

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

JUNE 30, 2013

TABLE OF CONTENTS

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-5
Management Discussion and Analysis (MD&A)		7-16
Basic Financial Statements:	<u>Exhibit</u>	
<i>Government-wide Financial Statements:</i>		
Statement of Net Position	A	18
Statement of Activities	B	19
<i>Governmental Fund Financial Statements:</i>		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
<i>Proprietary Fund Financial Statements:</i>		
Statement of Net Position	G	24
Statement of Revenues, Expenses and Changes in Fund Net Position	H	25
Statement of Cash Flows	I	26
Notes to Financial Statements		27-39
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		42
Notes to Required Supplementary Information - Budgetary Reporting		43
Schedule of Funding Progress for the Retiree Health Plan		44
<i>Component Unit Financial Statements:</i>		
Statement of Assets, Liabilities, and Net Position - Cash Basis - Component Unit		45
Statement of Support, Revenues and Expenses and Changes in Net Position - Cash Basis - Component Unit		46
Supplementary Information:	<u>Schedule</u>	
<i>Nonmajor Governmental Funds:</i>		
Combining Balance Sheet	1	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	49
<i>Capital Projects Funds:</i>		
Combining Balance Sheet	3	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	4	51
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	52
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	6	53
Schedule of Expenditures of Federal Awards	7	54
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		55-56
Independent Auditor's Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133		57-58
Schedule of Findings and Questioned Costs		59-65

Spencer Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

Bob Whittenburg	President	2013
Bill Zinn	Vice President	2013
Kris McDermott	Board Member	2015
Marti Bomgaars	Board Member	2015
Dean Mechler	Board Member	2013

School Officials

Terry Hemann	Superintendent	2013
Sharon Slawson	Business Manager/ Board Secretary/ Treasurer (Resigned June 30, 2013)	2013
Jolynne Eilts	Business Manager/ Board Secretary/Treasurer (Appointed June 30, 2013)	2013
Steve Avery	Attorney	Indefinite

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

INDEPENDENT AUDITOR'S REPORT

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

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 Spencer Community School District, Spencer, Iowa as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 U.S. generally accepted accounting principles. 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 District'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 of the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of account 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Spencer Community School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 7 through 16, the Budgetary Comparison Information, the Schedule of Funding Progress for the Retiree Health Plan and the combining statements for the discretely presented component units on pages 42 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spencer Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, 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 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 U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2014 on our consideration of Spencer Community School District'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 Spencer Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

January 31, 2014
Newton, Iowa

SPENCER COMMUNITY
SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Spencer Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$19,912,703 in fiscal 2012 to \$20,379,910 in fiscal 2013, and General Fund expenditures increased from \$19,196,906 in fiscal 2012 to \$19,790,618 in fiscal 2013. This resulted in the District's General Fund balance increasing from \$3,071,671 at the end of fiscal 2012 to \$3,660,963 at the end of fiscal 2013, a 19.18% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and federal grant monies received in fiscal year 2013. The increase in expenditures was due primarily to an increase in instructional and support services functions. As a result of revenues being greater than expenses, the District's fund balance increased \$589,292.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Spencer Community School District as a whole and present an overall view of the District's finances.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

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

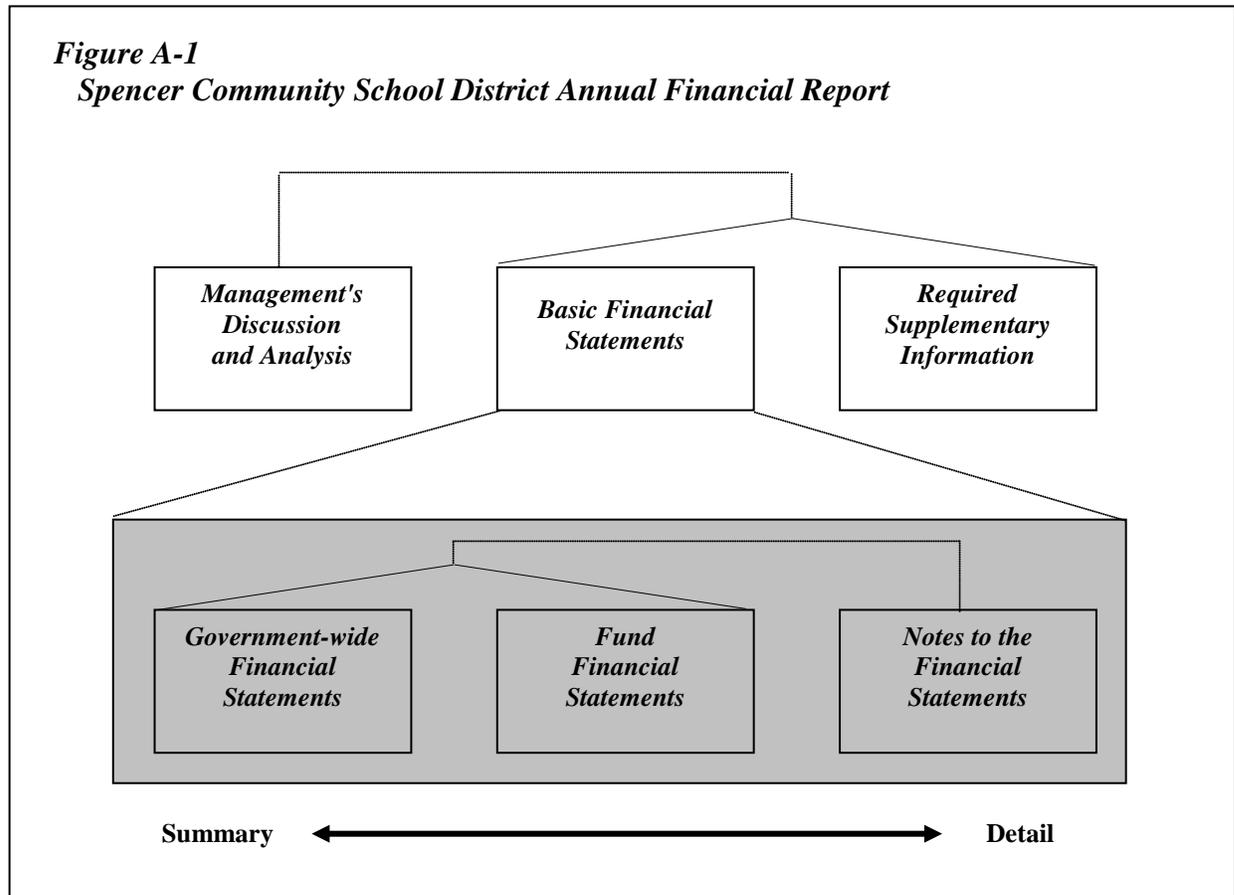


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<input type="checkbox"/> Statement of net position <input type="checkbox"/> Statement of activities	<input type="checkbox"/> Balance sheet <input type="checkbox"/> Statement of revenues, expenditures, and changes in fund balances	<input type="checkbox"/> Statement of net position <input type="checkbox"/> Statement of revenues, expenses and changes in fund net position <input type="checkbox"/> Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of Net Position includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District’s *net position* and how they have changed. Net position - the difference between the District’s assets and liabilities - is one way to measure the District’s financial position. Over time, increases or decreases in the District’s net position are an indicator of whether the financial position is improving or deteriorating, respectively. To assess the District’s overall health, you need to consider additional non-financial factors, such as changes in the District’s property tax base and the condition of school buildings and other facilities.

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

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and child care programs are included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has one internal service fund, Self-Funded Insurance Fund.

The required financial statements for proprietary funds include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2013 as compared to June 30, 2012.

Figure A-3
Condensed Statement of Net Position

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 22,549,841	21,341,586	203,822	237,751	22,753,663	21,579,337	5.44%
Capital assets	27,151,097	25,393,957	64,201	62,321	27,215,298	25,456,278	6.91%
Total assets	49,700,938	46,735,543	268,023	300,072	49,968,961	47,035,615	6.24%
Long-term obligations	13,180,839	14,109,598	20,624	15,687	13,201,463	14,125,285	-6.54%
Other liabilities	9,728,364	8,818,537	22,537	70,010	9,750,901	8,888,547	9.70%
Total liabilities	22,909,203	22,928,135	43,161	85,697	22,952,364	23,013,832	-0.27%
Net position:							
Invested in capital assets, net of related debt	17,837,936	16,311,310	64,201	62,321	17,902,137	16,373,631	9.34%
Restricted	4,387,384	3,614,432	-	-	4,387,384	3,614,432	21.39%
Unrestricted	4,566,415	3,881,666	160,661	152,054	4,727,076	4,033,720	17.19%
Total net position	\$ 26,791,735	23,807,408	224,862	214,375	27,016,597	24,021,783	12.47%

The District's combined net position increased by 12.47%, or \$2,994,814, over the prior year. The largest portion of the District's net position is investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets. The increase in the investment in capital assets is primarily due to the assets capitalized in the year being greater than the current year depreciation.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$772,952, or 21.39% over the prior year. The increase is due in part to the increase in carryover balance of the categorical funding streams and the increase in fund balance of the Capital Projects: Physical Plant and Equipment Levy Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$693,356 or 17.19%. This increase in unrestricted net position was a result of the District's increased net position in the Internal Service Fund and increase in the General Fund balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 as compared to June 30, 2012.

