRUSTEES
Bob Bates
Kyle Norris
Tim Steffen
Les Hicks
Bill Hemme

PARK BOARD
Kim Bates
Dick Montgomery
Jason Warren
John Zinn
Cindy Greer

MUNICIPAL HOSPITAL TRUSTEES
Gary VanHofwegen
Neal Conover
Kris Van Berkum
John Cotton
John Rahn

ZONING BOARD OF ADJUSTMENT
Terry Peterson
Suzanne Harper
Deb Feldman
Roger Green
Steve Waller
Mark Lykke
Don Baxter

LIBRARY TRUSTEES
Erin Rominger
Deb Woodcock
Bryan Harken
Karen Carey
Roger Littlefield
Ron Behrends
Michael Olson
Audrey Wheeler
Dennis DeWitt

PLUMBERS EXAMINERS BOARD
Joe Froiland
Rick Dean
Jarold Krogman

ELECTRICAL BOARD OF EXAMINERS
Dave Nelson
Steve McAllister
Steve Nolting

COMMUNICATION CENTER BOARD
Burlin Matthews
Ken Chalstrom
Randy Swanson
Rich Prentice
Mark Lawson
Randy Krukow

BOARDS AND COMMISSIONS - Continued

HISTORIC PRESERVATION COMMISSION
Sheriffa Jones
Harry Rasdal
Bruce Lamport
John Frans
Lynn Dotson
Karli Martin
Kristen Souder

RENAISSANCE INITIATIVE COMMITTEE
Randy Cauthron
Mary Jean Montgomery
John Goede
Dick Schallau
Tom Nelson
Clinton Jones
Jill Barr
Jane Campbell
Erin Rominger

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Spencer
Spencer, IA 51301

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Spencer, Iowa, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit

The financial statements referred to above do not include the financial data for the City's legally separate component unit, Spencer Municipal Hospital. Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the Unites State of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component unit would have been reported as $104,381,638, $15,325,555, $89,056,083, $68,211,243, and $62,619,816, respectively.

Adverse Opinion on Aggregate Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component unit of the City of Spencer, Iowa as of June 30, 2013, or the changes in financial position thereon for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Spencer, Iowa as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Spencer's basic financial statements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis on pages 7 through 12 and the other information included in Schedules 7 through 17 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2014 on our consideration of the City of Spencer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Spencer's internal control over financial reporting and compliance.

Wiinthan, Stave & Co., LLP

January 8, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

This discussion and analysis of the City of Spencer's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 Financial Highlights

- The City's total cash basis net position decreased $2,324,849 from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased by $575,089 and the cash basis net position of the business type activities decreased by $2,899,938.

Overview of the Financial Statements

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 City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City'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 the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

Supplementary Information provides detailed information about the nonmajor funds and on the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and provides selected statistical information.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting The City as a Whole

The Cash Basis Statement of Activities and Net Position

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property taxes and state and federal grants finance most of these activities.

- Business Type Activities include the sanitary sewer, solid waste, landfill, golf course, and airport. These activities are financed primarily by user charges.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain receipts (such as Sales Tax Receipts). The City has the following types of funds:

- Governmental Funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as the Local Option Sales Tax, (c) the Debt Service Fund, (d) the Capital Projects Fund, and (e) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

  The required financial statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

- Proprietary Funds account for the City's Enterprise Funds. Enterprise Funds are used to report business-type activities. The City maintains five Enterprise Funds to provide separate information for the sanitary sewer, solid waste, landfill, golf course, and airport funds. The City also maintains an enterprise capital projects fund to account for the acquisition and construction of capital assets to be used by the enterprise funds. The sanitary sewer, solid waste, enterprise capital projects, and landfill funds are considered to be major funds of the City.

  The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Fiduciary Funds. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Government-Wide Financial Analysis

As stated earlier, net position may serve over time as a useful indicator of a government's financial position. The City's cash balance for governmental activities increased from a year ago, increasing from $14,096,453 to $14,671,542. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012	Increase (Decrease)
Receipts:			
Program receipts:			
Charges for services	$ 638,411	$ 724,680	$ (86,269)
Operating grants and contributions	1,336,024	1,940,115	(604,091)
Capital grants and contributions	1,179,096	360,222	818,874
General receipts:			
Property and other city taxes	5,146,388	4,850,675	295,713
Tax increment financing	442,736	685,113	(242,377)
Payments in lieu of tax	544,941	503,736	41,205
Local option sales tax	1,937,781	1,807,696	130,085
Hotel/motel tax	192,135	199,085	(6,950)
Use of money and property	160,088	216,400	(56,312)
Unrestricted miscellaneous	503,121	452,448	50,673
Debt proceeds	2,258,695	1,558,740	699,955
Total receipts	14,339,416	13,298,910	1,040,506
Disbursements:			
Public safety	2,628,742	2,549,797	78,945
Public works	1,488,739	1,194,773	293,966
Culture and recreation	1,426,172	1,430,033	(3,861)
Community and economic development	1,716,338	1,964,859	(248,521)
General government	1,883,162	2,073,102	(189,940)
Debt service	2,691,798	3,193,101	(501,303)
Capital projects	3,131,125	662,897	2,468,228
Total disbursements	14,966,076	13,068,562	1,897,514
Change in cash basis net position before transfers	(626,660)	230,348	(857,008)
Net transfers	1,201,749	(6,524,329)	7,726,078
Change in cash basis net position	575,089	(6,293,981)	6,869,070
Cash basis net position - beginning of year	14,096,453	20,390,434	(6,293,981)
Cash basis net position - end of year	$14,671,542	$14,096,453	$ 575,089

The total business type activities cash balance decreased from a year ago, decreasing from $11,729,046 to $8,829,108. The analysis that follows focuses on the changes in cash basis net position of business type activities.

Changes in Cash Basis Net Position of Business Type Activities

	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012	Increase (Decrease)
Receipts:			
Program receipts:			
Charges for services:			
Sanitary sewer	$ 2,391,273	$ 2,250,536	$ 140,737
Solid waste	1,905,511	1,837,917	67,594
Landfill	1,350,381	1,374,998	(24,617)
Airport	120,057	135,897	(15,840)
Golf course	374,634	409,135	(34,501)
Operating grants and contributions	75,324	78,750	(3,426)
Capital grants and contributions	118,355	418,463	(300,108)
General receipts:			
Use of money and property	321,937	351,058	(29,121)
Unrestricted miscellaneous	115,812	117,901	(2,089)
Sale of capital assets		350,280	(350,280)
Debt proceeds	-	2,360	(2,360)
Total receipts	6,773,284	7,327,295	(554,011)
Disbursements:			
Sanitary sewer	1,872,717	1,755,730	116,987
Solid waste	2,104,960	1,130,695	974,265
Landfill	801,844	2,299,491	(1,497,647)
Airport	119,464	123,867	(4,403)
Golf course	320,342	410,726	(90,384)
Capital projects:			
Sanitary sewer	3,202,955	4,261,829	(1,058,874)
Landfill	20,892		20,892
Airport	28,299	353,304	(325,005)
Total disbursements	8,471,473	10,335,642	(1,864,169)
Change in cash basis net position before transfers	(1,698,189)	(3,008,347)	1,310,158
Net transfers	(1,201,749)	6,524,329	(7,726,078)
Change in cash basis net position	(2,899,938)	3,515,982	(6,415,920)
Cash basis net position - beginning of year	11,729,046	8,213,064	3,515,982
Cash basis net position - end of year	$ 8,829,108	$11,729,046	$ (2,899,938)

Individual Major Governmental Fund Analysis

The City's governmental funds showed a combined cash basis fund balance of $14,671,542 at June 30, 2013 which was $575,089 more than last year. A summary of the changes is as follows:

	Cash Balances June 30, 2013	Cash Balances June 30, 2012	Increase (Decrease)
General	$10,271,621	$11,068,974	$ (797,353)
Local option sales tax	805,958	614,749	191,209
Debt service	518,912	635,990	(117,078)
Capital projects	1,649,202	681,551	967,651
Total nonmajor governmental funds	1,425,849	1,095,189	330,660
Total	$14,671,542	$14,096,453	$ 575,089

The decrease in the general fund is due primarily to the City using committed funds to finance capital projects. The increase in the capital project funds is due primarily to bond proceeds received late in the year. Those debt proceeds will be spent in the next fiscal year.

