

SPENCER COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

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Spencer Community School District

Officials

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

Board of Education

(Before September 2013 Election)

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

(After September 2013 Election)

Board of Education

| | | |
|-----------------|----------------|------|
| Bob Whittenburg | President | 2017 |
| Bill Zinn | Vice President | 2017 |
| Kris McDermott | Board Member | 2015 |
| Marti Bomgaars | Board Member | 2015 |
| Dean Mechler | Board Member | 2017 |

School Officials

| | | |
|---------------|--|------------|
| Terry Hemann | Superintendent | 2014 |
| Jolynne Eilts | Business Manager/ Board Secretary/Treasurer | 2014 |
| Steve Avery | Attorney | Indefinite |

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(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, 2014, 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 on 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, 2014, 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.

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 third paragraph of this report, the financial statements for the five years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the four years ended June 30, 2008 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 10, 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 13, 2015 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 13, 2015
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, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$20,379,910 in fiscal 2013 to \$21,018,782 in fiscal 2014, and General Fund expenditures increased from \$19,790,618 in fiscal 2013 to \$21,182,551 in fiscal 2014. This resulted in the District's General Fund balance decreasing from \$3,660,963 at the end of fiscal 2013 to \$3,497,194 at the end of fiscal 2014, a 4.47% decrease.
- The increase in General Fund revenues was attributable to an increase in state grant and tuition monies received in fiscal year 2014. The increase in expenditures was due primarily to an increase in instructional and support services functions. As a result of expenditures being greater than revenues, the District's General fund balance decreased \$163,769.

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 and the financial statements for the discretely presented component unit.

Supplementary Information provides detailed information about the non-major governmental funds as well as the Capital Projects accounts and Internal Service Funds. In addition, the Schedule of Federal Awards provides details of various federal programs benefiting the District.

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

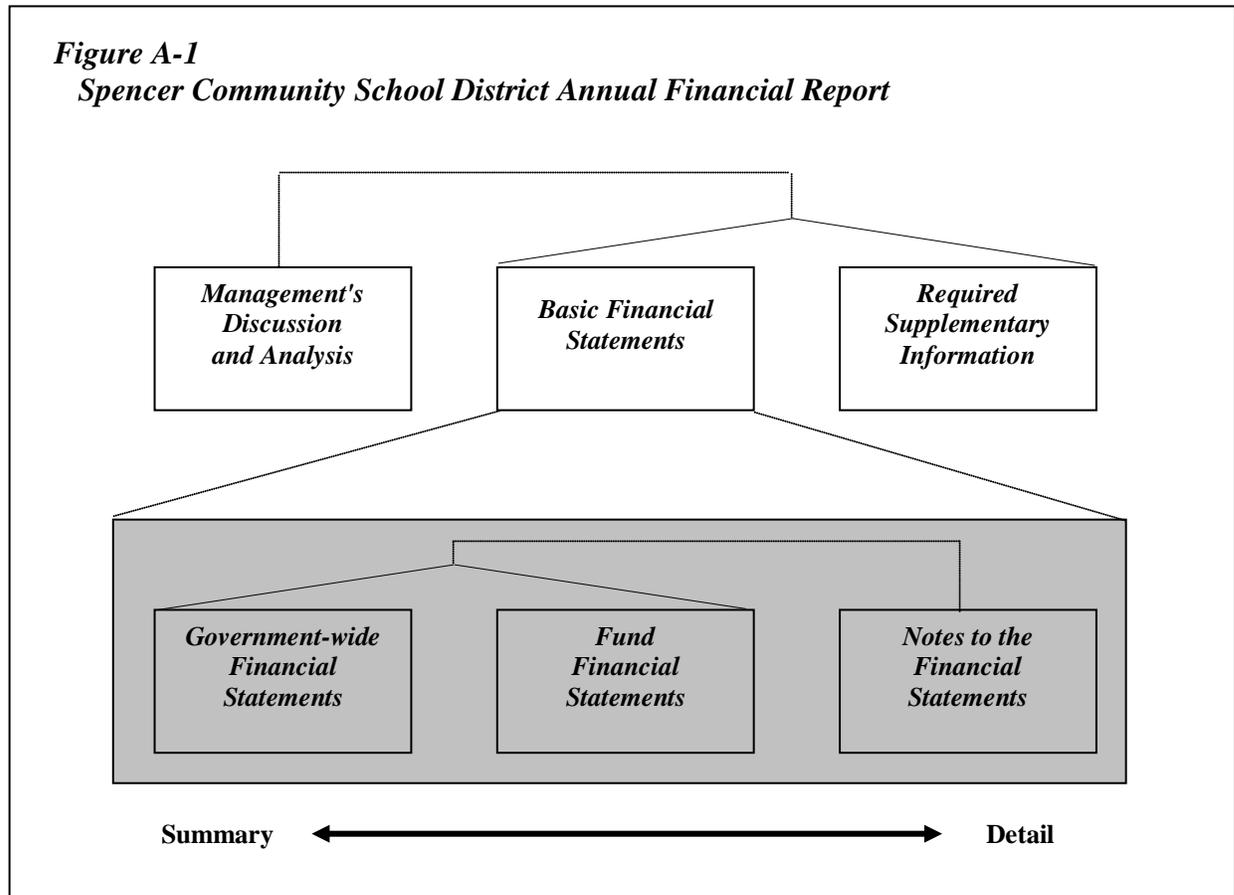


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

| | Government-wide Statements | Fund Statements | |
|--|--|--|--|
| | | Governmental Funds | Proprietary Funds |
| 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 | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • 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, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. 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 is one way to measure the District’s financial health or 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.
- *Component unit:* The Spencer Community District Foundation was created to facilitate the distribution of scholarship monies to students in Clay County.

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.