Figure A-4
Changes of Net Position

	Governmental		Business Type		Total		Total
	Activities		Activities				Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues:							
Program revenues:							
Charges for services	\$ 1,482,362	1,141,781	590,269	582,828	2,072,631	1,724,609	20.18%
Operating grants and contributions and restricted interest	2,174,246	1,924,031	570,162	521,121	2,744,408	2,445,152	12.24%
General revenues:							
Property tax	8,226,890	7,845,295	-	-	8,226,890	7,845,295	4.86%
Income surtax	510,857	639,154	-	-	510,857	639,154	-20.07%
Statewide sales, services and use tax	1,658,025	1,606,148	-	-	1,658,025	1,606,148	3.23%
City sales, services and use tax	495,145	451,924	-	-	495,145	451,924	9.56%
Unrestricted state grants	9,681,938	9,849,155	-	-	9,681,938	9,849,155	-1.70%
Nonspecific program federal grants	-	5,724	-	-	-	5,724	-100.00%
Unrestricted investment earnings	54,128	47,122	1,124	1,273	55,252	48,395	14.17%
Other	115,496	430,610	-	-	115,496	430,610	-73.18%
Total revenues	24,399,087	23,940,944	1,161,555	1,105,222	25,560,642	25,046,166	2.05%
Program expenses:							
Governmental activities:							
Instruction	14,852,091	14,972,235	-	-	14,852,091	14,972,235	-0.80%
Support services	4,597,833	5,130,397	26,682	21,685	4,624,515	5,152,082	-10.24%
Non-instructional programs	-	-	1,124,386	1,049,678	1,124,386	1,049,678	7.12%
Long-term debt interest	438,289	271,330	-	-	438,289	271,330	61.53%
Other expenses	1,526,547	1,121,609	-	-	1,526,547	1,121,609	36.10%
Total expenses	21,414,760	21,495,571	1,151,068	1,071,363	22,565,828	22,566,934	-0.01%
Change in net position	2,984,327	2,445,373	10,487	33,859	2,994,814	2,479,232	20.80%
Beginning net position	23,807,408	21,362,035	214,375	180,516	24,021,783	21,542,551	11.51%
Ending net position	\$ 26,791,735	23,807,408	224,862	214,375	27,016,597	24,021,783	12.47%

In fiscal 2013, property tax, income surtax, statewide sales, services and use tax, city sales, services and use tax and unrestricted state grants account for 84.32% of the governmental revenue while charges for services and operating grants and contributions account for 99.90% of the revenue from business type activities.

The District's total revenues were approximately \$25.56 million, of which approximately \$24.40 million was for governmental activities and approximately \$1.16 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.05% increase in revenues and a 0.01% decrease in expenses. The increase in revenues was due to an increase in property tax, statewide and city sales, services and use tax. The decrease in expense was related to the decrease in expenses in the support services function.

Governmental Activities

Revenues for governmental activities were \$24,399,087 and expenses were \$21,414,760.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, long-term debt interest and other expenses for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
			Change			Change
	2013	2012	2012-13	2013	2012	2012-13
Instruction	\$ 14,852,091	14,972,235	-0.80%	\$ 12,030,993	12,686,479	-5.17%
Support services	4,597,833	5,130,397	-10.38%	4,543,944	5,106,144	-11.01%
Long-term debt interest	438,289	271,330	61.53%	438,289	271,330	61.53%
Other expenses	1,526,547	1,121,609	36.10%	744,926	365,806	103.64%
Totals	<u>\$ 21,414,760</u>	<u>21,495,571</u>	<u>-0.38%</u>	<u>\$ 17,758,152</u>	<u>18,429,759</u>	<u>-3.64%</u>

- The cost financed by users of the District's programs was \$1,482,362.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,174,246.
- The net cost of governmental activities was financed with \$8,226,890 in property tax, \$510,857 in income surtax, \$1,658,025 in statewide sales, services and use tax, \$495,145 in city sales, services and use tax, \$9,681,938 in unrestricted state grants, \$54,128 in unrestricted investment earnings and \$115,496 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$1,161,555 expenses were \$1,151,068. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Spencer Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$10,890,165, below last year's ending fund balances of \$10,925,608. The primary reason for the decrease in combined fund balances in fiscal 2013 was due to the decrease in fund balances of the Capital Projects: Statewide Sales, Services and Use Tax Fund and the Debt Service Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Growth during the year in property tax resulted in an increase in revenues. The District's increase in General Fund expenditures was less than the increase in revenues, allowing the fund balance to increase from \$3,071,671 to \$3,660,963.
- The Capital Projects accounts balance decreased from a balance of \$3,634,259 at the end of fiscal year 2012 to \$2,908,006 at the end of fiscal year 2013. The significant increase in revenues was the result of an increase in statewide and city sales, services and use tax as compared to the previous year.

- The Debt Service Fund decreased from a balance of \$3,448,403 at June 30, 2012 to \$3,394,180 at June 30, 2013.

Proprietary Fund Highlights

School Nutrition Fund net position increased from \$214,375 at June 30, 2012 to \$224,862 at June 30, 2013, representing an increase of 4.89%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$283,847 less than budgeted revenues, a variance of 1.10%. The most significant variance resulted from the District receiving less in local source revenues than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures at year end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested approximately \$27.22 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents an increase of 6.91% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$1,166,032.

The original cost of the District's capital assets was approximately \$41.62 million. Governmental funds account for approximately \$41.32 million with the remainder of approximately \$0.30 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$775,591 at June 30, 2012, compared to \$2,141,797 reported at June 30, 2013. The main reason for the dramatic increase in the land improvements category is attributable to the completion of track and football field projects at the high school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	2012-13
	2013	2012	2013	2012	2013	2012	
Land	\$ 748,830	748,830	-	-	748,830	748,830	0.00%
Construction in progress	498,418	421,672	-	-	498,418	421,672	18.20%
Buildings	22,786,675	22,688,936	-	-	22,786,675	22,688,936	0.43%
Land improvements	2,141,797	775,591	-	-	2,141,797	775,591	176.15%
Machinery and equipment	975,377	758,928	64,201	62,321	1,039,578	821,249	26.58%
Total	\$ 27,151,097	25,393,957	64,201	62,321	27,215,298	25,456,278	6.91%

Long-Term Debt

At June 30, 2013, the District had \$13,201,463 in general obligation and other long-term debt outstanding. This represents a decrease of 6.54% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$5,125,000 at June 30, 2013.

The District had outstanding revenue bonds of \$5,725,000 at June 30, 2013 payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund and the City Sales, Services and Use Tax Fund.

The District had outstanding capital loan notes of \$910,000 at June 30, 2013 payable from the General Fund.

The District had termination benefits payable of \$956,499 at June 30, 2013, which will be paid primarily out of the Special Revenue, Management Levy Fund.

The District also had compensated absences payable of \$70,225 at June 30, 2013, which will be paid from the General Fund.

The District had net OPEB liability of \$414,739 at June 30, 2013. Of the OPEB liability, \$394,115 is attributable to governmental activities and \$20,624 is attributable to business type activities.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
General Obligation Bonds	\$ 5,125,000	5,310,000	-	-	5,125,000	5,310,000	-3.48%
Revenue Bonds	5,725,000	6,715,000	-	-	5,725,000	6,715,000	-14.74%
Capital Loan Notes	910,000	990,000	-	-	910,000	990,000	-8.08%
Early Retirement	956,499	748,572	-	-	956,499	748,572	27.78%
Compensated Absences	70,225	49,992	-	-	70,225	49,992	40.47%
Net OPEB Liability	394,115	296,034	20,624	15,687	414,739	311,721	33.05%
Totals	\$ 13,180,839	14,109,598	20,624	15,687	13,201,463	14,125,285	-6.54%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District continues to work with City leaders to increase economic development in hopes of drawing more families to our community. Maintaining a stable enrollment is vital to a sound financial position.
- The District will continue to seek out new revenue sources.
- The District continues to monitor and contain the costs of personnel and operating expenses, and reducing or eliminating liabilities, while still maintaining a quality education for all students in the District.
- The District is researching healthcare coverage options and costs in an effort to keep premiums low while obtaining good healthcare benefits. The Affordable Care Act has placed several requirements on the District and these costs could potentially affect the financial health of the District in the future.