Individual Major Business Type Fund Analysis

The City's business type funds showed a combined cash basis fund balance of $8,829,108 at June 30, 2013 which was $2,899,938 less than last year. A summary of the changes is as follows:

	Cash Balances June 30, 2013	Cash Balances June 30, 2012	Increase (Decrease)
Sanitary sewer	$ 3,244,389	$ 3,454,211	$ (209,822)
Solid waste	1,101,962	1,225,623	(123,661)
Landfill	3,921,424	3,713,662	207,762
Enterprise capital projects	20,292	2,940,408	(2,920,116)
Nonmajor proprietary funds	541,041	395,142	145,899
Total	$ 8,829,108	$11,729,046	$ (2,899,938)

The decrease in cash basis fund balance in the enterprise capital projects fund was due to waste treatment plant improvements paid during the current year which were funded in the prior year.

Budgetary Highlights

The City amended the budget once on April 15, 2013. This amendment was required to increase budgeted receipts for additional local option sales tax, unexpected grants and a general obligation bond issue. Disbursements were amended to reflect increases in debt service due to refunding of two bond issues, capital projects due to unplanned projects, and community and economic development due to the increase in local option sales tax receipts.

Even after the budget amendment, actual disbursements exceeded the budgeted amounts in the debt service function.

The City's receipts were $1,852,171 less than budgeted receipts. The most significant variance resulted from anticipated intergovernmental receipts not being received.

The City's disbursements were $13,144,052 less than budgeted primarily because several capital projects were not completed before year end.

Debt Administration

At June 30, 2013, the City had $15,480,430 of debt outstanding, compared to $16,066,430 last year as shown below:

	June 30, 2013	June 30, 2012
General obligation bonds and notes	$ 6,743,430	$ 6,657,430
Urban renewal tax increment revenue bond		315,000
Total subject to debt limitations	6,743,430	6,972,430
Other long-term debt	225,000	250,000
Revenue bonds and notes	8,512,000	8,844,000
Total all debt	$15,480,430	$16,066,430

The City issued $2,245,000 of general obligation debt during the year. Approximately $1,100,000 of this debt was used to refinance two bond issues. The balance will be used to finance capital projects. The urban renewal tax increment revenue bond was repaid with an internal loan from the capital improvement reserve. That internal loan will be repaid from future tax increment financing receipts.

Debt administration is quite conservative, with approximately 70% of all City debt repaid within the next ten years.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is $32,908,750. With outstanding debt applicable to this limit of $6,743,430, we are utilizing 20.49% of this limit.

Economic Factors

The City continues to monitor the economic factors impacting not only the local economy, but that of the state, region and nation. The best indicator for the City as to the "health" of our local economy is measured in local option sales tax receipts. Fiscal Year 2010 was the low point in terms of sales tax receipts, and since that time have rebounded significantly. However, current projections for Fiscal Year 2014 show a slight slow down in sales tax receipts. When discussing this with the State Department of Revenue, they have indicated that they are seeing a slight slow down in state wide collections and have adjusted projections accordingly.

The City's property values continue to see an upward growth trend, although that growth will slow down as the State's property tax reforms are implemented. During the 2013 Legislative session, the state enacted property tax reforms aimed at reducing the value of commercial/industrial property that is subjected to taxation. The reforms will be implemented slowly over the next 10 years, but will start to have an immediate impact in Fiscal Year 2014. The reforms consist of a new commercial/industrial property rollback of 10%, reducing annual valuation growth to 3%, instead of the current 4% and transitioning multi-family residential property from a "commercial" status to a "residential" status, subject to the residential rollback. Currently, the State of Iowa has promised to back fill a portion of the revenues lost to these reforms, but past history has proven the State incapable of keeping those promises in the long term. The City will continue to monitor the State's fiscal health for indications that the back fill to local government may be in jeopardy, and will have to make adjustments to our operations.

Outside interest in locating to Spencer remains high. During the past year, there have been a number of businesses indicate a desire to move to the community or expand their current operations already here. The coming year should prove to be exciting if several of these projects move forward. All of these proposed projects will have a positive effect on the community and the region. Forecasts made by the regional economic development board indicate the number of jobs to be created in the region over the next few years will be in the 1,000's. The City is well positioned to take advantage of these opportunities.

In the overall picture, the economic forecast for the City is positive. The local area continues to see a strong farm economy, despite the challenges of the past two years. The City has been conservative in its budgeting practices as well as its fiscal management which has enabled the City to weather the recent economic downturn and be in a position to respond to the challenges of the future.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Officer at the office of the City Clerk at 712-580-7200.

BASIC FINANCIAL STATEMENTS

CITY OF SPENCER
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants and Contributions
FUNCTIONS/PROGRAMS:			
Governmental activities:			
Public safety	$ 2,628,742	$ 166,621	$ 153,355
Public works	1,488,739	49,712	1,075,738
Culture and recreation	1,426,172	160,634	29,631
Community and economic development	1,716,338	110,161	1,131
General government	1,883,162	50,248	76,169
Debt service	2,691,798	7,012	
Capital projects	3,131,125	94,023	
Total governmental activities	14,966,076	638,411	1,336,024
Business type activities:			
Sanitary sewer	1,872,717	2,391,273	75,324
Solid waste	2,104,960	1,905,511	
Landfill	801,844	1,350,381	
Airport	119,464	120,057	
Golf course	320,342	374,634	
Capital projects:			
Sanitary sewer	3,202,955		
Landfill	20,892		
Airport	28,299		
Total business type activities	8,471,473	6,141,856	75,324
TOTAL	$23,437,549	$6,780,267	$1,411,348
General Receipts and Transfers:			
Property and other city taxes levied for:			
General purposes			
Debt service			
Tax increment financing			
Payments in lieu of tax			
Local option sales tax			
Hotel/motel tax			
Use of money and property			
Unrestricted miscellaneous			
Debt proceeds including $13,695 premium			
Operating transfers			
Total general receipts and transfers			
CHANGE IN CASH BASIS NET POSITION			
CASH BASIS NET POSITION - BEGINNING OF YEAR			
CASH BASIS NET POSITION - END OF YEAR			
CASH BASIS NET POSITION:			
Nonexpendable:			
Permanent fund principal			
Restricted, expendable for:			
Debt service			
Capital projects			
Urban renewal purposes			
Community and economic development purposes			
Employee benefits			
Police purposes			
Cemetery purposes			
Park purposes			
Closure and/or postclosure care			
Landfill recycling and planning			
Unrestricted			
TOTAL CASH BASIS NET POSITION			

See Accompanying Notes to Financial Statements

Capital Grants and Contributions	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
$ 650	$ (2,308,116)		$ (2,308,116)
	(363,289)		(363,289)
3,800	(1,232,107)		(1,232,107)
101,534	(1,503,512)		(1,503,512)
12,575	(1,744,170)		(1,744,170)
	(2,684,786)		(2,684,786)
1,060,537	(1,976,565)		(1,976,565)
1,179,096	(11,812,545)		(11,812,545)
		$ 593,880	593,880
70,000		(129,449)	(129,449)
48,355		596,892	596,892
		593	593
		54,292	54,292
		(3,202,955)	(3,202,955)
		(20,892)	(20,892)
		(28,299)	(28,299)
118,355		(2,135,938)	(2,135,938)
$1,297,451	(11,812,545)	(2,135,938)	(13,948,483)
	4,729,895		4,729,895
	416,493		416,493
	442,736		442,736
	544,941		544,941
	1,937,781		1,937,781
	192,135		192,135
	160,088	321,937	482,025
	503,121	115,812	618,933
	2,258,695		2,258,695
	1,201,749	(1,201,749)	
	12,387,634	(764,000)	11,623,634
	575,089	(2,899,938)	(2,324,849)
	14,096,453	11,729,046	25,825,499
	$14,671,542	$ 8,829,108	$23,500,650
	$ 415,552		$ 415,552
	518,912	$ 413,577	932,489
	1,649,202		1,649,202
	71,069		71,069
	820,911		820,911
	695,454		695,454
	15,223		15,223
	19,001		19,001
	10,846		10,846
		2,003,556	2,003,556
		231,457	231,457
	10,455,372	6,180,518	16,635,890
	$14,671,542	$ 8,829,108	$23,500,650