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 two internal service funds, Self-Funded Insurance Fund, and the Flex Benefit 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 governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2014 as compared to June 30, 2013.

| Figure A-3 Condensed Statement of Net Position | | | | | | | |
|---|----------------------------|------------|-----------------------------|---------|-------------------|------------|-----------------|
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Current and other assets | \$ 29,954,003 | 22,549,841 | 235,378 | 203,822 | 30,189,381 | 22,753,663 | 32.68% |
| Capital assets | 27,354,912 | 27,151,097 | 55,455 | 64,201 | 27,410,367 | 27,215,298 | 0.72% |
| Total assets | 57,308,915 | 49,700,938 | 290,833 | 268,023 | 57,599,748 | 49,968,961 | 15.27% |
| Long-term obligations | 18,605,397 | 13,180,839 | 25,652 | 20,624 | 18,631,049 | 13,201,463 | 41.13% |
| Other liabilities | 1,693,784 | 1,254,732 | 23,957 | 22,537 | 1,717,741 | 1,277,269 | 34.49% |
| Total liabilities | 20,299,181 | 14,435,571 | 49,609 | 43,161 | 20,348,790 | 14,478,732 | 40.54% |
| Deferred inflows of resources | 8,409,392 | 8,473,632 | - | - | 8,409,392 | 8,473,632 | -0.76% |
| Net position: | | | | | | | |
| Net investment in capital assets | 18,917,416 | 17,837,936 | 55,455 | 64,201 | 18,972,871 | 17,902,137 | 5.98% |
| Restricted | 4,817,068 | 4,387,384 | - | - | 4,817,068 | 4,387,384 | 9.79% |
| Unrestricted | 4,865,858 | 4,566,415 | 185,769 | 160,661 | 5,051,627 | 4,727,076 | 6.87% |
| Total net position | \$ 28,600,342 | 26,791,735 | 241,224 | 224,862 | 28,841,566 | 27,016,597 | 6.75% |

The District's combined net position increased by 6.75%, or \$1,824,969, 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 \$429,684, or 9.79% 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 Special Revenue: Management 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 \$324,551 or 6.87%. This increase in unrestricted net position was primarily a result of the District's increased net position in the Internal Service Fund.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 as compared to June 30, 2013.

| Figure A-4 Changes of Net Position | | | | | | | |
|---|----------------------------|-------------------|-----------------------------|------------------|-------------------|-------------------|-----------------|
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for service | \$ 1,465,770 | 1,482,362 | 562,791 | 590,269 | 2,028,561 | 2,072,631 | -2.13% |
| Operating grants and contributions and restricted interest | 2,055,756 | 2,174,246 | 580,991 | 570,162 | 2,636,747 | 2,744,408 | -3.92% |
| Capital grants and contributions and restricted interest | 61,554 | - | - | - | 61,554 | - | 100.00% |
| General revenues: | | | | | | | |
| Property tax | 8,469,901 | 8,226,890 | - | - | 8,469,901 | 8,226,890 | 2.95% |
| Income surtax | 482,448 | 510,857 | - | - | 482,448 | 510,857 | -5.56% |
| Statewide sales, services and use tax | 1,675,570 | 1,658,025 | - | - | 1,675,570 | 1,658,025 | 1.06% |
| City sales, services and use tax | 455,250 | 495,145 | - | - | 455,250 | 495,145 | -8.06% |
| Unrestricted state grants | 10,261,598 | 9,681,938 | - | - | 10,261,598 | 9,681,938 | 5.99% |
| Unrestricted investment earnings | 54,795 | 54,128 | 1,464 | 1,124 | 56,259 | 55,252 | 1.82% |
| Other | 104,028 | 115,496 | 6,177 | - | 110,205 | 115,496 | -4.58% |
| Total revenues | 25,086,670 | 24,399,087 | 1,151,423 | 1,161,555 | 26,238,093 | 25,560,642 | 2.65% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction | 15,070,495 | 14,852,091 | - | - | 15,070,495 | 14,852,091 | 1.47% |
| Support services | 6,092,976 | 4,597,833 | 28,928 | 26,682 | 6,121,904 | 4,624,515 | 32.38% |
| Non-instructional programs | - | - | 1,106,133 | 1,124,386 | 1,106,133 | 1,124,386 | -1.62% |
| Other expenses | 2,114,592 | 1,964,836 | - | - | 2,114,592 | 1,964,836 | 7.62% |
| Total expenses | 23,278,063 | 21,414,760 | 1,135,061 | 1,151,068 | 24,413,124 | 22,565,828 | 8.19% |
| Change in net position | 1,808,607 | 2,984,327 | 16,362 | 10,487 | 1,824,969 | 2,994,814 | -39.06% |
| Beginning net position | 26,791,735 | 23,807,408 | 224,862 | 214,375 | 27,016,597 | 24,021,783 | 12.47% |
| Ending net position | \$ 28,600,342 | 26,791,735 | 241,224 | 224,862 | 28,841,566 | 27,016,597 | 6.75% |

In fiscal 2014, property tax, income surtax, statewide sales, services and use tax, city sales, services and use tax and unrestricted state grants account for 85.08% of the governmental revenue while charges for services and operating grants and contributions account for 99.34% of the revenue from business type activities.

The District's total revenues were approximately \$26.24 million, of which approximately \$25.09 million was for governmental activities and approximately \$1.15 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.65% increase in revenues and a 8.19% increase in expenses. The increase in revenues was due to an increase in property tax, and unrestricted state grants. The increase in expense was related to the increase in expenses in the support services functional area.