- The District is constantly seeking out business partners for the District's many programs in an effort to not only enhance student learning, but to also sustain the District's financial health.
- For FY 2014, Modified Allowable Growth was set at 2%, plus a one-time additional amount of 2% supplemental state aid. Although this scenario was beneficial to the District in FY 14, it will decrease our future budgets. Modified Allowable Growth has been set at 4% for the 2014-15 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Unit *
	Governmental Activities	Business Type Activities	Total	Spencer Community School Foundation
ASSETS				
Cash and pooled investments:				
U.S. Treasury Securities on deposit with escrow agent	\$ 2,446,839	-	2,446,839	-
Other	10,443,308	156,979	10,600,287	1,490,928
Receivables:				
Property tax:				
Delinquent	74,844	-	74,844	-
Succeeding year	8,473,632	-	8,473,632	-
Income surtax	500,174	-	500,174	-
Accounts	20,723	1,180	21,903	-
Due from other funds	4,385	-	4,385	-
Due from other governments	585,936	19,001	604,937	-
Inventories	-	26,662	26,662	-
Capital assets not being depreciated:				
Land	748,830	-	748,830	-
Construction in progress	498,418	-	498,418	-
Capital assets being depreciated, net of accumulated depreciation:				
Buildings	22,786,675	-	22,786,675	-
Land improvements	2,141,797	-	2,141,797	-
Machinery and equipment	975,377	64,201	1,039,578	-
TOTAL ASSETS	49,700,938	268,023	49,968,961	1,490,928
LIABILITIES				
Due to other funds	-	4,385	4,385	-
Accounts payable	1,241,681	-	1,241,681	-
Benefits payable	-	-	-	1,104
Interest payable	13,051	-	13,051	-
Deferred revenue:				
Succeeding year property tax	8,473,632	-	8,473,632	-
Unearned revenue	-	18,152	18,152	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	190,000	-	190,000	-
Revenue bonds payable	1,005,000	-	1,005,000	-
Capital loan notes payable	85,000	-	85,000	-
Termination benefits payable	242,007	-	242,007	-
Compensated absences payable	70,225	-	70,225	-
Portion due after one year:				
General obligation bonds payable	4,935,000	-	4,935,000	-
Revenue bonds payable	4,720,000	-	4,720,000	-
Capital loan notes payable	825,000	-	825,000	-
Termination benefits payable	714,492	-	714,492	-
Net OPEB liability	394,115	20,624	414,739	-
TOTAL LIABILITIES	22,909,203	43,161	22,952,364	1,104
NET POSITION				
Invested in capital assets, net of related debt	17,837,936	64,201	17,902,137	-
Restricted for:				
Categorical funding	383,463	-	383,463	-
Debt service	934,290	-	934,290	-
Student activities	161,625	-	161,625	-
School infrastructure	2,231,776	-	2,231,776	-
Physical plant and equipment	676,230	-	676,230	-
Unassigned	4,566,415	160,661	4,727,076	1,489,824
TOTAL NET POSITION	\$ 26,791,735	224,862	27,016,597	1,489,824

* The component unit year end is December 31, 2012.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

**SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit ** Spencer Community School Foundation
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Primary Government		Total	
				Governmental Activities	Business Type Activities		
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 8,352,130	704,965	118,679	(7,528,486)	-	(7,528,486)	-
Special	3,409,190	278,661	543,156	(2,587,373)	-	(2,587,373)	-
Other	3,090,771	454,014	721,623	(1,915,134)	-	(1,915,134)	-
	<u>14,852,091</u>	<u>1,437,640</u>	<u>1,383,458</u>	<u>(12,030,993)</u>	<u>-</u>	<u>(12,030,993)</u>	<u>-</u>
Support services:							
Student	124,117	10,863	-	(113,254)	-	(113,254)	-
Instructional staff	269,270	3,541	-	(265,729)	-	(265,729)	-
Administration	2,120,933	-	-	(2,120,933)	-	(2,120,933)	-
Operation and maintenance of plant	1,452,120	-	-	(1,452,120)	-	(1,452,120)	-
Transportation	631,393	30,318	9,167	(591,908)	-	(591,908)	-
	<u>4,597,833</u>	<u>44,722</u>	<u>9,167</u>	<u>(4,543,944)</u>	<u>-</u>	<u>(4,543,944)</u>	<u>-</u>
Long-term debt interest	438,289	-	-	(438,289)	-	(438,289)	-
Other expenditures:							
AEA flowthrough	781,621	-	781,621	-	-	-	-
Depreciation(unallocated)*	744,926	-	-	(744,926)	-	(744,926)	-
	<u>1,526,547</u>	<u>-</u>	<u>781,621</u>	<u>(744,926)</u>	<u>-</u>	<u>(744,926)</u>	<u>-</u>
Total governmental activities	<u>21,414,760</u>	<u>1,482,362</u>	<u>2,174,246</u>	<u>(17,758,152)</u>	<u>-</u>	<u>(17,758,152)</u>	<u>-</u>
Business type activities:							
Support services:							
Administration	4,876	-	-	-	(4,876)	(4,876)	-
Operation and maintenance of plant	21,806	-	-	-	(21,806)	(21,806)	-
Non-instructional programs:							
Food service operations	1,124,386	590,269	570,162	-	36,045	36,045	-
Total business type activities	<u>1,151,068</u>	<u>590,269</u>	<u>570,162</u>	<u>-</u>	<u>9,363</u>	<u>9,363</u>	<u>-</u>
Total primary government	<u>\$ 22,565,828</u>	<u>2,072,631</u>	<u>2,744,408</u>	<u>(17,758,152)</u>	<u>9,363</u>	<u>(17,748,789)</u>	<u>-</u>
Total component unit	<u>\$ 122,100</u>	<u>-</u>	<u>97,211</u>				<u>(24,889)</u>
General Revenues:							
Property tax levied for:							
General purposes				\$ 7,338,112	-	7,338,112	-
Debt service				311,683	-	311,683	-
Capital outlay				577,095	-	577,095	-
Income surtax				510,857	-	510,857	-
Statewide sales, services and use tax				1,658,025	-	1,658,025	-
City sales, services and use tax				495,145	-	495,145	-
Unrestricted state grants				9,681,938	-	9,681,938	-
Unrestricted investment earnings				54,128	1,124	55,252	34,845
Gain on sale of assets/investments				-	-	-	12,258
Other general revenues				115,496	-	115,496	417
Total general revenues				<u>20,742,479</u>	<u>1,124</u>	<u>20,743,603</u>	<u>47,520</u>
Change in net position				2,984,327	10,487	2,994,814	22,631
Net position beginning of year				<u>23,807,408</u>	<u>214,375</u>	<u>24,021,783</u>	<u>1,467,193</u>
Net position end of year				<u>\$ 26,791,735</u>	<u>224,862</u>	<u>27,016,597</u>	<u>1,489,824</u>

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

** The component unit year end is December 31, 2012.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments:					
U.S. Treasury Securities on deposit with escrow agent	\$ -	-	2,446,839	-	2,446,839
Other	3,556,016	2,470,820	2,045,652	926,631	8,999,119
Receivables:					
Property tax					
Delinquent	61,422	5,163	2,788	5,471	74,844
Succeeding year	6,971,134	593,255	309,240	600,003	8,473,632
Income surtax	500,174	-	-	-	500,174
Accounts	20,257	-	-	466	20,723
Due from other funds	6,554	194,504	-	-	201,058
Due from other governments	323,381	262,519	12	24	585,936
TOTAL ASSETS	\$ 11,438,938	3,526,261	4,804,531	1,532,595	21,302,325
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	\$ 194,504	-	-	2,169	196,673
Accounts payable	112,163	25,000	1,101,111	3,407	1,241,681
Deferred revenue:					
Succeeding year property tax	6,971,134	593,255	309,240	600,003	8,473,632
Income surtax	500,174	-	-	-	500,174
Total liabilities	7,777,975	618,255	1,410,351	605,579	10,412,160
Fund balances:					
Restricted for:					
Categorical funding	383,463	-	-	-	383,463
Debt service	-	-	3,394,180	-	3,394,180
Management levy purposes	-	-	-	765,391	765,391
Student activities	-	-	-	161,625	161,625
School infrastructure	-	2,231,776	-	-	2,231,776
Physical plant and equipment	-	676,230	-	-	676,230
Unassigned	3,277,500	-	-	-	3,277,500
Total fund balances	3,660,963	2,908,006	3,394,180	927,016	10,890,165
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,438,938	3,526,261	4,804,531	1,532,595	21,302,325