See Accompanying Notes to Financial Statements

CITY OF SPENCER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	General	Local Option Sales Tax	Debt Service
RECEIPTS:			
Property tax	$ 3,455,141		$ 408,243
Tax increment financing			
Other city taxes	379,443	$1,937,781	8,250
Licenses and permits	58,659		
Use of money and property	133,464	8,007	11,411
Intergovernmental	739,918		
Charges for service	271,605		
Special assessments	166,248		7,012
Miscellaneous	519,924		
TOTAL RECEIPTS	5,724,402	1,945,788	434,916
DISBURSEMENTS:			
Public safety	2,201,649		
Public works	1,425,114		
Culture and recreation	1,314,578		
Community and economic development	690,551	854,579	
General government	686,358		
Debt service			2,691,798
Capital projects			
TOTAL DISBURSEMENTS	6,318,250	854,579	2,691,798
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(593,848)	1,091,209	(2,256,882)
OTHER FINANCING SOURCES (USES):			
Debt proceeds including $13,695 premium			2,258,695
Operating transfers in	2,382,366		1,032,629
Operating transfers out	(2,585,871)	(900,000)	(1,151,520)
TOTAL OTHER FINANCING SOURCES (USES)	(203,505)	(900,000)	2,139,804
NET CHANGE IN CASH BALANCES	(797,353)	191,209	(117,078)
CASH BALANCES - BEGINNING OF YEAR	11,068,974	614,749	635,990
CASH BALANCES - END OF YEAR	$10,271,621	$ 805,958	$ 518,912
CASH BASIS FUND BALANCE:			
Nonspendable:			
Permanent fund principal			
Restricted for:			
Debt service			$ 518,912
Capital projects			
Urban renewal purposes			
Community and economic development purposes		$ 805,958	
Employee benefits			
Police purposes			
Cemetery purposes			
Park purposes			
Committed for:			
Public safety purposes	$ 1,278,972		
Public works purposes	4,209,842		
Culture and recreation purposes	606,882		
Community and economic development purposes	1,702,739		
Streets			
Unassigned	2,473,186		
TOTAL CASH BASIS FUND BALANCES	$10,271,621	$ 805,958	$ 518,912

See Accompanying Notes to Financial Statements

Exhibit B

Capital Projects	Total Nonmajor Governmental Fund	Total
	$1,066,995	$ 4,930,379
	442,736	442,736
	20,451	2,345,925
		58,659
	7,206	160,088
$ 806,435	1,123,904	2,670,257
	6,425	278,030
16,958		190,218
254,102	230,403	1,004,429
1,077,495	2,898,120	12,080,721
	427,093	2,628,742
	63,625	1,488,739
	111,594	1,426,172
	171,208	1,716,338
	1,196,804	1,883,162
		2,691,798
3,131,125		3,131,125
3,131,125	1,970,324	14,966,076
(2,053,630)	927,796	(2,885,355)
		2,258,695
3,021,281	756,221	7,192,497
	(1,353,357)	(5,990,748)
3,021,281	(597,136)	3,460,444
967,651	330,660	575,089
681,551	1,095,189	14,096,453
$1,649,202	$1,425,849	$14,671,542
	$ 415,552	$ 415,552
		518,912
$1,649,202		1,649,202
	71,069	71,069
	14,953	820,911
	695,454	695,454
	15,223	15,223
	19,001	19,001
	10,846	10,846
		1,278,972
		4,209,842
		606,882
		1,702,739
	183,751	183,751
		2,473,186
$1,649,202	$1,425,849	$14,671,542

See Accompanying Notes to Financial Statements

CITY OF SPENCER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Sanitary Sewer	Solid Waste	Landfill	Enterprise Capital Projects
OPERATING RECEIPTS:				
Charges for services	$2,391,273	$1,905,511	$1,350,381	
Miscellaneous	14,092	64,287	20,162	
TOTAL OPERATING RECEIPTS	2,405,365	1,969,798	1,370,543	
OPERATING DISBURSEMENTS:				
Salaries	214,874	633,460	337,031	
Payroll taxes and employee benefits	33,424	97,761	51,660	
Repairs and maintenance	54,211	85,150	88,980	
Utilities	3,408	14,869	6,830	
Contract services	757,404		37,220	
Insurance premiums	26,219	30,978	12,696	
Gas and oil	4,369	109,087	96,504	
Supplies	2,445	24,160	43,388	
Miscellaneous		28,498	22,198	
Statewide ASR fees			15,000	
Collection fee	22,200	22,200		
Sales tax paid	44,034	35,315		
Tipping tax			64,521	
TOTAL OPERATING DISBURSEMENTS	1,162,588	1,081,478	776,028	
EXCESS OF OPERATING RECEIPTS OVER DISBURSEMENTS	1,242,777	888,320	594,515	
NON-OPERATING RECEIPTS (DISBURSEMENTS):				
Interest on investments	44,363	14,936	45,277	$ 14,204
Farm income	75,000		33,023	
Interest subsidy on Build America Bonds...	75,324			
Intergovernmental grants		70,000	48,355	
Capital outlay	(90,699)	(1,023,482)	(25,816)	(3,252,146)
Debt service payments:				
Revenue bonds/notes principal	(332,000)			
Revenue bonds/notes interest	(287,430)			
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	(515,442)	(938,546)	100,839	(3,237,942)
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	727,335	(50,226)	695,354	(3,237,942)
OTHER FINANCING SOURCES (USES):				
Operating transfers in		600,000	542,473	317,826
Operating transfers out	(937,157)	(673,435)	(1,030,065)	
TOTAL OTHER FINANCING SOURCES (USES)	(937,157)	(73,435)	(487,592)	317,826
NET CHANGE IN CASH BALANCES	(209,822)	(123,661)	207,762	(2,920,116)
CASH BALANCES - BEGINNING OF YEAR	3,454,211	1,225,623	3,713,662	2,940,408
CASH BALANCES - END OF YEAR	$3,244,389	$1,101,962	$3,921,424	$ 20,292

See Accompanying Notes to Financial Statements

EXHIBIT C

Nonmajor Proprietary Funds	Total
$ 494,691	$ 6,141,856
17,271	115,812
511,962	6,257,668
164,050	1,349,415
25,193	208,038
41,162	269,503
44,673	69,780
35,000	829,624
17,109	87,002
13,860	223,820
66,226	136,219
18,065	68,761
	15,000
	44,400
14,468	93,817
	64,521
439,806	3,459,900
72,156	2,797,768
5,134	123,914
90,000	198,023
	75,324
	118,355
	(4,392,143)
	(332,000)
	(287,430)
95,134	(4,495,957)
167,290	(1,698,189)
27,500	1,487,799
(48,891)	(2,689,548)
(21,391)	(1,201,749)
145,899	(2,899,938)
395,142	11,729,046
$ 541,041	$ 8,829,108

See Accompanying Notes to Financial Statements

CITY OF SPENCER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS - Continued
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Sanitary Sewer	Solid Waste	Landfill	Enterprise Capital Projects
CASH BASIS FUND BALANCES:				
Restricted, expendable for:				
Debt service	$ 413,577			
Closure and/or postclosure care		$ 16,828	$1,986,728	
Landfill recycling and planning			231,457	
Unrestricted	2,830,812	1,085,134	1,703,239	$ 20,292
TOTAL CASH BASIS FUND BALANCES	$3,244,389	$1,101,962	$3,921,424	$ 20,292

EXHIBIT C

Nonmajor Proprietary Funds	Total
	$ 413,577
	2,003,556
	231,457
$ 541,041	6,180,518
$ 541,041	$8,829,108

Exhibit D

CITY OF SPENCER
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES - FIDUCIARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

ADDITIONS:	
Use of money and property	$ 7,200
Miscellaneous	14,325
TOTAL ADDITIONS	21,525
DEDUCTIONS:	
Community and economic development	26,108
TOTAL DEDUCTIONS	26,108
NET CHANGE IN CASH BALANCES	(4,583)
CASH BALANCES - BEGINNING OF YEAR	644,716
CASH BALANCES - END OF YEAR	$ 640,133

See Accompanying Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Spencer, Iowa is a political subdivision of the State of Iowa located in Clay County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Spencer provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, public improvements, and general government services.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City 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 City are such that exclusion would cause the City'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 City 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 City.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the Spencer Municipal Hospital (SMH) is a component unit of the City. Financial information for SMH has not been reported in the City's financial statements. Accordingly, these financial statements present the activities of the primary government only and are not a complete presentation in accordance with accounting principles generally accepted in the United States of America. Spencer Municipal Hospital's financial statements can be obtained at their administrative offices or at City Hall.

The Spencer Municipal Utilities (SMU) provides electric, communication, and water utility services to the citizens of Spencer. SMU is not considered a component unit of the City because it does not meet the criteria stated above. Currently, SMU made voluntary payments of $544,941 in lieu of property tax payments to the City. In addition, SMU paid the City $101,534 for the storefront initiative and $247,699 for capital projects.