Governmental Activities

Revenues for governmental activities were \$25,086,670 and expenses were \$23,278,063.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses for the year ended June 30, 2014 compared to the year ended June 30, 2013.

| | Total Cost of Services | | | Net Cost of Services | | |
|------------------|------------------------|-------------------|-------------------|----------------------|-------------------|-------------------|
| | 2014 | 2013 | Change 2013-14 | 2014 | 2013 | Change 2013-14 |
| Instruction | \$ 15,070,495 | 14,852,091 | 1.47% | \$ 12,468,041 | 12,030,993 | 3.63% |
| Support services | 6,092,976 | 4,597,833 | 32.52% | 5,935,602 | 4,543,944 | 30.63% |
| Other expenses | 2,114,592 | 1,964,836 | 7.62% | 1,291,340 | 1,183,215 | 9.14% |
| Totals | <u>\$ 23,278,063</u> | <u>21,414,760</u> | <u>8.70%</u> | <u>\$ 19,694,983</u> | <u>17,758,152</u> | <u>10.91%</u> |

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$1,465,770.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,117,310.
- The net cost of governmental activities was financed with \$8,469,901 in property tax, \$482,448 in income surtax, \$1,675,570 in statewide sales, services and use tax, \$455,250 in city sales, services and use tax, \$10,261,598 in unrestricted state grants, \$54,795 in unrestricted investment earnings and \$104,028 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$1,151,423 expenses were \$1,135,061. 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 \$17,558,283, above last year's ending fund balances of \$10,890,165. The primary reason for the increase in combined fund balances in fiscal 2014 was due to the increase in fund balances of the Capital Projects: Statewide Sales, Services and Use Tax Fund due to unspent revenue bond proceeds from the District's May 1, 2014 revenue bond issuance.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$3,660,963 at June 30, 2014 to \$3,497,194 at June 30, 2014. The primary reason for this decrease is due to an increase in expenditures in the instructional and support services functional areas during the year.
- The Capital Projects Fund balance increased from \$2,908,006 at June 30, 2013 to \$12,042,615 at June 30, 2014. The Capital Projects Statewide Sales, Services and Use Tax Fund balance increased from \$1,864,344 at June 30, 2013 to \$10,980,328 at June 30, 2014 primarily due to

unspent revenue bond proceeds received during the year. The Capital Projects: City Sales and Services Tax Fund balance increased from \$367,432 at June 30, 2013 to \$398,039 at June 30, 2014 while the Capital Projects: Physical Plant and Equipment Levy Fund balance decreased from \$676,230 at June 30, 2013 to \$664,248 at June 30, 2014.

- The Debt Service Fund decreased from a balance of \$3,394,180 at June 30, 2013 to \$1,054,066 at June 30, 2014. The primary reason for this decrease is the calling of the District general obligation crossover refunding bonds during the year.

Proprietary Fund Highlights

School Nutrition Fund net position increased from \$224,862 at June 30, 2013 to \$241,224 at June 30, 2014, representing an increase of 7.28%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Spencer Community School District amended its budget one time to reflect additional expenditures associated with additional salaries and benefits incurred along with the expenditures associated with the calling of the District's general obligation crossover refunding bonds during the year.

The District's revenues were \$431,776 more than budgeted revenues, a variance of 1.67%. The most significant variance resulted from the District receiving more in state 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested approximately \$27.41 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 0.72% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,142,978.

The original cost of the District's capital assets was approximately \$41.99 million. Governmental funds account for approximately \$41.69 million with the remainder of approximately \$0.30 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$498,418 at June 30, 2013, compared to \$410,984 reported at June 30, 2014. The main reason for the decrease in the construction in progress category is attributable to the completion of Johnson Elementary remodel and parking lot projects during the year and the District beginning construction on the Fairview Roof Replacement Project.

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, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Land | \$ 782,181 | 748,830 | - | - | 782,181 | 748,830 | 4.45% |
| Construction in progress | 410,984 | 498,418 | - | - | 410,984 | 498,418 | -17.54% |
| Buildings | 23,136,636 | 22,786,675 | - | - | 23,136,636 | 22,786,675 | 1.54% |
| Land improvements | 2,152,216 | 2,141,797 | - | - | 2,152,216 | 2,141,797 | 0.49% |
| Machinery and equipment | 872,895 | 975,377 | 55,455 | 64,201 | 928,350 | 1,039,578 | -10.70% |
| Total | \$ 27,354,912 | 27,151,097 | 55,455 | 64,201 | 27,410,367 | 27,215,298 | 0.72% |

Long-Term Debt

At June 30, 2014, the District had \$18,631,049 in general obligation and other long-term debt outstanding. This represents an increase of 41.13% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding revenue bonds of \$14,726,000 at June 30, 2014 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 general obligation bonds of \$2,520,000 at June 30, 2014 payable from the Debt Service Fund.

The District had outstanding capital loan notes of \$825,000 at June 30, 2014 payable from the General Fund.

The District had compensated absences payable of \$43,912 at June 30, 2014, which will be paid from the General Fund.

The District had net OPEB liability of \$516,137 at June 30, 2014. Of the OPEB liability, \$490,485 is attributable to governmental activities and \$25,652 is attributable to business type activities.

Figure A-7
Outstanding Long-Term Obligations

| | Governmental | | Business Type | | Total | | Total |
|--------------------------|---------------|------------|---------------|--------|------------|------------|----------|
| | Activities | | Activities | | District | | Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Revenue Bonds | \$ 14,726,000 | 5,725,000 | - | - | 14,726,000 | 5,725,000 | 157.22% |
| General Obligation Bonds | 2,520,000 | 5,125,000 | - | - | 2,520,000 | 5,125,000 | -50.83% |
| Capital Loan Notes | 825,000 | 910,000 | - | - | 825,000 | 910,000 | -9.34% |
| Termination Benefits | - | 956,499 | - | - | - | 956,499 | -100.00% |
| Compensated Absences | 43,912 | 70,225 | - | - | 43,912 | 70,225 | -37.47% |
| Net OPEB Liability | 490,485 | 394,115 | 25,652 | 20,624 | 516,137 | 414,739 | 24.45% |
| Totals | \$ 18,605,397 | 13,180,839 | 25,652 | 20,624 | 18,631,049 | 13,201,463 | 41.13% |