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances of governmental funds(page 20)	\$	10,890,165
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		27,151,097
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(13,051)
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		1,444,189
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		500,174
Long-term liabilities, including bonds payable, capital loan notes payable, termination benefits payable, compensated absences payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(13,180,839)</u>
Net position of governmental activities(page 18)	\$	<u><u>26,791,735</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 7,322,681	2,235,120	311,683	599,623	10,469,107
Tuition	866,901	-	-	-	866,901
Other	337,370	3,072	19,420	455,466	815,328
Intermediate sources	-	495,145	-	-	495,145
State sources	10,895,813	349	188	368	10,896,718
Federal sources	929,223	-	-	-	929,223
Total revenues	<u>20,351,988</u>	<u>2,733,686</u>	<u>331,291</u>	<u>1,055,457</u>	<u>24,472,422</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	8,223,815	185,305	-	303,914	8,713,034
Special	3,465,784	-	-	-	3,465,784
Other	2,712,169	-	-	418,055	3,130,224
	<u>14,401,768</u>	<u>185,305</u>	<u>-</u>	<u>721,969</u>	<u>15,309,042</u>
Support services:					
Student	121,425	-	-	4,131	125,556
Instructional staff	270,945	-	-	2,419	273,364
Administration	2,099,232	-	-	13,372	2,112,604
Operation and maintenance of plant	1,523,000	20,675	-	116,099	1,659,774
Transportation	470,104	190,311	-	41,726	702,141
	<u>4,484,706</u>	<u>210,986</u>	<u>-</u>	<u>177,747</u>	<u>4,873,439</u>
Capital outlay	-	2,100,276	-	-	2,100,276
Long-term debt:					
Principal	-	-	1,255,000	-	1,255,000
Interest and fiscal charges	-	-	435,771	-	435,771
	<u>-</u>	<u>-</u>	<u>1,690,771</u>	<u>-</u>	<u>1,690,771</u>
Other expenditures:					
AEA flowthrough	781,621	-	-	-	781,621
Total expenditures	<u>19,668,095</u>	<u>2,496,567</u>	<u>1,690,771</u>	<u>899,716</u>	<u>24,755,149</u>
Excess(Deficiency) of revenues over(under) expenditures	683,893	237,119	(1,359,480)	155,741	(282,727)
Other financing sources(uses):					
Transfer in	-	-	1,305,257	-	1,305,257
Transfer out	(122,523)	(1,182,734)	-	-	(1,305,257)
Insurance proceeds	27,922	219,362	-	-	247,284
Total other financing sources(uses)	<u>(94,601)</u>	<u>(963,372)</u>	<u>1,305,257</u>	<u>-</u>	<u>247,284</u>
Change in fund balances	589,292	(726,253)	(54,223)	155,741	(35,443)
Fund balances beginning of year	<u>3,071,671</u>	<u>3,634,259</u>	<u>3,448,403</u>	<u>771,275</u>	<u>10,925,608</u>
Fund balances end of year	<u>\$ 3,660,963</u>	<u>2,908,006</u>	<u>3,394,180</u>	<u>927,016</u>	<u>10,890,165</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2013

Change in fund balances - total governmental funds(page 22)	\$	(35,443)
 <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense, and loss on disposal of capital assets in the year are as follows:		
Capital outlays	\$ 2,912,875	
Depreciation expense	(1,155,006)	
Loss on disposal of capital assets	<u>(729)</u>	1,757,140
 Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
		1,255,000
 Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		(2,518)
 The change in the Internal Service Funds is charged back against expenditures made for self-funded insurance at an entity-wide basis.		
		409,724
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		
		(73,335)
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Termination benefits	(207,927)	
Compensated absences	(20,233)	
Other postemployment benefits	<u>(98,081)</u>	<u>(326,241)</u>
 Change in net position of governmental activities(page 19)	 \$	 <u><u>2,984,327</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Self-Funded Insurance
ASSETS		
Current assets:		
Cash and pooled investments	\$ 156,979	1,444,189
Accounts receivable	1,180	-
Due from other governments	19,001	-
Inventories	26,662	-
Total current assets	<u>203,822</u>	<u>1,444,189</u>
Non-current assets:		
Capital assets:		
Machinery and equipment, net of accumulated depreciation	64,201	-
TOTAL ASSETS	<u>268,023</u>	<u>1,444,189</u>
LIABILITIES		
Current liabilities:		
Due to other funds	4,385	-
Unearned revenue	18,152	-
Total current liabilities	<u>22,537</u>	<u>-</u>
Long-term liabilities:		
Net OPEB liability	20,624	-
TOTAL LIABILITIES	<u>43,161</u>	<u>-</u>
NET POSITION		
Invested in capital assets	64,201	-
Unrestricted	160,661	1,444,189
TOTAL NET POSITION	<u>\$ 224,862</u>	<u>1,444,189</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	Business Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund Self-Funded Insurance
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 590,269	-
Miscellaneous	-	2,557,658
TOTAL OPERATING REVENUES	590,269	2,557,658
OPERATING EXPENSES:		
Instruction:		
Regular:		
Benefits	-	5,070
Total instruction	-	5,070
Support services:		
Administration:		
Services	4,876	2,147,884
Operation and maintenance of plant:		
Services	5,364	-
Supplies	16,442	-
Total support services	26,682	2,147,884
Non-instructional programs:		
Food service operations:		
Salaries	436,827	-
Benefits	174,844	-
Services	3,500	-
Supplies	498,189	-
Depreciation	11,026	-
Total non-instructional programs	1,124,386	-
TOTAL OPERATING EXPENSES	1,151,068	2,152,954
OPERATING INCOME(LOSS)	(560,799)	404,704
NON-OPERATING REVENUES:		
State sources	8,376	-
Federal sources	561,786	-
Interest on investments	1,124	5,020
TOTAL NON-OPERATING REVENUES	571,286	5,020
Increase in net position	10,487	409,724
Net position beginning of year	214,375	1,034,465
Net position end of year	\$ 224,862	1,444,189

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EXHIBIT I

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2013

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Self-Funded Insurance
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 591,082	\$ -
Cash received from miscellaneous sources	-	2,557,658
Cash payments to employees for services	(606,734)	(2,152,954)
Cash payments to suppliers for goods or services	(487,882)	-
Net cash provided by(used in) operating activities	(503,534)	404,704
Cash flows from non-capital financing activities:		
State grants received	8,376	-
Federal grants received	506,460	-
Interfund borrowings(repaysments)	(48,383)	-
Net cash provided by non-capital financing activities	466,453	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(12,906)	-
Cash flows from investing activities:		
Interest on investments	1,124	5,020
Net increase(decrease) in cash and cash equivalents	(48,863)	409,724
Cash and cash equivalents at beginning of year	205,842	1,034,465
Cash and cash equivalents at end of year	\$ 156,979	\$ 1,444,189
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (560,799)	\$ 404,704
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities used	46,107	-
Depreciation	11,026	-
Increase in inventories	(5,438)	-
Increase in accounts receivable	(1,180)	-
Decrease in accounts payable	(180)	-
Increase in unearned revenue	1,993	-
Increase in other postemployment benefits	4,937	-
Net cash provided by(used in) operating activities	\$ (503,534)	\$ 404,704

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$46,107.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

The Spencer Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Spencer, Iowa, and the predominate agricultural territory in Clay County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

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

The Statement of Net Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

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

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

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

The District also reports the following nonmajor proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

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

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

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

The District maintains its financial records on an accrual basis.

D. Cash, Pooled Investments and Cash Equivalents

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

For purpose of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

E. Property Taxes

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

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recorded as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

F. Inventories

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

G. Capital Assets

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

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

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

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

H. Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenues consist of unspent federal grant proceeds, succeeding year property tax receivable, and other receivables not collected within sixty days after year end.

I. Unearned Revenues

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

J. Compensated Absences

District employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Compensated absences are reported in governmental funds only if they have matured. The cost of vacation payments expected to be liquidated currently is recorded as a long-term liability on the Statement of Net Position and will be paid in the future out of the General Fund. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The full balance is shown as due within a year using first-in, first-out basis.

K. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

L. Fund Balances - In the governmental fund financial statements, fund balances are classified as follows:

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

Unassigned - All amounts not included in other spendable classifications.

M. Restricted Net Position

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

N. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, District expenditures in the other expenditures functional area exceeded the budgeted amount.