Jointly Governed Organization - The City also participates in several jointly governed organizations for which the city is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which 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 services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. The City's net position is reported in the following categories/components:

Nonexpendable net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Unrestricted net position consists of net cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts 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 on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts 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 disbursements, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for the receipts from the tax authorized by referendum and to be used for various purposes.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities other than those used by enterprise activities.

The City reports the following major proprietary funds:

Enterprise:

The Sanitary Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for the operation and maintenance of the City's solid waste collection activities.

The Landfill Fund is used to account for the operation and maintenance of the City's landfill activities.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus and Basis of Accounting

The City of Spencer maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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.

Committed - Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purposes unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the debt service function.

2. CASH AND POOLED INVESTMENTS

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2013 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

2. CASH AND POOLED INVESTMENTS - Continued

The City 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 City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash and investments consisted of the following at June 30, 2013:

Cash on hand	$ 5,300
Demand deposits	11,130,402
Money market account	13,000,000
Escrow account restricted to waste water treatment plant improvements	5,081
Total cash and investments	24,140,783
Less Agency Funds	(640,133)
City's Cash and Investments	$23,500,650

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the City's bonds and notes payable are as follows:

	Governmental Activities					
	General Obligation				Total	
Year Ending	Bonds/Notes		Other Long-Term Debt		Governmental Activities	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2014	$1,095,000	$ 129,875	$ 25,000		$1,120,000	$ 129,875
2015	1,046,000	112,566	25,000		1,071,000	112,566
2016	1,066,000	106,650	25,000		1,091,000	106,650
2017	1,092,000	86,899	25,000		1,117,000	86,899
2018	727,000	64,971	25,000		752,000	64,971
2019-2023	1,430,430	134,510	100,000		1,530,430	134,510
2024-2028	287,000	26,000			287,000	26,000
2029-2033						
Total	$6,743,430	$ 661,471	$ 225,000	$	$6,968,430	$ 661,471

3. BONDS AND NOTES PAYABLE - Continued

Year Ending June 30,	Business-Type Activities: Revenue Bonds Notes Principal	Revenue Bonds Notes Interest	Total Long-Term Debt Principal	Total Long-Term Debt Interest
2014	$ 343,000	$ 276,640	$ 1,463,000	$ 406,515
2015	354,000	265,493	1,425,000	378,059
2016	365,000	253,987	1,456,000	360,637
2017	378,000	242,125	1,495,000	329,024
2018	390,000	229,840	1,142,000	294,811
2019-2023	2,150,000	950,560	3,680,430	1,085,070
2024-2028	2,524,000	577,687	2,811,000	603,687
2029-2033	2,008,000	160,713	2,008,000	160,713
Total	$8,512,000	$2,957,045	$15,480,430	$3,618,516

General Obligation Bonds/Notes
General obligation bonds and notes to be serviced by the Debt Service Fund totaled $6,743,430 at June 30, 2013. A portion of these bonds and notes are anticipated to be repaid by transfers from other funds. In compliance with statutory requirements, all payments on these bonds and notes are recorded as disbursements from the Debt Service Fund; and any payments from other funds are recorded as transfers into the Debt Service Fund.

Other Long-Term Debt
The other long-term debt represents a loan from Spencer Municipal Utilities with a balance of $225,000 at June 30, 2013. The loan is interest free and will be paid from the General Fund from loan receivable payments received from Shine Brothers Corporation.

Revenue Notes
The City has pledged future sanitary sewer customer receipts, net of specific operating disbursements, to repay the $1,520,000 sewer revenue bonds issued in October 2009 and the $7,500,000 sewer revenue bonds issued in December 2010. Proceeds from the bonds provided financing for wastewater treatment plant improvements. The bonds are payable solely from the sanitary sewer customer net receipts and are payable through June 2032. Annual principal and interest payments are expected to require less than 50% of net receipts. Total principal and interest remaining to be paid on the bonds is $11,469,045. For the current year, principal and interest paid on the bonds was $619,430 and customer net receipts were $1,242,777. The bonds bear interest at 3.25% including a .25% loan service fee.

The resolution providing for the issuance of the two sewer revenue bonds include the following provisions:

(A) The bonds will only be redeemed from the future earnings of the sanitary sewer activity and bond holders hold a lien on future earnings of the funds.

(B) Sufficient monthly transfers shall be made into a separate sewer sinking fund for the purpose of making principal and interest payments when due.

(C) User rates shall be established which produce and maintain net receipts at a level not less than 110% of the principal and interest on the bonds falling due in the same year.

During the year ended June 30, 2013, the City was in compliance with the revenue bond resolutions.

3. BONDS AND NOTES PAYABLE - Continued

The $7,500,000 sewer revenue bonds issued December 2010 have been designated by the City as Build America Bonds. Under the terms of the Build America Bonds, it is anticipated that 35% of the interest paid on the bonds (net of the loan service fee) will be refunded to the City by the Federal government.

Housing Development Loan and Grant
During the fiscal year ended June 30, 2012, Spencer Municipal Utilities (SMU) granted the City $287,500 and loaned the City $287,500. The City then granted the Spencer Area Jobs Trust (Trust) $287,500 and loaned the Trust $287,500. The Trust then transferred the funds to a developer, under the same terms, to assist the developer in the construction of moderately priced homes. Under the terms of the agreement, the developer is to repay the Trust the loan as the homes are sold. The Trust is required to repay the City as funds are received from the developer and the City is to repay SMU as payments are received from the Trust. No interest will be charged on the loans if payments are made pursuant to the agreement. The amount due to SMU as of June 30, 2013 is $127,500. Under the terms of the agreement, the City has assigned the right to receive the payments from the Trust and authorizes the Trust to make the payments directly to SMU. SMU and the Trust agreed to assume the risk of any loss, therefore the loan to SMU is not included as a liability of the City.

4. AIRPORT LEASE AGREEMENTS

The City has entered into several lease agreements for hanger and facilities space at the Spencer Municipal Airport. A summary of the leases at June 30, 2013 is as follows:

Tennant	Lease Term	Lease Amount
1. Spencer Avionics	7-1-2008 to 6-30-2048	$1,935 per year, until 6-30-2018
2. Leading Edge Aviation, Inc.	1-1-2010 to 6-30-2014 May be terminated with 6 months notice	$4,600 per month
3. Superior Lubrication Products, Inc.	Indefinite, may be terminated with 60 days notice	$1,406 per month
4. CAMM Air	3-13-2006 to 6-30-2105	$1,200 per year, until 6-30-2016

5. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials, totaling $880 during the year ended June 30, 2013. See item IV-D-13 in the Schedule of Findings and Questioned Costs.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation, holiday, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2013 is as follows:

Governmental activities:	
General fund	$ 537,622
Business type activities:	
Proprietary:	
Enterprise:	
Solid waste	56,110
Landfill	17,388
Golf course	21,118
Total business type activities	94,616
TOTAL	$ 632,238

7. PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were as follows:

	Year Ended June 30,		
	2013	2012	2011
City's contribution	$255,299	$237,656	$201,960
Percentage funded of required contribution	100.0%	100.0%	100.0%

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

7. PENSION AND RETIREMENT BENEFITS - Continued

Plan members are required to contribute 9.4% of earned compensation and the City's contribution rate, based on actuarially determined normal contribution rate, is 26.12% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the year ended June 30, 2013, 2011, and 2010 were as follows:

	Year Ended June 30,		
	2013	2012	2011
City's contribution	$330,460	$303,650	$237,073
Percentage funded of required contribution	100.0%	100.0%	100.0%

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description
The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 77 active and 7 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Employee Benefit Systems (EBS). Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy
The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are approximately $590 for single coverage and $1,404 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed $808,562 (for active members only); and plan members eligible for benefits contributed $222,183 (both active and retired members) to the plan. In addition, Clay County contributed $25,267 to the plan.

9. RISK FINANCING

The City is exposed to various risks of loss related to torts, theft of, 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 City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued industrial development revenue bonds in prior years under the provisions of Chapter 419 of the Code of Iowa. The balances outstanding at June 30, 2013 cannot be approximated since the various companies do not provide this information to the City. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

11. CONSTRUCTION COMMITMENTS

The City has entered into contracts totaling $6,866,253 for various construction projects. As of June 30, 2013, disbursements on those contracts totaled $5,705,920. The remaining $1,160,333 will be paid as the work on the projects is completed.

12. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General Fund	Local Option Sales Tax	$ 900,000
	Debt Service	125,246
	Proprietary:	
	Enterprise:	
	Sanitary Sewer	347,500
	Nonmajor Governmental:	
	Special Revenue:	
	Road Use Tax	986,345
	Tax Increment Financing	23,275
Total General Fund		2,382,366
Debt Service	General	270,000
	Proprietary:	
	Enterprise:	
	Sanitary Sewer	53,814
	Landfill	365,078
	Nonmajor Governmental:	
	Special Revenue:	
	Tax Increment Financing	343,737
Total Debt Service		1,032,629
Capital Projects	General	1,644,702
	Debt Service	1,026,274
	Proprietary:	
	Enterprise:	
	Sanitary Sewer	350,305
Total Capital Projects		3,021,281
Nonmajor Governmental:		
Special Revenue:		
Road Use Tax	General	94,358
Federal and State Retirement	General	284,665
Trees Forever	General	1,380
Group Medical/Life Insurance	General	151,352
	Proprietary:	
	Enterprise:	
	Sanitary Sewer	28,908
	Solid Waste	130,962
	Landfill	44,004
	Nonmajor Proprietary:	
	Enterprise:	
	Golf Course	20,592
Total Group Medical/Life Insurance		375,818

12. INTERFUND TRANSFERS - Continued

Transfer to	Transfer from	Amount
Total Nonmajor Governmental		$ 756,221
Total Governmental Funds		7,192,497
Proprietary:		
Enterprise:		
Solid Waste	Proprietary:	
	Enterprise:	
	Landfill	600,000
Landfill	Enterprise	
	Solid Waste	542,473
Enterprise Capital Projects	General	111,914
	Proprietary:	
	Enterprise:	
	Sanitary Sewer	156,630
	Landfill	20,983
	Nonmajor Proprietary:	
	Enterprise:	
	Airport	28,299
Total Enterprise Capital Projects		317,826
Nonmajor Proprietary:		
Golf course	General	27,500
Total Proprietary Funds		1,487,799
TOTAL OPERATING TRANSFERS		$ 8,680,296

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

13. LANDFILL CLOSURE/POST CLOSURE CARE COSTS

To comply with federal and state regulations, the City is required to complete a monitoring system plan and a closure/postclosure plan and to provide funding necessary to effect closure and postclosure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty-year care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collection and treating leachate (the liquid that drains out of waste) for thirty years.

13. LANDFILL CLOSURE/POST CLOSURE CARE COSTS - Continued

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs consist of four components: (1) the cost of equipment and facilities used in postclosure monitoring and care, (2) the cost of final cover (material and labor), (3) the close of monitoring the landfill during the postclosure period, and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently and is required to be updated annually due to the potential for changes due to inflation or deflation, technology, or applicable laws or regulations.

These costs for the City have been estimated to be $550,000 for closure and $1,418,236 for postclosure, for a total of $1,968,236 as of June 30, 2013. In the current year, no disbursements were made for landfill closure costs. Currently the estimated remaining life of the landfill is 4 months with approximately 90% of the landfill's capacity used at June 30, 2013.

Chapter 455B.306(9)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure accounts to accumulate resources for the payment of closure and postclosure care costs. The City has begun to accumulate resources to fund these costs; and at June 30, 2013, assets of $1,986,728 are restricted for these purposes.

Also, pursuant to Chapter 567-113.14 of the Iowa Administrative Code (IAC), since the estimated closure and post closure care costs are not fully funded, the City is required to demonstrate financial assurance for the unfunded costs. The City has adopted the dedicated fund mechanism. Under this mechanism, the City must certify the following to the Iowa Department of Natural Resources:

- The fund is dedicated by local government statute as a reserve fund.
- Payments into the fund are made annually over a pay-in period of ten years or the permitted life of the landfill, whichever is shorter.
- Annual deposits to the fund are determined by the following formula:

$$NP = \frac{CE - CB}{RPC} \times TR$$

NP = next payment
CE = total required financial assurance
CB = current balance of the fund
RPC = remaining permitted capacity in tons
TR = total number of tons of solid waste disposed in the prior year

Chapter 567-113.14(8) of the IAC allows a government to choose the dedicated fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and postclosure care account requirements. Accordingly, the City is not required to establish closure and postclosure accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

As of June 30, 2013, the City had a balance in the closure/postclosure dedicated fund in the amount of $1,986,728.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2013, the City entered into construction contracts totaling $1,055,140 for various capital projects.

Subsequent events were evaluated by management for disclosure up to the date of the auditors' report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF SPENCER
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue Funds	Permanent Funds	Total Governmental Nonmajor Funds
RECEIPTS:			
Property tax	$1,066,995		$1,066,995
Tax increment financing	442,736		442,736
Other city taxes	20,451		20,451
Use of money and property	5,284	$ 1,922	7,206
Intergovernmental	1,123,904		1,123,904
Charges for services		6,425	6,425
Miscellaneous	230,403		230,403
TOTAL RECEIPTS	2,889,773	8,347	2,898,120
DISBURSEMENTS:			
Public safety	427,093		427,093
Public works	63,625		63,625
Culture and recreation	111,444	150	111,594
Community and economic development	170,329	879	171,208
General government	1,196,804		1,196,804
TOTAL DISBURSEMENTS	1,969,295	1,029	1,970,324
EXCESS OF RECEIPTS OVER DISBURSEMENTS	920,478	7,318	927,796
OTHER FINANCING SOURCES (USES):			
Operating transfers in	756,221		756,221
Operating transfers out	(1,353,357)		(1,353,357)
TOTAL OTHER FINANCING USES	(597,136)		(597,136)
NET CHANGE IN CASH BALANCES	323,342	7,318	330,660
CASH BALANCES - BEGINNING OF YEAR	656,669	438,520	1,095,189
CASH BALANCES - END OF YEAR	$ 980,011	$ 445,838	$1,425,849
CASH BASIS FUND BALANCE:			
Nonspendable:			
Permanent fund principal		$ 415,552	$ 415,552
Restricted for:			
Urban renewal purposes	$ 71,069		71,069
Community and economic development purposes	14,514	439	14,953
Employee benefits	695,454		695,454
Police purposes	15,223		15,223
Cemetery purposes		19,001	19,001
Park purposes		10,846	10,846
Streets	183,751		183,751
TOTAL CASH BASIS FUND BALANCE	$ 980,011	$ 445,838	$1,425,849

CITY OF SPENCER
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Road Use Tax	Tax Increment Financing	SSMID	Police Retirement Systems	Civil Service Expenses
RECEIPTS:					
Property tax			$ 81,392	$267,000	$ 6,998
Tax increment financing		$442,736			
Other city taxes				5,540	145
Use of money and property		2,103		2,459	95
Intergovernmental	$1,075,738				
Miscellaneous					4,158
TOTAL RECEIPTS	1,075,738	444,839	81,392	274,999	11,396
DISBURSEMENTS:					
Public safety				256,101	13,392
Public works					
Culture and recreation					
Community and economic development		92,251	78,078		
General government					
TOTAL DISBURSEMENTS		92,251	78,078	256,101	13,392
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	1,075,738	352,588	3,314	18,898	(1,996)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	94,358				
Operating transfers out	(986,345)	(367,012)			
TOTAL OTHER FINANCING SOURCES (USES)	(891,987)	(367,012)			
NET CHANGE IN CASH BALANCES	183,751	(14,424)	3,314	18,898	(1,996)
CASH BALANCES - BEGINNING OF YEAR		85,493	11,200	219,999	13,217
CASH BALANCES - END OF YEAR	$ 183,751	$ 71,069	$ 14,514	$238,897	$ 11,221
CASH BASIS FUND BALANCES:					
Restricted for:					
Urban renewal purposes		$ 71,069			
Economic development purposes			$ 14,514		
Employee benefits				$238,897	$ 11,221
Police purposes					
Streets	$ 183,751				
TOTAL CASH BASIS FUND BALANCES	$ 183,751	$ 71,069	$ 14,514	$238,897	$ 11,221