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 strives to contain the costs of personnel and operating costs, and reducing or elimination liabilities, when possible, while still maintaining a quality education for all students in the District. Through possible early retirements and the hiring of new teachers, we anticipate a reduction in general expenses in FY16.
- The District withdrew from IGHCP's partial self-funded healthcare plan as of June 30, 2014 and entered into a fully self-funded healthcare plan as of July 1, 2014 in hopes of reducing costs to the District, while still maintaining adequate healthcare benefits. The Affordable Care Act has placed several requirements on the District, which could potentially affect the future of the District's financial health.
- The District is continually 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.
- The District has entered into the Lakes Partnership School Consortium with area schools to educate some of our special education students. While we realize that this may increase special education expenses to the District, we feel it is in the best interest of our students to be taught in this alternative setting.
- On December 19, 2014, the District was notified that we are recipients of the Teacher Leadership Compensation Grant for FY16. This will generate approximately \$600,000 for the District and create several new opportunities within the District.
- At the time of this report, State Supplemental Aid has not been set for FY16. Without knowing this vital information, we must be cautious with our financial planning for next 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, 2014

| | Primary Government | | | Component Unit * |
|---|----------------------------|-----------------------------|------------|---|
| | Governmental Activities | Business Type Activities | Total | Spencer Community School Foundation |
| ASSETS | | | | |
| Cash and pooled investments | \$ 20,240,946 | 199,696 | 20,440,642 | 1,632,270 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 67,007 | - | 67,007 | - |
| Succeeding year | 8,409,392 | - | 8,409,392 | - |
| Income surtax | 467,386 | - | 467,386 | - |
| Accounts | 18,293 | 555 | 18,848 | - |
| Due from other governments | 750,979 | 16,616 | 767,595 | - |
| Inventories | - | 18,511 | 18,511 | - |
| Capital assets not being depreciated: | | | | |
| Land | 782,181 | - | 782,181 | - |
| Construction in progress | 410,984 | - | 410,984 | - |
| Capital assets being depreciated, net of accumulated depreciation: | | | | |
| Buildings | 23,136,636 | - | 23,136,636 | - |
| Land improvements | 2,152,216 | - | 2,152,216 | - |
| Machinery and equipment | 872,895 | 55,455 | 928,350 | - |
| TOTAL ASSETS | 57,308,915 | 290,833 | 57,599,748 | 1,632,270 |
| LIABILITIES | | | | |
| Accounts payable | 1,635,579 | 7,744 | 1,643,323 | - |
| Salaries and benefits payable | 5,557 | - | 5,557 | 658 |
| Interest payable | 52,648 | - | 52,648 | - |
| Unearned revenue | - | 16,213 | 16,213 | - |
| Long-term liabilities: | | | | |
| Portion due within one year: | | | | |
| General obligation bonds payable | 240,000 | - | 240,000 | - |
| Revenue bonds payable | 526,000 | - | 526,000 | - |
| Capital loan notes payable | 90,000 | - | 90,000 | - |
| Compensated absences payable | 43,912 | - | 43,912 | - |
| Portion due after one year: | | | | |
| General obligation bonds payable | 2,280,000 | - | 2,280,000 | - |
| Revenue bonds payable | 14,200,000 | - | 14,200,000 | - |
| Capital loan notes payable | 735,000 | - | 735,000 | - |
| Net OPEB liability | 490,485 | 25,652 | 516,137 | - |
| Note payable | - | - | - | 60,000 |
| TOTAL LIABILITIES | 20,299,181 | 49,609 | 20,348,790 | 60,658 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable property tax revenue | 8,409,392 | - | 8,409,392 | - |
| NET POSITION | | | | |
| Net investment in capital assets | 18,917,416 | 55,455 | 18,972,871 | - |
| Restricted for: | | | | |
| Categorical funding | 442,131 | - | 442,131 | - |
| Debt service | 1,001,418 | - | 1,001,418 | - |
| Management levy purposes | 801,005 | - | 801,005 | - |
| Student activities | 163,403 | - | 163,403 | - |
| School infrastructure | 1,744,863 | - | 1,744,863 | - |
| Physical plant and equipment | 664,248 | - | 664,248 | - |
| Unassigned | 4,865,858 | 185,769 | 5,051,627 | 1,571,612 |
| TOTAL NET POSITION | \$ 28,600,342 | 241,224 | 28,841,566 | 1,571,612 |

* The component unit year end is December 31, 2013.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

**SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

| Functions/Programs: | 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 | Capital Grants, Contributions and Restricted Interest | Primary Government | | Total | |
| | | | | | Governmental Activities | Business Type Activities | | |
| Governmental activities: | | | | | | | | |
| Instruction: | | | | | | | | |
| Regular | \$ 8,214,943 | 716,754 | 82,247 | - | (7,415,942) | - | (7,415,942) | - |
| Special | 3,790,996 | 301,889 | 355,534 | - | (3,133,573) | - | (3,133,573) | - |
| Other | 3,064,556 | 421,129 | 724,901 | - | (1,918,526) | - | (1,918,526) | - |
| | <u>15,070,495</u> | <u>1,439,772</u> | <u>1,162,682</u> | <u>-</u> | <u>(12,468,041)</u> | <u>-</u> | <u>(12,468,041)</u> | <u>-</u> |
| Support services: | | | | | | | | |
| Student | 110,771 | 10,296 | - | - | (100,475) | - | (100,475) | - |
| Instructional staff | 300,980 | - | - | - | (300,980) | - | (300,980) | - |
| Administration | 2,425,021 | 10,000 | - | - | (2,415,021) | - | (2,415,021) | - |
| Operation and maintenance of plant | 2,541,551 | - | - | 61,554 | (2,479,997) | - | (2,479,997) | - |
| Transportation | 714,653 | 5,702 | 69,822 | - | (639,129) | - | (639,129) | - |
| | <u>6,092,976</u> | <u>25,998</u> | <u>69,822</u> | <u>61,554</u> | <u>(5,935,602)</u> | <u>-</u> | <u>(5,935,602)</u> | <u>-</u> |
| Long-term debt interest | 538,579 | - | - | - | (538,579) | - | (538,579) | - |
| Other expenditures: | | | | | | | | |
| AEA flowthrough | 823,252 | - | 823,252 | - | - | - | - | - |
| Depreciation(allocated)* | 752,761 | - | - | - | (752,761) | - | (752,761) | - |
| | <u>1,576,013</u> | <u>-</u> | <u>823,252</u> | <u>-</u> | <u>(752,761)</u> | <u>-</u> | <u>(752,761)</u> | <u>-</u> |
| Total governmental activities | <u>23,278,063</u> | <u>1,465,770</u> | <u>2,055,756</u> | <u>61,554</u> | <u>(19,694,983)</u> | <u>-</u> | <u>(19,694,983)</u> | <u>-</u> |
| Business type activities: | | | | | | | | |
| Support services: | | | | | | | | |
| Administration | 4,539 | - | - | - | - | (4,539) | (4,539) | - |
| Operation and maintenance of plant | 24,389 | - | - | - | - | (24,389) | (24,389) | - |
| Non-instructional programs: | | | | | | | | |
| Food service operations | 1,106,133 | 562,791 | 580,991 | - | - | 37,649 | 37,649 | - |
| Total business type activities | <u>1,135,061</u> | <u>562,791</u> | <u>580,991</u> | <u>-</u> | <u>-</u> | <u>8,721</u> | <u>8,721</u> | <u>-</u> |
| Total primary government | <u>\$ 24,413,124</u> | <u>2,028,561</u> | <u>2,636,747</u> | <u>61,554</u> | <u>(19,694,983)</u> | <u>8,721</u> | <u>(19,686,262)</u> | <u>-</u> |
| Total component unit | <u>\$ 322,208</u> | <u>-</u> | <u>327,216</u> | | | | | <u>5,008</u> |
| General Revenues: | | | | | | | | |
| Property tax levied for: | | | | | | | | |
| General purposes | | | | | \$ 7,567,997 | - | 7,567,997 | - |
| Debt service | | | | | 309,038 | - | 309,038 | - |
| Capital outlay | | | | | 592,866 | - | 592,866 | - |
| Income surtax | | | | | 482,448 | - | 482,448 | - |
| Statewide sales, services and use tax | | | | | 1,675,570 | - | 1,675,570 | - |
| City sales, services and use tax | | | | | 455,250 | - | 455,250 | - |
| Unrestricted state grants | | | | | 10,261,598 | - | 10,261,598 | - |
| Unrestricted investment earnings | | | | | 54,795 | 1,464 | 56,259 | 32,580 |
| Gain on sale of assets/investments | | | | | - | - | - | 44,012 |
| Other general revenues | | | | | 104,028 | 6,177 | 110,205 | 188 |
| Total general revenues | | | | | <u>21,503,590</u> | <u>7,641</u> | <u>21,511,231</u> | <u>76,780</u> |
| Change in net position | | | | | 1,808,607 | 16,362 | 1,824,969 | 81,788 |
| Net position beginning of year | | | | | 26,791,735 | 224,862 | 27,016,597 | 1,489,824 |
| Net position end of year | | | | | <u>\$ 28,600,342</u> | <u>241,224</u> | <u>28,841,566</u> | <u>1,571,612</u> |

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

** The component unit year end is December 31, 2013.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

| | General | Capital Projects | Debt Service | Nonmajor | Total |
|---|----------------------|---------------------|------------------|------------------|-------------------|
| ASSETS | | | | | |
| Cash and pooled investments: | \$ 3,141,994 | 12,092,509 | 2,177,901 | 963,151 | 18,375,555 |
| Receivables: | | | | | |
| Property tax | | | | | |
| Delinquent | 55,254 | 4,599 | 2,397 | 4,757 | 67,007 |
| Succeeding year | 6,528,928 | 600,791 | 579,673 | 700,000 | 8,409,392 |
| Income surtax | 467,386 | - | - | - | 467,386 |
| Accounts | 3,118 | - | - | 2,543 | 5,661 |
| Due from other governments | 485,910 | 265,035 | 11 | 23 | 750,979 |
| TOTAL ASSETS | \$ 10,682,590 | 12,962,934 | 2,759,982 | 1,670,474 | 28,075,980 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 183,525 | 319,528 | 1,126,243 | 6,066 | 1,635,362 |
| Salaries and benefits payable | 5,557 | - | - | - | 5,557 |
| Total liabilities | 189,082 | 319,528 | 1,126,243 | 6,066 | 1,640,919 |
| Deferred inflows of resources: | | | | | |
| Unavailable revenue: | | | | | |
| Succeeding year property tax | 6,528,928 | 600,791 | 579,673 | 700,000 | 8,409,392 |
| Income surtax | 467,386 | - | - | - | 467,386 |
| Total deferred inflows of resources | 6,996,314 | 600,791 | 579,673 | 700,000 | 8,876,778 |
| Fund balances: | | | | | |
| Restricted for: | | | | | |
| Categorical funding | 442,131 | - | - | - | 442,131 |
| Debt service | - | - | 1,054,066 | - | 1,054,066 |
| Management levy purposes | - | - | - | 801,005 | 801,005 |
| Student activities | - | - | - | 163,403 | 163,403 |
| School infrastructure | - | 11,378,367 | - | - | 11,378,367 |
| Physical plant and equipment | - | 664,248 | - | - | 664,248 |
| Assigned | 80,428 | - | - | - | 80,428 |
| Unassigned | 2,974,635 | - | - | - | 2,974,635 |
| Total fund balances | 3,497,194 | 12,042,615 | 1,054,066 | 964,408 | 17,558,283 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 10,682,590 | 12,962,934 | 2,759,982 | 1,670,474 | 28,075,980 |