Note 2. Cash and Pooled Investments

The District's deposits at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations which are valued at an amortized cost of \$5,143 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust was rated AAAM by Standard and Poor's Financial Services.

At June 30, 2013 the District had investments in U.S. Treasury Securities which are stated at the fair value of \$2,446,839. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
General	Student Activity	\$ 2,169
General	School Nutrition	4,385
Capital Projects: Statewide Sales, Services and Use Tax	General	194,504
Total		<u>\$ 201,058</u>

The Student Activity Fund is repaying the General Fund for salaries and benefits paid and not transferred during the year.

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

In the fiscal year 2011, the District had an Agency account that contained the reorganization settlement proceeds from the closing of the South Clay Community School District. The proceeds were received to the General Fund and not properly distributed to the correct fund during the years ended June 30, 2012 or June 30, 2013. The amount listed above is what the General Fund is repaying the Capital Projects: Statewide Sales, Services and Use Tax Fund for the reorganizational settlement.

Note 4. Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 939,866
Debt Service	Capital Projects: City Sales, Services and Use Tax	242,868
Debt Service	General	122,523
Total		<u>\$ 1,305,257</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for principal and interest payments on the District's revenue bond indebtedness.

The transfer from the Capital Projects: City Sales, Services and Use Tax Fund to the Debt Service Fund was needed for the City of Spencer's pledged amount for principal and interest payments on the District's revenue bond indebtedness.

The transfer from the General Fund to the Debt Service Fund was needed for principal and interest payments on the District's Capital Loan Note indebtedness.

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2013 was the following:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 748,830	-	-	748,830
Construction in progress	421,672	2,254,994	2,178,248	498,418
Total capital assets not being depreciated	<u>1,170,502</u>	<u>2,254,994</u>	<u>2,178,248</u>	<u>1,247,248</u>
Capital assets being depreciated:				
Buildings	30,081,827	705,995	-	30,787,822
Land improvements	1,427,619	1,502,876	-	2,930,495
Machinery and equipment	5,898,249	627,258	168,899	6,356,608
Total capital assets being depreciated	<u>37,407,695</u>	<u>2,836,129</u>	<u>168,899</u>	<u>40,074,925</u>
Less accumulated depreciation for:				
Buildings	7,392,891	608,256	-	8,001,147
Land improvements	652,028	136,670	-	788,698
Machinery and equipment	5,139,321	410,080	168,170	5,381,231
Total accumulated depreciation	<u>13,184,240</u>	<u>1,155,006</u>	<u>168,170</u>	<u>14,171,076</u>
Total capital assets being depreciated, net	<u>24,223,455</u>	<u>1,681,123</u>	<u>729</u>	<u>25,903,849</u>
Governmental activities capital assets, net	<u>\$ 25,393,957</u>	<u>3,936,117</u>	<u>2,178,977</u>	<u>27,151,097</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 280,649	12,906	-	293,555
Less accumulated depreciation	218,328	11,026	-	229,354
Business type activities capital assets, net	<u>\$ 62,321</u>	<u>1,880</u>	<u>-</u>	<u>64,201</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 215,863
Special		6,504
Other		15,885
Support services:		
Administration		48,454
Operation and maintenance of plant		26,998
Transportation		96,376
		<u>410,080</u>
Unallocated depreciation		<u>744,926</u>
Total governmental activities depreciation expense		<u>\$ 1,155,006</u>
Business type activities:		
Food services		<u>\$ 11,026</u>

Note 6. Long-Term Debt

A summary of changes in long-term debt for governmental type activities and business type activities for the year ended June 30, 2013 are as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 5,310,000	-	185,000	5,125,000	190,000
Revenue Bonds	6,715,000	-	990,000	5,725,000	1,005,000
Capital Loan Notes	990,000	-	80,000	910,000	85,000
Termination Benefits	748,572	399,335	191,408	956,499	242,007
Compensated Absences	49,992	70,225	49,992	70,225	70,225
Net OPEB Liability	296,034	98,081	-	394,115	-
Total	\$ 14,109,598	567,641	1,496,400	13,180,839	1,592,232
<u>Business Type Activities:</u>					
Net OPEB Liability	\$ 15,687	4,937	-	20,624	-

General Obligation Bonds Payable

On May 22, 2012, the District issued \$2,520,000 of general obligation refunding bonds, with interest rates ranging from 1.00% to 2.00%, for a crossover refunding of a portion of the general obligation bonds issued July 1, 2004. The District entered into an escrow agreement whereby the proceeds from the general obligation refunding bonds were converted into U.S. Treasury Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$2,415,000 principal of the refunded general obligation bonds when they become callable on June 1, 2014 and the interest from May 22, 2012 to and including June 1, 2014 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished.

Details of the District's June 30, 2013 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			Crossover Bond Issue of May 22, 2012			Total		
	Rate	Principal	Interest	Rate	Principal	Interest	Principal	Interest	Total
2014	4.30	% \$ 190,000	118,438	1.00	% \$ -	38,175	\$ 190,000	156,613	346,613
2015	4.30	200,000	110,267	1.00	240,000	38,175	440,000	148,442	588,442
2016	4.30	205,000	101,768	1.00	240,000	35,775	445,000	137,543	582,543
2017	4.35	215,000	92,952	1.00	245,000	33,375	460,000	126,327	586,327
2018	4.40	225,000	83,600	1.25	245,000	30,925	470,000	114,525	584,525
2019 - 2023	4.45 - 4.80	1,280,000	264,030	1.50 - 2.00	1,280,000	98,938	2,560,000	362,968	2,922,968
2024	4.90	290,000	7,105	2.00	270,000	5,400	560,000	12,505	572,505
Total		\$ 2,605,000	778,160		\$ 2,520,000	280,763	\$ 5,125,000	1,058,923	6,183,923

Revenue Bonds Payable

Details of the District's June 30, 2013 statewide/city sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of September 5, 2007			Bond issue of July 1, 2011			Total		
	Rate	Principal	Interest	Rate	Principal	Interest	Principal	Interest	Total
2014	3.65	% \$ 215,000	50,173	2.00	% \$ 790,000	145,483	1,005,000	195,656	1,200,656
2015	3.65	225,000	40,992	2.00	175,000	129,682	400,000	170,674	570,674
2016	3.65	235,000	31,385	2.00	175,000	126,183	410,000	157,568	567,568
2017	3.65	245,000	21,350	2.25	175,000	122,682	420,000	144,032	564,032
2018	3.65	255,000	10,889	2.50	185,000	118,745	440,000	129,634	569,634
2019 - 2023	-	-	-	2.90 - 3.50	1,015,000	511,135	1,015,000	511,135	1,526,135
2024 - 2028	-	-	-	3.60 - 4.10	1,175,000	323,535	1,175,000	323,535	1,498,535
2029 - 2030	-	-	-	4.15 - 4.25	860,000	49,040	860,000	49,040	909,040
Total		\$ 1,175,000	154,789		\$ 4,550,000	1,526,485	\$ 5,725,000	1,681,274	7,406,274

The District has pledged future statewide/city sales, services and use tax revenues to repay the \$5,725,000 of revenue bonds outstanding at June 30, 2013. The bonds are payable solely from the proceeds of the statewide/city sales and services tax revenues received by the District in accordance with Chapter 423E of the Code of Iowa and are payable through 2030. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitations of the District. The total principal and interest remaining to be paid is \$7,406,274. For the current year \$990,000 in principal and \$220,222 in interest was paid on the bonds and total statewide/city sales, services and use tax revenues were \$2,153,170.

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

- a) \$542,424 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available on the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide/city sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Capital Loan Notes Payable

During the year ended June 30, 2009, the District issued Energy Management Capital Loan Notes of \$1,285,000 for school infrastructure. The capital loan notes are payable from the General Fund. Details of the District’s June 30, 2013 capital loan notes indebtedness are as follows:

Year Ending June 30,	Capital Loan Note Issue of September 5, 2007			
	Rate	Principal	Interest	Total
2014	4.27 %	\$ 85,000	38,857	123,857
2015	4.27	90,000	35,228	125,228
2016	4.27	90,000	31,385	121,385
2017	4.27	95,000	27,542	122,542
2018	4.27	100,000	23,485	123,485
2019 - 2022	4.27	450,000	49,105	499,105
Total		\$ 910,000	205,602	1,115,602

Termination Benefits (Early Retirement)

The District offers a voluntary termination benefit (early retirement) plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 37.5% of their full time equivalent salary (not including extended contract and extra duty pay amounts). Benefits may be placed in a bona fide 403b plan or applied to the cost of health insurance offered through the District's group health insurance plan. Benefits for part time employees will be determined on a pro rata basis. Early retirement benefits paid during the year ended June 30, 2013, totaled \$191,408. The cost of termination benefits (early retirement) payments expected to be paid are recorded as a long-term liability of the Governmental Activities in the Government-wide financial statements.