Schedule 2

Police Special Proceeds	Fire Pension Accumulation	Federal and State Retirement	Workers' Compensation Insurance	Trees Forever	Unemployment Insurance Claims	Group Medical/Life Insurance	Total
	$ 70,372		$ 56,574		$ 29,962	$ 554,697	$1,066,995
							442,736
	1,460		1,174		622	11,510	20,451
$ 73	516			$ 38			5,284
		$ 22,899				25,267	1,123,904
8,356			270	4,500		213,119	230,403
8,429	72,348	22,899	58,018	4,538	30,584	804,593	2,889,773
	74,358	83,242					427,093
		63,625					63,625
		102,186		9,258			111,444
							170,329
		38,928	46,537		28,026	1,083,313	1,196,804
	74,358	287,981	46,537	9,258	28,026	1,083,313	1,969,295
8,429	(2,010)	(265,082)	11,481	(4,720)	2,558	(278,720)	920,478
		284,665		1,380		375,818	756,221
							(1,353,357)
		284,665		1,380		375,818	(597,136)
8,429	(2,010)	19,583	11,481	(3,340)	2,558	97,098	323,342
6,794	49,991	141,724	35,427	3,340	7,950	81,534	656,669
$ 15,223	$ 47,981	$161,307	$ 46,908	$	$ 10,508	$ 178,632	$ 980,011
							$ 71,069
							14,514
	$ 47,981	$161,307	$ 46,908		$ 10,508	$ 178,632	695,454
$ 15,223							15,223
							183,751
$ 15,223	$ 47,981	$161,307	$ 46,908	$	$ 10,508	$ 178,632	$ 980,011

CITY OF SPENCER
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Cemetery Perpetual Care Fund	Riverside Cemetery Memorial Trust	Columbarium Vault Fund	Northlawn Perpetual Care Fund
RECEIPTS:				
Use of money and property		$ 237	$ 34	$ 738
Charges for services	$ 5,225		200	1,000
TOTAL RECEIPTS	5,225	237	234	1,738
DISBURSEMENTS:				
Culture and recreation		150		
Community and economic development				
TOTAL DISBURSEMENTS		150		
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	5,225	87	234	1,738
CASH BALANCES - BEGINNING OF YEAR	265,829	21,464	3,613	65,163
CASH BALANCES - END OF YEAR	$271,054	$ 21,551	$ 3,847	$ 66,901
CASH BASIS FUND BALANCE:				
Nonspendable:				
Permanent fund principal	$271,054	$ 2,550	$ 3,847	$ 66,901
Restricted for:				
Cemetery purposes		19,001		
Community development purposes				
Park purposes				
TOTAL CASH BASIS FUND BALANCES	$271,054	$ 21,551	$ 3,847	$ 66,901

Schedule 3

Griffin Trust Fund	Leach Park Trust Fund	Total
$ 709	$ 204	$ 1,922
		6,425
709	204	8,347
		150
879		879
879		1,029
(170)	204	7,318
63,609	18,842	438,520
$ 63,439	$ 19,046	$445,838
$ 63,000	$ 8,200	$415,552
		19,001
439		439
	10,846	10,846
$ 63,439	$ 19,046	$445,838

CITY OF SPENCER
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds		
	Airport	Golf Course	Total Nonmajor Proprietary Funds
OPERATING RECEIPTS:			
Charges for service	$120,057	$374,634	$494,691
Miscellaneous	10,169	7,102	17,271
TOTAL OPERATING RECEIPTS	130,226	381,736	511,962
OPERATING DISBURSEMENTS:			
Salaries	12,462	151,588	164,050
Payroll taxes and employee benefits	1,983	23,210	25,193
Repairs and maintenance	26,881	14,281	41,162
Utilities	25,739	18,934	44,673
Contract services	35,000		35,000
Insurance premiums	7,793	9,316	17,109
Gas and oil		13,860	13,860
Supplies	2,724	63,502	66,226
Miscellaneous	6,882	11,183	18,065
Sales tax paid		14,468	14,468
TOTAL OPERATING DISBURSEMENTS	119,464	320,342	439,806
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	10,762	61,394	72,156
NON-OPERATING RECEIPTS:			
Interest on investments	4,947	187	5,134
Farm income	90,000		90,000
TOTAL NON-OPERATING RECEIPTS	94,947	187	95,134
EXCESS OF RECEIPTS OVER DISBURSEMENTS	105,709	61,581	167,290
OTHER FINANCING SOURCES (USES):			
Operating transfers in		27,500	27,500
Operating transfers out	(28,299)	(20,592)	(48,891)
TOTAL OTHER FINANCING SOURCES (USES)	(28,299)	6,908	(21,391)
NET CHANGE IN CASH BALANCES	77,410	68,489	145,899
CASH BALANCES - BEGINNING OF YEAR	377,229	17,913	395,142
CASH BALANCES - END OF YEAR	$454,639	$ 86,402	$541,041
CASH BASIS FUND BALANCES:			
Unrestricted	$454,639	$ 86,402	$541,041

CITY OF SPENCER
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2013

	Date of Issue	Interest Rates	Amount of Original Issue	Final Due Date
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Corporate purpose bonds	10-2006		$2,140,000	
Sewer improvement bond	1-2007	4.41%	655,000	6-01-2026
Street improvement bonds	6-2007		515,000	
Landfill facility improvement bonds	12-2008	3.20 - 4.00%	1,350,000	6-01-2018
Green Industrial Center spec building loan	7-2009	0.00 - 3.00% (1)	383,430	7-01-2019
Landfill facility refunding bonds	4-2010	2.00 - 3.00%	1,455,000	6-01-2019
Landfill closure bonds	2-2009	3.00%	426,645	6-01-2028
Street improvement bonds	12-2010	1.60 - 2.80%	575,000	6-01-2018
West beltway, fire station refunding bonds	4-2012	.70 - 1.50%	1,565,000	6-01-2018
Corporate purpose and refunding bonds	5-2013	1.00 - 1.50%	2,245,000	6-01-2022
TOTAL GENERAL OBLIGATION BONDS/NOTES				
OTHER LONG-TERM DEBT:				
Taxable urban renewal tax increment revenue bond	3-2007		470,000	
Spencer Municipal Utilities - Shine Brothers loan	11-2006	0.00%	375,000	12-05-2021
TOTAL OTHER LONG-TERM DEBT				
TOTAL GOVERNMENTAL ACTIVITIES				
BUSINESS TYPE ACTIVITIES:				
REVENUE BONDS/NOTES:				
Sewer revenue bonds	10-2009	3.25% (2)	1,520,000	6-01-2029
Sewer revenue bonds (Build America Bonds)	12-2010	3.25% (2) (3)	7,500,000	6-01-2032
TOTAL BUSINESS TYPE ACTIVITIES				

(1) Interest begins to accrue at 3.00% on 7-1-2014.
(2) Interest rate includes .25% service fee.
(3) It is anticipated that 35% of the interest (excluding the .25% service fee) will be refunded per the terms of Build America Bonds.

Schedule 5

Balance Beginning of Year	New Issues	Repayments	Balance End of Year	Interest Paid	Interest Due and Unpaid
$ 1,200,000		$1,200,000		$ 47,450	
540,000		30,000	$ 510,000	23,946	
125,000		125,000		5,050	
950,000		140,000	810,000	34,070	
383,430			383,430		
1,010,000		135,000	875,000	23,988	
389,000		19,000	370,000	11,670	
495,000		80,000	415,000	10,215	
1,565,000		430,000	1,135,000	15,520	
	$2,245,000		2,245,000		
6,657,430	2,245,000	2,159,000	6,743,430	171,909	
315,000		315,000		19,005	
250,000		25,000	225,000		
565,000		340,000	225,000	19,005	
$ 7,222,430	$2,245,000	$2,499,000	$ 6,968,430	$190,914	
$ 1,344,000		$ 60,000	$1,284,000	$ 43,680	
7,500,000		272,000	7,228,000	243,750	
$ 8,844,000		$ 332,000	$8,512,000	$287,430	

CITY OF SPENCER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Grantor/Program	CFDA Number	Grant Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii .	14.228	11-WS-057	$597,714
U.S. Department of Transportation:			
Iowa Department of Transportation:			
ARRA - Highway Planning and Construction	20.205	SRTS-U-7170(622)-8U-21	23,622
		SRTS-U-7170(620)-8U-21	73,082
TOTAL			$694,418

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Spencer and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