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, 2014

| | | |
|--|-----------|---------------------------------|
| Total fund balances of governmental funds(page 20) | \$ | 17,558,283 |
| <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. | | 27,354,912 |
| 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. | | (52,648) |
| Blending of the Internal Service Funds to be reflected on an entity-wide basis. | | 1,877,806 |
| Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period and, therefore, is recognized as deferred inflows of resources in the governmental funds. | | 467,386 |
| Long-term liabilities, including general obligation bonds payable, revenue bonds payable, capital loan notes 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>(18,605,397)</u> |
| Net position of governmental activities(page 18) | \$ | <u><u>28,600,342</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, 2014

| | General | Capital Projects | Debt Service | Nonmajor | Total |
|--|---------------------|---------------------|------------------|------------------|-------------------|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 7,483,477 | 592,866 | 309,038 | 599,756 | 8,985,137 |
| Tuition | 956,481 | - | - | - | 956,481 |
| Other | 304,865 | 66,096 | 20,245 | 401,029 | 792,235 |
| Intermediate sources | - | 455,250 | - | - | 455,250 |
| State sources | 11,491,825 | 1,675,570 | - | - | 13,167,395 |
| Federal sources | 762,960 | - | - | - | 762,960 |
| Total revenues | <u>20,999,608</u> | <u>2,789,782</u> | <u>329,283</u> | <u>1,000,785</u> | <u>25,119,458</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 8,646,112 | 227,904 | - | 392,103 | 9,266,119 |
| Special | 3,859,234 | - | - | - | 3,859,234 |
| Other | 2,739,319 | - | - | 344,395 | 3,083,714 |
| | <u>15,244,665</u> | <u>227,904</u> | <u>-</u> | <u>736,498</u> | <u>16,209,067</u> |
| Support services: | | | | | |
| Student | 125,051 | - | - | 5,038 | 130,089 |
| Instructional staff | 298,800 | - | - | 5,619 | 304,419 |
| Administration | 2,400,679 | 7,000 | - | 33,893 | 2,441,572 |
| Operation and maintenance of plant | 1,569,775 | 21,380 | - | 136,095 | 1,727,250 |
| Transportation | 586,972 | 108,890 | - | 46,250 | 742,112 |
| | <u>4,981,277</u> | <u>137,270</u> | <u>-</u> | <u>226,895</u> | <u>5,345,442</u> |
| Capital outlay | - | 1,904,771 | - | - | 1,904,771 |
| Long-term debt: | | | | | |
| Principal | - | - | 4,908,000 | - | 4,908,000 |
| Interest and fiscal charges | - | 99,021 | 399,961 | - | 498,982 |
| | <u>-</u> | <u>99,021</u> | <u>5,307,961</u> | <u>-</u> | <u>5,406,982</u> |
| Other expenditures: | | | | | |
| AEA flowthrough | 823,252 | - | - | - | 823,252 |
| Total expenditures | <u>21,049,194</u> | <u>2,368,966</u> | <u>5,307,961</u> | <u>963,393</u> | <u>29,689,514</u> |
| Excess(Deficiency) of revenues over(under) expenditures | (49,586) | 420,816 | (4,978,678) | 37,392 | (4,570,056) |
| Other financing sources(uses): | | | | | |
| Transfer in | - | 9,000 | 1,419,564 | - | 1,428,564 |
| Transfer out | (133,357) | (1,295,207) | - | - | (1,428,564) |
| Insurance proceeds | 1,505 | - | - | - | 1,505 |
| Sale of equipment | 17,669 | - | - | - | 17,669 |
| Revenue bond issuance | - | 10,000,000 | - | - | 10,000,000 |
| Revenue bond refunding issuance | - | - | 1,219,000 | - | 1,219,000 |
| Total other financing sources(uses) | <u>(114,183)</u> | <u>8,713,793</u> | <u>2,638,564</u> | <u>-</u> | <u>11,238,174</u> |
| Change in fund balances | (163,769) | 9,134,609 | (2,340,114) | 37,392 | 6,668,118 |
| Fund balances beginning 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> |
| Fund balances end of year | <u>\$ 3,497,194</u> | <u>12,042,615</u> | <u>1,054,066</u> | <u>964,408</u> | <u>17,558,283</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, 2014

Change in fund balances - total governmental funds(page 22) \$ 6,668,118

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

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

| | | |
|------------------------------------|-----------------|---------|
| Capital outlay | \$ 1,414,595 | |
| Depreciation expense | (1,132,494) | |
| Loss on disposal of capital assets | <u>(78,286)</u> | 203,815 |

Proceeds from issuing long-term liabilities provide current financial resources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayments of long-term liabilities is an expenditure in the governmental funds, but the replacement reduces long-term liabilities in the Statement of Net Position.

| | | |
|--------|------------------|-------------|
| Issued | (11,219,000) | |
| Repaid | <u>4,908,000</u> | (6,311,000) |

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.

(39,597)

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

433,617

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds, and is recognized as deferred inflows of resource in the governmental funds.

(32,788)

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 | 956,499 | |
| Compensated absences | 26,313 | |
| Other postemployment benefits | <u>(96,370)</u> | <u>886,442</u> |

Change in net position of governmental activities(page 19) \$ 1,808,607

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

| | Business Type | |
|---|-----------------------------------|--|
| | Activities: Enterprise Fund | Governmental Activities: Internal Service Fund |
| | School Nutrition | |
| ASSETS | | |
| Current assets: | | |
| Cash and pooled investments | \$ 199,696 | 1,865,391 |
| Accounts receivable | 555 | 12,632 |
| Due from other governments | 16,616 | - |
| Inventories | 18,511 | - |
| Total current assets | <u>235,378</u> | <u>1,878,023</u> |
| Non-current assets: | | |
| Capital assets: | | |
| Machinery and equipment, net of accumulated depreciation | 55,455 | - |
| TOTAL ASSETS | <u>290,833</u> | <u>1,878,023</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 7,744 | 217 |
| Unearned revenue | 16,213 | - |
| Total current liabilities | <u>23,957</u> | <u>217</u> |
| Long-term liabilities: | | |
| Net OPEB liability | 25,652 | - |
| TOTAL LIABILITIES | <u>49,609</u> | <u>217</u> |
| NET POSITION | | |
| Net investment in capital assets | 55,455 | - |
| Unrestricted | 185,769 | 1,877,806 |
| TOTAL NET POSITION | <u>\$ 241,224</u> | <u>1,877,806</u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