Note 7. Other Postemployment Benefits(OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 183 active and 20 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the District’s annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District’s net OPEB obligation:

Annual required contribution	\$	325,803
Interest on net OPEB obligation		7,793
Adjustment to annual required contribution		(44,738)
Annual OPEB cost		<u>288,858</u>
Contributions made		<u>(185,840)</u>
Increase in net OPEB obligation		103,018
Net OPEB obligation beginning of year		<u>311,721</u>
Net OPEB obligation end of year	\$	<u><u>414,739</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 236,553	40.02 %	\$ 267,215
2012	149,375	48.74 %	311,721
2013	288,858	36.30 %	414,739

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$1,578,552, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,578,552. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$10,579,016, and the ratio of the UAAL to covered payroll was 14.9%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as

required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Current claim costs of the medical plan are as follows: Plan 1 single for \$771.08 per month; Plan 1 family for \$1,797.28 per month; Plan 2 single for \$704.37 per month; and Plan 2 family for \$1,654.88 per month. Post age 65 expected claims cost are assumed to equal retiree contributions. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$1,077,414, \$953,188, and \$816,783 respectively, equal to the required contributions for each year.

Note 9. Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to IGHCP for the year ended June 30, 2013 were \$1,746,940.

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

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

Spencer Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Note 10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$781,621 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 11. 28E Agreement

The District continues to participate in a Chapter 28E agreement with the City of Spencer. In accordance with the agreement, the City of Spencer will acquire, store and dispense fuel for the Spencer School District. The District pays for fuel used monthly at the most recent truck transport price plus an administrative and shrinkage fee. This agreement is reviewed annually; the most recent review was October 2012.

Note 12. Categorical Funding

The District’s ending restricted balances for categorical funding as of June 30, 2013 are broken out by the following projects:

Projects	Amount
Gifted and talented	\$ 100,260
Teacher salary supplement	81,785
Dropout and dropout prevention	29,549
Market factor	8,805
Model core curriculum	163,064
Total restricted for categorical funding	<u>\$ 383,463</u>

Note 13. Construction Commitments

As of June 30, 2013 the District has incurred costs of \$498,418 for various projects throughout the District. The projects will continue in the 2013-14 school year and will be capitalized upon completion.

Note 14. Insurance Proceeds

The insurance proceeds of \$219,362 in the Capital Projects: Physical Plant and Equipment Levy Fund is the result of fire damage that occurred to the District’s Reynolds Building in July 2012. Due to the extent of the fire damage, the building is considered to be a total loss and will be demolished in the following year.

Note 15. Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed the certified budget amounts. During the year ended June 30, 2013 expenditures in the other expenditures functional area exceeded the amount budgeted.

Note 16. Reconciliation of Governmental Fund Balances to Net Position

The following is the detailed reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position:

	Invested in Capital Assets	Management Levy	Debt Service	Unassigned/ Restricted balances
Fund balance (Exhibit C)	\$ -	765,391	3,394,180	3,277,500
Capital assets, net of accumulated depreciation	27,151,097	-	-	-
Capital loan note capitalized indebtedness	(910,000)	-	-	-
Revenue bond capitalized indebtedness	(5,725,000)	-	-	-
General obligation bond capitalized indebtedness	(2,678,161)	-	-	-
Escrow balance for crossover refunding bonds	-	-	(2,446,839)	-
Accrued interest payable	-	-	(13,051)	-
Termination benefits	-	(765,391)	-	(191,108)
Accrued compensated absences	-	-	-	(70,225)
Income surtax	-	-	-	500,174
Internal service fund balance	-	-	-	1,444,189
Net OPEB liability	-	-	-	(394,115)
Net position (Exhibit A)	<u>\$ 17,837,936</u>	<u>-</u>	<u>934,290</u>	<u>4,566,415</u>

SPENCER COMMUNITY
SCHOOL DISTRICT

Required Supplementary Information

SPENCER COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2013

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 12,151,336	591,393	12,742,729	13,053,691	13,053,691	(310,962)
Intermediate sources	495,145	-	495,145	500,000	500,000	(4,855)
State sources	10,896,718	8,376	10,905,094	11,124,341	11,124,341	(219,247)
Federal sources	929,223	561,786	1,491,009	1,239,792	1,239,792	251,217
Total revenues	24,472,422	1,161,555	25,633,977	25,917,824	25,917,824	(283,847)
Expenditures/Expenses:						
Instruction	15,309,042	-	15,309,042	15,808,281	15,808,281	499,239
Support services	4,873,439	26,682	4,900,121	6,438,121	6,438,121	1,538,000
Non-instructional programs	-	1,124,386	1,124,386	1,200,000	1,200,000	75,614
Other expenditures	4,572,668	-	4,572,668	4,301,764	4,301,764	(270,904)
Total expenditures/expenses	24,755,149	1,151,068	25,906,217	27,748,166	27,748,166	1,841,949
Excess(Deficiency) of revenues over(under) expenditures/expenses	(282,727)	10,487	(272,240)	(1,830,342)	(1,830,342)	1,558,102
Other financing sources, net	247,284	-	247,284	10,000	10,000	237,284
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(35,443)	10,487	(24,956)	(1,820,342)	(1,820,342)	1,795,386
Balance beginning of year	10,925,608	214,375	11,139,983	4,092,744	4,092,744	7,047,239
Balance end of year	\$ 10,890,165	224,862	11,115,027	2,272,402	2,272,402	8,842,625

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2013, District expenditures in the other expenditures function exceeded the budgeted amount.

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

For Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1 , 2008	\$ -	\$ 1,056,071	\$ 1,056,071	0.00%	\$ 9,605,444	11.0%
2010	July 1 , 2008	-	1,056,071	1,056,071	0.00%	9,752,360	10.8%
2011	July 1 , 2010	-	1,661,056	1,661,056	0.00%	9,481,344	17.5%
2012	July 1 , 2010	-	1,594,754	1,594,754	0.00%	9,864,477	16.2%
2013	July 1 , 2012	-	1,578,552	1,578,552	0.00%	10,579,016	14.9%

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

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITES AND NET POSITION - CASH BASIS
COMPONENT UNIT
DECEMBER 31, 2012

	<u>Spencer Community School Foundation</u>
ASSETS	
Cash and pooled investments	\$ 1,490,928
LIABILITIES	
Benefits payable	1,104
NET POSITION	<u>\$ 1,489,824</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2012

	Spencer Community School Foundation
Revenue:	
Contributions and gifts	\$ 97,211
Interest	34,845
Gain on sale of investments	12,258
Other	417
Total revenue	144,731
Expenses:	
Scholarships	53,150
Mini Grants	23,078
Salaries and benefits	23,801
Accounting services	5,868
Occupancy, rent, utilities and maintenance	901
Depreciation	133
Investment fees	6,863
Advertising	7,608
Office supplies	266
Other	432
Total expenses	122,100
Increase in net position	22,631
Net position beginning of year	1,467,193
Net position end of year	\$ 1,489,824

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Supplementary Information

SPENCER COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Revenue		Total
	Manage- ment Levy	Student Activity	Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	\$ 761,728	164,903	926,631
Receivables:			
Property tax:			
Delinquent	5,471	-	5,471
Succeeding year	600,003	-	600,003
Accounts	-	466	466
Due from other governments	24	-	24
TOTAL ASSETS	\$ 1,367,226	165,369	1,532,595
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ -	2,169	2,169
Accounts payable	1,832	1,575	3,407
Deferred revenue:			
Succeeding year property tax	600,003	-	600,003
Total liabilities	601,835	3,744	605,579
Fund Balances:			
Restricted for:			
Management levy purposes	765,391	-	765,391
Student activities	-	161,625	161,625
Total fund balances	765,391	161,625	927,016
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,367,226	165,369	1,532,595

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

	Special Revenue		Total
	Manage- ment Levy	Student Activity	Nonmajor Governmental Funds
REVENUES:			
Local sources:			
Local tax	\$ 599,623	-	599,623
Other	5,493	449,973	455,466
State sources	368	-	368
Total revenues	605,484	449,973	1,055,457
EXPENDITURES:			
Current:			
Instruction:			
Regular	303,914	-	303,914
Other	-	418,055	418,055
Support services:			
Student	4,131	-	4,131
Instructional staff	2,419	-	2,419
Administration	13,372	-	13,372
Operation and maintenance of plant	115,819	280	116,099
Transportation	13,594	28,132	41,726
Total expenditures	453,249	446,467	899,716
Excess of revenues over expenditures	152,235	3,506	155,741
Fund balances beginning of year	613,156	158,119	771,275
Fund balances end of year	\$ 765,391	161,625	927,016