OTHER INFORMATION

CITY OF SPENCER
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
RECEIPTS:			
Property taxes	$ 4,930,379		$ 4,930,379
Tax increment financing revenues	442,736		442,736
Other city taxes	2,345,925		2,345,925
Licenses and permits	58,659		58,659
Use of money and property	160,088	$ 321,937	482,025
Intergovernmental	2,670,257	193,679	2,863,936
Charges for services	278,030	6,141,856	6,419,886
Special assessments	190,218		190,218
Miscellaneous	1,004,429	115,812	1,120,241
TOTAL RECEIPTS	12,080,721	6,773,284	18,854,005
DISBURSEMENTS:			
Public safety	2,628,742		2,628,742
Public works	1,488,739		1,488,739
Culture and recreation	1,426,172		1,426,172
Community and economic development	1,716,338		1,716,338
General government	1,883,162		1,883,162
Debt service	2,691,798		2,691,798
Capital projects	3,131,125		3,131,125
Business-type activities		8,471,473	8,471,473
TOTAL DISBURSEMENTS	14,966,076	8,471,473	23,437,549
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(2,885,355)	(1,698,189)	(4,583,544)
OTHER FINANCING SOURCES (USES):			
Debt proceeds including $13,695 premium	2,258,695		2,258,695
Operating transfer in	7,192,497	1,487,799	8,680,296
Operating transfer out	(5,990,748)	(2,689,548)	(8,680,296)
TOTAL OTHER FINANCING SOURCES (USES)	3,460,444	(1,201,749)	2,258,695
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	575,089	(2,899,938)	(2,324,849)
BALANCE - BEGINNING OF YEAR	14,096,453	11,729,046	25,825,499
BALANCE - END OF YEAR	$14,671,542	$ 8,829,108	$23,500,650

Schedule 7

Budget		Final to Actual
Original	Final	Variance
$ 4,909,604	$ 4,909,604	$ 20,775
442,065	477,065	(34,329)
1,955,398	2,482,510	(136,585)
48,100	48,100	10,559
101,500	196,200	285,825
4,351,207	4,739,030	(1,875,094)
6,570,316	6,703,516	(283,630)
123,563	166,563	23,655
957,088	983,588	136,653
19,458,841	20,706,176	(1,852,171)
2,844,431	2,903,931	275,189
1,561,336	1,601,336	112,597
1,563,205	1,652,505	226,333
1,248,949	2,101,545	385,207
2,180,952	2,209,952	326,790
1,194,815	2,544,815	(146,983)
3,729,000	6,258,094	3,126,969
15,119,873	17,309,423	8,837,950
29,442,561	36,581,601	13,144,052
(9,983,720)	(15,875,425)	11,291,881
9,500,000	11,725,000	(9,466,305)
6,934,756	6,934,756	1,745,540
(6,934,756)	(6,934,756)	(1,745,540)
9,500,000	11,725,000	(9,466,305)
(483,720)	(4,150,425)	1,825,576
27,846,502	27,846,502	(2,021,003)
$27,362,782	$23,696,077	$ (195,427)

CITY OF SPENCER
NOTES TO SCHEDULE 7 - BUDGETARY REPORTING
FOR THE YEAR ENDED JUNE 30, 2013

The budgetary comparison is presented 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 City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Fund, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by $7,139,040. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the debt service function.

CITY OF SPENCER
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST SEVEN YEARS

	2013	2012	2011	2010
RECEIPTS:				
Property taxes	$ 4,930,379	$ 4,664,393	$4,474,342	$ 4,419,065
Tax increment financing revenues	442,736	685,113	708,215	730,804
Other city taxes	2,345,925	2,193,063	2,069,431	1,620,843
Licenses and permits	58,659	53,417	49,076	61,752
Use of money and property	160,088	216,400	299,985	366,406
Intergovernmental	2,670,257	2,096,682	2,627,643	2,789,625
Charges for services	278,030	314,719	277,177	304,060
Special assessments	190,218	240,557	283,385	493,349
Miscellaneous	1,004,429	1,275,826	2,320,639	2,270,949
TOTAL RECEIPTS	$12,080,721	$11,740,170	$13,109,893	$13,056,853
DISBURSEMENTS:				
Public safety	$ 2,628,742	$ 2,549,797	$ 2,343,685	$ 2,285,294
Public works	1,488,739	1,194,773	1,249,718	1,420,977
Culture and recreation	1,426,172	1,430,033	1,415,736	1,425,791
Community and economic development	1,716,338	1,964,859	2,384,116	2,289,495
General government	1,883,162	2,073,102	2,065,131	1,478,420
Debt service	2,691,798	3,193,101	2,106,313	2,584,260
Capital projects	3,131,125	662,897	3,299,247	5,828,337
TOTAL DISBURSEMENTS	$14,966,076	$13,068,562	$14,863,946	$17,312,574

Schedule 8

2009	2008	2007
$ 4,240,304	$ 4,019,998	$ 3,952,695
706,603	527,404	394,841
1,879,749	2,201,724	1,405,882
53,830	67,745	570,987
479,729	474,723	585,348
2,073,283	2,004,270	2,351,703
311,873	882,840	867,074
236,308	310,385	487,153
2,007,211	830,300	925,570
$11,988,890	$11,319,389	$11,541,253
$ 2,461,524	$ 2,175,503	$ 2,162,810
1,459,165	1,523,922	1,389,023
1,369,796	1,656,305	1,833,548
2,776,842	1,578,325	2,239,552
1,465,448	1,409,325	1,693,350
1,485,111	1,413,780	4,899,641
1,820,672	1,630,181	2,589,128
$12,838,558	$11,387,341	$16,807,052

Schedule 9

CITY OF SPENCER
TAXABLE AND ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN YEARS

Payable Year	Real Property Taxable Value	Real Property Assessed Value	Utilities Taxable Value	Utilities Assessed Value	Total Taxable Value	Total Assessed Value
2003-04	$316,918,800	$477,395,455	$2,426,076	$2,483,465	$319,344,876	$479,878,920
2004-05	317,886,216	491,790,397	2,590,188	2,426,076	320,476,404	494,216,473
2005-06	320,172,089	461,972,302	2,544,562	2,565,631	322,716,651	464,537,933
2006-07	333,287,512	557,257,067	2,843,717	2,619,711	336,131,229	559,876,778
2007-08	349,624,211	561,803,499	2,260,676	2,930,865	351,884,887	564,734,364
2008-09	354,156,680	598,779,919	2,434,206	2,831,174	356,590,886	601,611,093
2009-10	369,955,950	614,883,975	2,423,771	4,181,187	372,379,721	619,065,162
2010-11	376,448,740	618,121,056	2,120,021	4,979,517	378,568,761	623,100,573
2011-12	387,681,728	624,496,525	4,742,729	9,461,423	392,424,457	633,957,948
2012-13	408,051,910	637,183,057	4,343,795	9,473,493	412,395,705	646,656,550

Fiscal Year	Ratio of Total Taxable Value to Total Assessed Value
2004	66.5
2005	64.8
2006	69.5
2007	60.0
2008	62.3
2009	59.3
2010	60.2
2011	60.8
2012	61.9
2013	63.8

NOTE: Taxable Value does not include the Tax Increment Levy.

CITY OF SPENCER
PROPERTY TAX RATES AND DEBT
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN YEARS
PER $1,000 ASSESSED VALUATION

Fiscal Year	City	School District	County Consolidated	Vocational School	Total
2004	11.02005	12.43699	5.32886	0.73807	29.52397
2005	11.09976	13.40352	5.73764	0.71942	30.96034
2006	11.37501	14.30408	6.32206	0.77966	32.78081
2007	11.65737	13.96943	6.22273	0.83196	32.68149
2008	11.65137	13.96983	6.12751	0.73979	32.4885
2009	11.72583	14.59188	6.46980	0.75850	33.54601
2010	11.71943	14.59187	6.42130	0.77796	33.51056
2011	11.71683	14.59046	6.38216	0.78134	33.47079
2012	11.84324	14.59709	6.36360	0.76886	33.57279
2013	11.83301	14.59935	6.36986	0.76795	33.57017

Name of Governmental Unit	Net Bonded Debt Outstanding	Percentage Applicable To This Governmental Unit
City of Spencer, Iowa	$6,224,518	100%
Clay County	Not available	N/A
Spencer Community School District	Not available	N/A

Schedule 11

CITY OF SPENCER
PRINCIPAL TAXPAYERS
JUNE 30, 2013

Taxpayer	Type of Business	Assessed Valuation	Percentage of Total Assessed Valuation
Menard, Inc.	Retail	$ 9,328,531	1.44%
Sequoia Investments I, LLC	Mall	6,186,506	.96
Wal-Mart	Retail	6,106,201	.94
Spencer RP Realty, LLP	Commercial Property	5,432,632	.84
Shine Brothers Corporation	Manufacturing	4,817,057	.74
Hy-Vee, Inc.	Retail	4,241,066	.66
St. Luke Lutheran Home, Inc.	Assisted living	3,789,327	.59
Black Hills/Iowa Gas Utility Co. LLC	Utilities	3,453,531	.53
Lake Mills Investors, Ltd	Doctors' office	3,289,803	.51
Jacobsen Homes Corporation	Real Estate	2,972,679	.46