| | Business Type | |
|---|--|--|
| | Activities: Enterprise Fund School Nutrition | Governmental Activities: Internal Service Fund |
| OPERATING REVENUE: | | |
| Local sources: | | |
| Charges for service | \$ 562,791 | - |
| Contributions | 2,975 | - |
| Miscellaneous | 6,177 | 2,764,312 |
| TOTAL OPERATING REVENUES | 571,943 | 2,764,312 |
| OPERATING EXPENSES: | | |
| Instruction: | | |
| Regular: | | |
| Benefits | - | 5,100 |
| Total instruction | - | 5,100 |
| Support services: | | |
| Administration: | | |
| Services | 4,539 | 2,332,521 |
| Operation and maintenance of plant: | | |
| Services | 11,892 | - |
| Supplies | 12,497 | - |
| Total support services | 28,928 | 2,332,521 |
| Non-instructional programs: | | |
| Food service operations: | | |
| Salaries | 439,417 | - |
| Benefits | 169,691 | - |
| Services | 3,225 | - |
| Supplies | 483,316 | - |
| Depreciation | 10,484 | - |
| Total non-instructional programs | 1,106,133 | - |
| TOTAL OPERATING EXPENSES | 1,135,061 | 2,337,621 |
| OPERATING INCOME(LOSS) | (563,118) | 426,691 |
| NON-OPERATING REVENUES: | | |
| State sources | 7,793 | - |
| Federal sources | 570,223 | - |
| Interest on investments | 1,464 | 6,926 |
| TOTAL NON-OPERATING REVENUES | 579,480 | 6,926 |
| Increase in net position | 16,362 | 433,617 |
| Net position beginning of year | 224,862 | 1,444,189 |
| Net position end of year | \$ 241,224 | 1,877,806 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

| | Business Type Activities: Enterprise Fund School Nutrition | Governmental Activities: Internal Service Fund |
|--|---|--|
| Cash flows from operating activities: | | |
| Cash received from sale of lunches and breakfasts | \$ 561,477 | - |
| Cash received from donations | 2,975 | - |
| Cash received from miscellaneous sources | 6,177 | 2,751,680 |
| Cash payments to employees for services | (604,080) | (2,337,404) |
| Cash payments to suppliers for goods or services | (445,240) | - |
| Net cash provided by(used in) operating activities | <u>(478,691)</u> | <u>414,276</u> |
| Cash flows from non-capital financing activities: | | |
| State grants received | 7,793 | - |
| Federal grants received | 518,274 | - |
| Repayments to the General Fund | (4,385) | - |
| Net cash provided by non-capital financing activities | <u>521,682</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (1,738) | - |
| Cash flows from investing activities: | | |
| Interest on investments | 1,464 | 6,926 |
| Net increase in cash and cash equivalents | 42,717 | 421,202 |
| Cash and cash equivalents at beginning of year | 156,979 | 1,444,189 |
| Cash and cash equivalents at end of year | <u>\$ 199,696</u> | <u>1,865,391</u> |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities: | | |
| Operating income(loss) | \$ (563,118) | 426,691 |
| Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities: | | |
| Commodities used | 54,334 | - |
| Depreciation | 10,484 | - |
| Decrease in inventories | 8,151 | - |
| (Increase)Decrease in accounts receivable | 625 | (12,632) |
| Increase in accounts payable | 7,744 | 217 |
| Decrease in unearned revenue | (1,939) | - |
| Increase in other postemployment benefits | 5,028 | - |
| Net cash provided by(used in) operating activities | <u>\$ (478,691)</u> | <u>414,276</u> |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received Federal commodities valued at \$54,334.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SPENCER COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

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 service.

The Statement of Net Position presents the District's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets 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. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position is often subject to constraints imposed by management which 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 and Internal Service 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 non-major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and Internal Service, Self-Funded Insurance Fund and the Internal Service, Flex Benefit 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 and Flex Benefit Funds are used to account for the self-funded health insurance and flex benefits 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. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

Under 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. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Balances

The following accounting policies are followed in preparing the financial statements.

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 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.

Property Tax Receivable

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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

Due From Other Governments

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

Inventories

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.

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.

| Asset Class | Amount |
|---------------------------------|---------|
| Land | \$ 500 |
| Buildings | 500 |
| Land improvements | 500 |
| Intangibles | 178,000 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 500 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|-------------------------|--------------------------------------|
| Buildings | 50 years |
| Land improvements | 20 years |
| Intangibles | 2 or more |
| Machinery and equipment | 5-12 years |

Salaries and Benefits Payable

Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been liabilities.

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.

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, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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.

Deferred Inflows of Resources

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 year. Deferred inflows of resources in the governmental fund 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 year. Deferred inflows of resources consist of succeeding year property tax receivable, and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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.

Assigned - Amounts are not available for appropriation but are set aside for a specific purposes by the District's Board of Directors.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, 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, 2014 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. As of June 30, 2014 the District had no investments.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

| Transfer to | Transfer from | Amount |
|---|---|---------------------|
| Debt Service | Capital Projects: Statewide Sales, Services and Use Tax | \$ 920,396 |
| Debt Service | Capital Projects: City Sales, Services and Use Tax | 374,811 |
| Debt Service | General | 124,357 |
| Capital Projects: Physical, Plant and Equipment Levy | General | 9,000 |
| Total | | <u>\$ 1,428,564</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.