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS ACCOUNTS
 JUNE 30, 2013

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	City Sales and Services Tax	Physical Plant and Equipment Levy	
ASSETS				
Cash and pooled investments	\$ 1,407,343	367,432	696,045	2,470,820
Receivables:				
Property tax:				
Delinquent	-	-	5,163	5,163
Succeeding year	-	-	593,255	593,255
Due from other funds	194,504	-	-	194,504
Due from other governments	262,497	-	22	262,519
TOTAL ASSETS	\$ 1,864,344	367,432	1,294,485	3,526,261
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	-	25,000	25,000
Deferred revenue:				
Succeeding year property tax	-	-	593,255	593,255
Total liabilities	-	-	618,255	618,255
Fund balances:				
Restricted for:				
School infrastructure	1,864,344	367,432	-	2,231,776
Physical plant and equipment	-	-	676,230	676,230
Total fund balances	1,864,344	367,432	676,230	2,908,006
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,864,344	367,432	1,294,485	3,526,261

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS ACCOUNT
 YEAR ENDED JUNE 30, 2013

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	City Sales and Services Tax	Physical Plant and Equipment Levy	
REVENUES:				
Local sources:				
Local tax	\$ 1,658,025	-	577,095	2,235,120
Other	1,864	276	932	3,072
Intermediate sources:	-			
City tax	-	495,145	-	495,145
State sources	-	-	349	349
Total revenues	1,659,889	495,421	578,376	2,733,686
EXPENDITURES:				
Current:				
Instruction:				
Regular	-	-	185,305	185,305
Support services:				
Operation and maintenance of plant	-	-	20,675	20,675
Transportation	-	-	190,311	190,311
Capital outlay	1,886,984	150,389	62,903	2,100,276
Total expenditures	1,886,984	150,389	459,194	2,496,567
Excess(Deficiency) of revenues over(under) expenditures	(227,095)	345,032	119,182	237,119
Other financing sources(uses):				
Transfer out	(939,866)	(242,868)	-	(1,182,734)
Insurance proceeds	-	-	219,362	219,362
Total other financing sources(uses)	(939,866)	(242,868)	219,362	(963,372)
Change in fund balances	(1,166,961)	102,164	338,544	(726,253)
Fund balances beginning of year	3,031,305	265,268	337,686	3,634,259
Fund balances end of year	\$ 1,864,344	367,432	676,230	2,908,006

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>DISTRICT WIDE</u>				
CONCESSIONS	\$ 3	32,773	30,499	2,277
GENERAL DISTRICT WIDE	8,263	1,391	5,135	4,519
DRUG FREE FUNDRAISER	3,128	-	3,128	-
INTEREST	475	-	-	475
	<u>11,869</u>	<u>34,164</u>	<u>38,762</u>	<u>7,271</u>
<u>ELEMENTARY:</u>				
JUMP ROPE FOR HEART	115	-	115	-
ART/TECHNOLOGY	782	-	-	782
ELEMENTARY FUNDRAISING	10,806	3,429	3,260	10,975
	<u>11,703</u>	<u>3,429</u>	<u>3,375</u>	<u>11,757</u>
<u>MIDDLE SCHOOL:</u>				
INSTRUMENTAL	1,095	3,643	3,186	1,552
CONCESSIONS	4,410	586	4,583	413
TIGER'S PRAIRIE	292	-	-	292
STUDENT COUNCIL	736	300	553	483
FUNDRAISERS	3,827	13,083	11,494	5,416
	<u>10,360</u>	<u>17,612</u>	<u>19,816</u>	<u>8,156</u>
<u>HIGH SCHOOL:</u>				
DRAMA	3,340	14,812	17,290	862
SPEECH CLUB	5,284	5,159	8,596	1,847
VOCAL	2,313	12,939	15,012	240
INSTRUMENTAL	-	8,840	8,740	100
BAND/CHOIR	1,911	18,818	20,526	203
SPECIAL OLYMPICS	917	2,098	2,662	353
TRACK	9,120	9,681	18,395	406
CROSS COUNTRY	3,500	944	4,444	-
BOYS BASKETBALL	7,200	132	7,332	-
FOOTBALL	15,003	4,935	19,412	526
BOYS SOCCER	4,000	499	4,499	-
BASEBALL	8,250	223	8,137	336
BOYS TENNIS	918	1,750	2,665	3
BOYS GOLF	873	620	945	548
BOYS SWIMMING	2,500	129	2,380	249
WRESTLING	5,321	5,217	10,538	-
GIRLS BASKETBALL	8,800	432	9,232	-
VOLLEYBALL	5,190	3,262	8,452	-
GIRLS SOCCER	3,750	250	3,373	627
SOFTBALL	6,500	315	6,369	446
GIRLS TENNIS	1,339	-	838	501
GIRLS GOLF	996	-	806	190
GIRLS SWIMMING	2,820	3,734	6,554	-
GENERAL ATHLETICS	216	91,783	8,637	83,362
FFA	-	21,259	13,441	7,818
BUSINESS MANAGEMENT CLUB	381	-	56	325
SKILLS USA	3,148	-	555	2,593
STUDENT COUNCIL	6,727	3,182	3,034	6,875
PEP CLUB	1,500	3,472	4,264	708
SPANISH CLUB	3,249	1,702	1,171	3,780
PHOTO CLUB	3,905	14	206	3,713
NATIONAL HONOR SOCIETY	-	450	450	-
JUNIOR CLASS	3,219	7,632	10,484	367
SENIOR CLASS	11	1,018	1,024	5
MOCK TRIAL	-	738	438	300
DEBATE	1,613	1,657	2,938	332
SPECERIAN	-	10,540	10,215	325
DANCE TEAM	24	4,162	2,008	2,178
ATHLETIC REVOLVING	116	79,098	79,160	54
TOURNEY AND HOSTED EVENTS	233	60,242	54,686	5,789
WEIGHT ROOM	-	13,030	4,550	8,480
	<u>124,187</u>	<u>394,768</u>	<u>384,514</u>	<u>134,441</u>
TOTALS	<u>\$ 158,119</u>	<u>449,973</u>	<u>446,467</u>	<u>161,625</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 10,469,107	10,076,843	9,643,887	8,529,281	8,436,790	6,947,875	7,206,303	6,633,075	7,813,540	5,692,784
Tuition	866,901	916,469	977,964	1,108,358	1,089,092	1,095,425	1,339,680	1,112,866	1,030,567	993,454
Other	815,328	714,451	980,694	624,677	887,012	1,511,587	1,203,973	1,333,398	1,912,346	877,192
Intermediate sources	495,145	451,924	496,020	296,750	407,976	-	-	-	-	-
State sources	10,896,718	11,063,835	9,876,929	8,370,525	9,840,187	9,695,717	8,907,401	8,376,770	8,279,593	7,859,562
Federal sources	929,223	703,668	1,446,223	2,049,461	908,241	528,674	771,965	872,062	991,030	489,174
Total	\$ 24,472,422	23,927,190	23,421,717	20,979,052	21,569,298	19,779,278	19,429,322	18,328,171	20,027,076	15,912,166
Expenditures:										
Instruction	\$ 15,309,042	14,868,226	14,411,139	13,097,108	13,097,108	12,678,877	12,276,059	11,270,942	11,005,690	10,912,812
Support services:										
Student	125,556	149,184	95,179	200,923	86,271	181,649	198,050	138,449	384,533	429,090
Instructional staff	273,364	254,651	297,430	302,151	278,099	363,734	343,820	269,397	235,468	509,008
Administration	2,112,604	2,024,540	2,021,563	2,018,377	2,117,177	2,120,294	1,942,757	1,723,695	1,557,864	1,123,929
Operation and maintenance of plant	1,659,774	1,761,169	1,596,585	1,486,247	1,732,313	1,598,687	1,645,762	1,354,485	1,194,718	1,216,383
Transportation	702,141	476,877	452,611	517,180	648,619	498,411	561,278	603,875	400,540	392,553
Non-instructional programs			-	-	-	-	-	-	34,369	68,357
Capital outlay	2,100,276	3,287,488	614,942	2,189,284	2,981,502	1,039,328	2,136,536	9,638,500	4,733,468	479,966
Long-term debt:										
Principal	1,255,000	1,275,000	1,180,000	1,130,000	1,095,000	990,000	790,000	135,000	125,000	-
Interest and other charges	435,771	271,942	378,902	425,110	468,633	580,900	389,683	394,410	385,130	-
Other expenditures:										
AEA flow-through	781,621	755,803	810,639	786,034	707,167	684,941	641,561	601,508	600,878	591,211
Total	\$ 24,755,149	25,124,880	21,858,990	22,152,414	23,211,889	20,736,821	20,925,506	26,130,261	20,657,658	15,723,309