Source:
Clay County Auditor

Schedule 12

CITY OF SPENCER
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2013

Total Assessed Value (including Tax Increment Levy)		$658,174,991
Debt Limit (5% of total assessed value)		$ 32,908,750
Amount of debt applicable to debt limit	$6,743,430	
Less assets in Debt Service Fund available for payment of principal	518,912	
Total debt applicable to debt limit		6,224,518
LEGAL DEBT MARGIN		$ 26,684,232

Schedule 13

CITY OF SPENCER
RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN YEARS

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2004	11,317	$479,878,920	$8,330,000	$614,421	$7,715,579	1.61	682
2005	11,317	494,216,473	9,210,000	587,063	8,622,937	1.74	762
2006	11,317	464,537,933	8,220,000	843,866	7,376,134	1.59	652
2007	11,317	559,876,778	8,535,000	598,201	7,936,799	1.42	701
2008	11,317	564,734,364	7,990,000	710,378	7,279,622	1.29	643
2009	11,317	601,611,093	8,945,000	348,205	8,596,795	1.43	760
2010	11,317	619,065,162	9,416,245	322,569	9,093,676	1.47	804
2011	11,233	623,100,573	8,321,430	452,182	7,869,248	1.26	701
2012	11,233	633,957,948	6,972,430	635,990	6,336,440	1.00	564
2013	11,233	646,656,550	6,743,430	518,912	6,224,518	.96	554

Schedule 14

CITY OF SPENCER
RATIO OF ANNUAL DEBT SERVICE DISBURSEMENTS FOR GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL DISBURSEMENTS
LAST SIX YEARS

Fiscal Year	Principal	Interest	Total Debt Service	Total General Disbursements	Ratio of Debt Service to General Disbursements
2008	$1,015,000	$420,888	$1,435,888	$ 9,753,940	14.7
2009	1,145,000	347,330	1,492,330	11,015,597	13.5
2010	2,290,000	338,067	2,628,067	9,961,936	26.4
2011	1,763,645	324,280	2,087,925	11,562,830	18.1
2012	2,874,000	228,075	3,102,075	12,404,093	25.0
2013	2,159,000	171,909	2,330,909	11,833,922	19.7

General disbursements include general, special revenue, and debt service funds.

CITY OF SPENCER
PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN YEARS

Calendar Year	Commercial Construction[1] Units	Commercial Construction[1] Value	Residential Construction[1] Units	Residential Construction[1] Value	As of June 30,	Bank Deposits[2]	Assessed Property Value[3]
2003	38	$ 4,786,168	168	$6,172,450	2004	$352,891,000	$479,878,920
2004	11	1,268,456	39	5,628,400	2005	390,521,000	494,216,473
2005	11	5,042,500	22	4,063,350	2006	419,848,000	464,537,933
2006	11	5,240,000	24	3,659,000	2007	446,865,000	559,876,778
2007	10	3,795,000	14	2,596,000	2008	480,373,000	564,734,364
2008	5	231,000	13	2,842,000	2009	475,472,000	601,611,093
2009	4	94,200	13	2,645,000	2010	501,443,000	619,065,162
2010	11	3,173,000	9	2,096,000	2011	524,129,000	623,100,573
2011	5	462,000	4	815,000	2012	553,995,000	633,957,948
2012	6	647,500	32	4,771,000	2013	565,274,000	646,656,550

Source:
[1] City Building Inspector
[2] FDIC
[3] Clay County Auditor

CITY OF SPENCER
MISCELLANEOUS STATISTICS
JUNE 30, 2013

Date of Incorporation	1880
Form of Government	Mayor/Council
Total Number of Employees (all departments)	185
Area in Square Miles	10.98
City of Spencer, Iowa, Facilities and Services:	
Miles of streets	98.7
Culture and Recreation:	
City parks	15
Golf courses	2
Swimming pools	1
Fire Protection:	
Number of stations	1
Number of fire personnel and officers	27
Police Protection:	
Number of stations	1
Number of police personnel and officers	29
Number of law violations:	
Physical arrests and citations	2,705
Sewerage System:	
Number of treatment plants	1
Daily average treatment in gallons	2,000,000
Maximum daily capacity of treatment plant in gallons	10,000,000
Water System:	
Elevated storage capacity	1,500,000
Capacity of water plant	2,100,000
Daily average consumption in gallons	1,440,000
Hospitals:	
Number of hospitals	1
Number of patient beds	91
Number of medical personnel in County (MD, DO, DC, DDS)	51

CITY OF SPENCER
DEMOGRAPHIC STATISTICS
LAST TEN YEARS

Fiscal Year	Population	School Enrollment	Unemployment Rate %
2004	11,317	2,120	4.1
2005	11,317	2,057	4.2
2006	11,317	2,058	3.3
2007	11,317	2,058	3.1
2008	11,317	2,097	3.1
2009	11,317	1,987	6.2
2010	11,317	1,905	6.5
2011	11,233	1,946	5.4
2012	11,233	1,946	5.2
2013	11,233	2,033	4.2

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INDEPENDENT AUDITORS' 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*

The Honorable Mayor and
Members of the City Council
City of Spencer
Spencer, IA 51301

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Spencer, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the basic financial statements of the City's primary government, and have issued our report thereon dated January 8, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control 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 and correct 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be a material weakness.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance 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 City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. 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.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City 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.

Winther, Stave & Co., LLP

January 8, 2014

WINTHER, STAVE & CO., LLP
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor and
Members of the City Council
City of Spencer
Spencer, IA 51301

Report on Compliance for The Major Federal Program

We have audited the City of Spencer, Iowa's compliance 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 the City's major federal program for the year ended June 30, 2013. The City's major federal program is identified in Part I of the accompanying Schedule of Finding and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, 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 noncompliance 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 the City'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on The Major Federal Program

In our opinion, the city complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

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Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Winther, Starr & Co., LLP

January 8, 2014

CITY OF SPENCER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Part I: Summary of the Independent Auditors' Results:

a. Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

b. A significant deficiency 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. No material weakness in internal control over the major program was disclosed by the audit of the financial statements.

e. An unmodified opinion was issued on compliance with requirements applicable to the major program.

f. The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

g. The major program was CFDA Number 14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.

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

i. The City of Spencer did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Internal Control Deficiency:

II-A-13 Unposted Receipts - We noted that cash and checks are not always posted to the system and put in the cash drawer as received. The unposted items are kept in a cash box until posted. The cash box is at times left unattended.

Recommendation - We recommend that all receipts be posted when received and the cash box be eliminated.

Response - We will follow this recommendation.

Conclusion - Response accepted.

Instances of Non-Compliance:

No findings were noted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No findings were noted.

Reportable Conditions:

No material weaknesses in internal control over the major program were reported.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The City will make an effort to amend the budget before disbursements are exceeded, if applicable in the future.

Conclusion - Response accepted.

IV-B-13 Questionable Disbursements - No expenditures that did not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.

IV-C-13 Travel Expense - No expenditures of the City for travel expenses of spouses of City officials or employees were noted.

IV-D-13 Business Transactions - The City purchased supplies totaling $880 from Audio Video Connection, a business owned by Council Member Randy Swanson. The transactions do not appear to represent a conflict of interest since total transactions were less than $1,500 during the fiscal year.

IV-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

IV-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-13 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

IV-H-13 Revenue Notes - No instances of noncompliance with the revenue bond and note resolutions were noted.

IV-I-13 Financial Assurance - As of June 30, 2013, the City has demonstrated financial assurance for closure and postclosure care by establishing a local government dedicated fund as provided in Chapter 567.113.14(6) of the Iowa Administrative Code.

Part IV: Other Findings Related to Required Statutory Reporting - Continued

IV-J-13 Urban Renewal Annual Report - The urban renewal annual report for the fiscal year ended June 30, 2012 was approved and certified to the Iowa Department of Management on or before December 1, 2012. However, the amount reported by the City as TIF debt outstanding was overstated by $132,465. An internal loan was reported as $314,464. The actual amount of the loan was $181,999.

Recommendation - The City should ensure the debt amounts reported on the Levy Authority summary agree with the City's records.

Response - This item will be corrected on next year's report.

Conclusion - Response accepted.