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2013

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>EXPENDITURES</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 13	\$ 101,201
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 13	429,742 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 13	18,828
			<u>549,771</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 13	<u>12,015</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6102-G	<u>319,871</u>
ADVANCED PLACEMENT PROGRAM	84.330	FY 13	<u>308</u>
IMPROVING TEACHER QUALITY STATE GRANTS(TITLE IIA)	84.367	FY 13	<u>67,312</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 13	<u>12,591</u>
PRAIRIE LAKES AREA EDUCATION AGENCY:			
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 13	<u>11,779</u>
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 13	107,829
SPECIAL EDUCATION - GRANTS TO STATES (PART B HI COST CLAIMS)	84.027	FY 13	54,858
			<u>162,687</u>
ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 13	<u>2,012</u>
TOTAL			<u>\$ 1,138,346</u>

* Includes \$46,107 of non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Spencer Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

To the Board of Education of Spencer Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental 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 Spencer Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Spencer Community School District'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 Spencer Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Spencer Community School District'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 deficiencies in internal control we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-13 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 as item II-B-13 to be significant deficiency.

Compliance and Other Matters

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

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direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Spencer Community School District's Responses to Findings

Spencer Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Spencer Community School District's responses were not subjected to the auditing procedures applied in the audit or 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 District'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 District'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 Spencer Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

January 31, 2014
Newton, Iowa

NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50209-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance
for Each Major Federal Program, on Internal Control Over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

To the Board of Education of Spencer Community School District:

Report on Compliance for Each Major Federal Program

We have audited Spencer Community School District'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 each of Spencer Community School District's major federal programs for the year ended June 30, 2013. Spencer Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Spencer Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spencer Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Spencer Community School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

The management of Spencer Community School District 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 Spencer Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Spencer Community School District's internal control over compliance.

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

A deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-13 to be a material weakness.

Spencer Community School District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Spencer Community School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



NOLTE, CORNMAN & JOHNSON, P.C.

January 31, 2014
Newton, Iowa

SPENCER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered*
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program for Children
 - Individual*
 - CFDA Number 84.041 - Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Spencer Community School District did not qualify as a low-risk auditee.

SPENCER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. There appears to be inadequate segregation of duties in the following areas:

- 1) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 2) Disbursements - purchase order processing, check preparation, mailing and recording.
- 3) Capital assets - purchasing, recording and reconciling.
- 4) Wire transfers - processing and approving.
- 5) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 6) Transfers - preparing and approving.
- 7) Financial reporting - preparing, reconciling and approving.

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

Response - The District will continue to review our procedures and implement new measures, when possible, with the current personnel and elected officials to obtain the maximum internal control possible.

Conclusion - Response accepted.

II-B-13 Capital Assets - We noted during our audit that maintenance of the District's capital assets listing is performed by several District employees. For example, the District's business manager is responsible for maintaining the listing of buildings and land improvements. The transportation director is responsible for maintaining capital assets related to the District's transportation and outdoor grounds department. The nutrition director is responsible for maintaining capital assets for the nutrition services department. Finally, maintenance of all other assets not falling into the previously mentioned areas is the responsibility of the accounts payable clerk.

Although listings of capital assets are maintained, it is apparent there is not one specific individual who is responsible for review, reconciliation, collection and subsequent recording of capital asset adjustments to the District's general ledger for reporting purposes.

In review of the capital asset listing from the District's business manager, there are several additions made with dollar amounts only and no descriptions of the capital assets. The lack of capital asset descriptions makes it difficult to accurately remove capital assets from the listing once they have been disposed.

The items mentioned above lead to the District not making adjustments to the general ledger in a timely manner at year end. Subsequent adjustments were made by the District to correct misstatements in the District's general ledger.

Recommendation - Capital assets should be periodically reconciled to the accounting records by an individual having no responsibility for the assets. The District can have more than one person maintaining capital assets but needs to appoint one individual who is responsible for collection, review, reconciliation and subsequent recording of capital asset adjustments to the District's general ledger.

The District should research the dollar amounts with no descriptions in the capital asset listing for buildings and land improvements so that in the future deletions to that listing would be able to be performed accurately.

Response - The District will use the recommended Excel spreadsheet to record the District's capital assets and calculate depreciation. The Business Manager will be responsible for periodically reconciling the capital assets to the general ledger and making adjustments as necessary.

Capital asset listings for buildings and land improvements will be researched so that accurate deletions can be made in the future. Going forward, detailed descriptions will be used when capital assets are recorded so that capital assets are accurately removed at disposal.

Conclusion - Response accepted.

SPENCER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553 - School Breakfast Program
CFDA Number 10.555 - National School Lunch Program
CFDA Number 10.559 - Summer Food Service Program for Children
Federal Award Year: 2013
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.010 - Title I Grants to Educational Agencies
Federal Award Year: 2013
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Disbursements - purchase order processing, check preparation, mailing and recording.
- 2) Capital assets - purchasing, recording and reconciling.
- 3) Wire transfers - processing and approving.
- 4) Financial reporting - preparing, reconciling and approving.

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

Response - The District will continue to review our procedures and implement new measures, when possible, with the current personnel and elected officials to obtain the maximum internal control possible.

Conclusion - Response accepted.

SPENCER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget - District expenditures for the year ended June 30, 2013 exceeded the budgeted amount in the other expenditures functional area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - In the future, the District will monitor expenditures more closely and amend the budget as needed to be in compliance with Chapter 24.9 of the Code of Iowa.

Conclusion - Response accepted.

IV-B-13 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

However, we noted during our audit that the District was providing a benefit to an interpreter for commuting mileage to and from her home to school to provide services to a special needs student of the District. The District was also reimbursing commuting mileage to the employee for days that the student requiring her services was not attending school. In addition, the District was subsequently paying the benefit to the employee through the District's accounts payable system where the benefit was not being subjected to applicable taxation.

According to IRS Publication 15-B, the amount of the benefit provided to the employee does not qualify as a benefit that can be excluded from the interpreter's wages. Since the benefit does not qualify as a de minimis benefit, the amount of the benefit should have been added to the interpreter's W-2 as additional wages subjected to applicable taxes.

Recommendation - Due to the amount of the benefit provided to the interpreter for commuting mileage, the District should report the amount of the benefit on the interpreter's W-2 so applicable taxes can be applied.

Response - The interpreter's commuting mileage is now processed with the monthly payroll and appropriate taxes are withheld. The interpreter turns in a mileage record monthly to her supervisor, who approves the record and submits it to the payroll department.

Conclusion - Response accepted.

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

IV-E-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-F-13 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Larry Untiet, Drama Director Owner of Untiet Painting	Painting	\$ 11,202
Diane Fuller, Custodian Owner of Good Booty BBQ	Catering Services	\$ 510
Brett Groen, Coach Owner of Spencer Trophy	Trophies/Awards	\$ 3,307
Ben Macrae, Coach Manager of Goal Kick Sporting Goods	Sports Apparel/Supplies	\$ 9,852

In accordance with Attorney’s General Opinion dated July 2, 1990, the above transactions with the Mr. Untiet, Ms. Fuller and Mr. Groen do not appear to represent a conflict of interest.

The purchase of sports apparel and sporting supplies between the District and the business Mr. Macrae appears to create a conflict of interest. Chapter 301.28 of the Code of Iowa states in part, “A school director, officer or teacher shall not act as an agent for the purchase of school textbooks or school supplies, including sports apparel or equipment, in any transaction...”

Recommendation - The District should discontinue purchasing items from Mr. Macrae’s business as long as he is an employee of the District to be in compliance with Chapter 301.28 of the Code of Iowa.

Response - The District will discontinue purchasing items from Goal Kick Sporting Goods to maintain compliance with Chapter 301.28 of the Code of Iowa.

Conclusion - Response accepted.

IV-G-13 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was understated by 0.1.

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

Response - The District’s auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-H-13 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-13 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-13 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-13 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 3,031,305
Revenues:		
Sales tax revenues	\$ 1,658,025	
Other local revenues	1,864	1,659,889
		<hr/>
Expenditures/transfer out:		4,691,194
School infrastructure construction	\$ 1,746,545	
Other	140,439	
Transfers to other funds:		
Debt service fund	939,866	2,826,850
		<hr/>
Ending balance		<u><u>\$ 1,864,344</u></u>

For the year ended June 30, 2013, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.