The transfer from the General Fund to the Capital Projects: Physical Plant and Equipment Levy Fund was to repay utilities expense paid by the Capital Projects: Physical Plant and Equipment Levy Fund in prior years.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2014 was the following:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 748,830 | 33,351 | - | 782,181 |
| Construction in progress | 498,418 | 1,135,058 | 1,222,492 | 410,984 |
| Total capital assets not being depreciated | <u>1,247,248</u> | <u>1,168,409</u> | <u>1,222,492</u> | <u>1,193,165</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 30,787,822 | 1,036,957 | 95,000 | 31,729,779 |
| Land improvements | 2,930,495 | 152,184 | - | 3,082,679 |
| Machinery and equipment | 6,356,608 | 279,537 | 948,561 | 5,687,584 |
| Total capital assets being depreciated | <u>40,074,925</u> | <u>1,468,678</u> | <u>1,043,561</u> | <u>40,500,042</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 8,001,147 | 610,996 | 19,000 | 8,593,143 |
| Land improvements | 788,698 | 141,765 | - | 930,463 |
| Machinery and equipment | 5,381,231 | 379,733 | 946,275 | 4,814,689 |
| Total accumulated depreciation | <u>14,171,076</u> | <u>1,132,494</u> | <u>965,275</u> | <u>14,338,295</u> |
| Total capital assets being depreciated, net | <u>25,903,849</u> | <u>336,184</u> | <u>78,286</u> | <u>26,161,747</u> |
| Governmental activities capital assets, net | <u>\$ 27,151,097</u> | <u>1,504,593</u> | <u>1,300,778</u> | <u>27,354,912</u> |
| Business type activities: | | | | |
| Machinery and equipment | \$ 293,555 | 1,738 | - | 295,293 |
| Less accumulated depreciation | 229,354 | 10,484 | - | 239,838 |
| Business type activities capital assets, net | <u>\$ 64,201</u> | <u>(8,746)</u> | <u>-</u> | <u>55,455</u> |
| Depreciation expense was charged by the District as follows: | | | | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | | | | \$ 196,758 |
| Special | | | | 6,364 |
| Other | | | | 15,591 |
| Support services: | | | | |
| Administration | | | | 43,170 |
| Operation and maintenance of plant | | | | 23,891 |
| Transportation | | | | 93,959 |
| | | | | <u>379,733</u> |
| Unallocated depreciation | | | | <u>752,761</u> |
| Total governmental activities depreciation expense | | | | <u>\$ 1,132,494</u> |
| Business type activities: | | | | |
| Food service operations | | | | <u>\$ 10,484</u> |

Note 5. 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, 2014 are as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|---|---------------------------------|-------------------|------------------|---------------------------|---------------------------|
| <u>Governmental Activities:</u> | | | | | |
| Revenue Bonds | \$ 5,725,000 | 11,219,000 | 2,218,000 | 14,726,000 | 526,000 |
| General Obligation bonds | 5,125,000 | - | 2,605,000 | 2,520,000 | 240,000 |
| Capital Loan Notes | 910,000 | - | 85,000 | 825,000 | 90,000 |
| Termination Benefits | 956,499 | - | 956,499 | - | - |
| Compensated Absences | 70,225 | 43,912 | 70,225 | 43,912 | 43,912 |
| Net OPEB Liability | 394,115 | 96,370 | - | 490,485 | - |
| Total | <u>\$ 13,180,839</u> | <u>11,359,282</u> | <u>5,934,724</u> | <u>18,605,397</u> | <u>899,912</u> |
| <u>Business Type Activities:</u> | | | | | |
| Net OPEB Liability | \$ 20,624 | 5,028 | - | 25,652 | - |

Revenue Bonds Payable

Details of the District's June 30, 2014 statewide/city sales, services and use tax revenue bonded indebtedness are as follows:

| Year Ending June 30, | Bond issue of July 1, 2011 | | | Refunding Bond issue of December 2, 2013 | | |
|----------------------------|----------------------------|---------------------|------------------|--|-------------------|---------------|
| | Rate | Principal | Interest | Rate | Principal | Interest |
| 2015 | 2.00 % | \$ 175,000 | 129,682 | 1.60 % | \$ 251,000 | 14,456 |
| 2016 | 2.00 | 175,000 | 126,183 | 1.60 | 250,000 | 10,440 |
| 2017 | 2.25 | 175,000 | 122,682 | 1.60 | 250,000 | 6,440 |
| 2018 | 2.50 | 185,000 | 118,745 | 1.60 | 215,000 | 2,640 |
| 2019 | 2.90 | 190,000 | 114,120 | - | - | - |
| 2020-2024 | 2.90 - 3.60 | 1,045,000 | 478,750 | - | - | - |
| 2025-2029 | 3.70 - 4.15 | 1,215,000 | 278,090 | - | - | - |
| 2030 | 4.25 | 600,000 | 12,750 | - | - | - |
| Total | | <u>\$ 3,760,000</u> | <u>1,381,002</u> | | <u>\$ 966,000</u> | <u>33,976</u> |

| Year Ending June 30, | Bond Issue of May 1, 2014 | | | Total | | |
|----------------------------|---------------------------|----------------------|------------------|----------------------|------------------|-------------------|
| | Rate | Principal | Interest | Principal | Interest | Total |
| 2015 | 2.98 % | \$ 100,000 | 347,667 | 526,000 | 491,805 | 1,017,805 |
| 2016 | 2.98 | 100,000 | 295,020 | 525,000 | 431,643 | 956,643 |
| 2017 | 2.98 | 100,000 | 292,040 | 525,000 | 421,162 | 946,162 |
| 2018 | 2.98 | 485,000 | 289,060 | 885,000 | 410,445 | 1,295,445 |
| 2019 | 2.98 | 715,000 | 274,607 | 905,000 | 388,727 | 1,293,727 |
| 2020-2024 | 2.98 | 3,895,000 | 1,041,361 | 4,940,000 | 1,520,111 | 6,460,111 |
| 2025-2029 | 2.98 | 4,540,000 | 424,054 | 5,755,000 | 702,144 | 6,457,144 |
| 2030 | 2.98 | 65,000 | 968 | 665,000 | 13,718 | 678,718 |
| Total | | <u>\$ 10,000,000</u> | <u>2,964,777</u> | <u>\$ 14,726,000</u> | <u>4,379,755</u> | <u>19,105,755</u> |

The District has pledged future statewide/city sales, services and use tax revenues to repay the \$14,726,000 of revenue bonds outstanding at June 30, 2014. 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. Annual principal and interest payments on the bonds are expected to require nearly 48% of the statewide/city sales, services and use tax revenues. The total principal and interest remaining to be paid is \$19,105,755. For the current year \$2,218,000 in principal and \$178,408 in interest was paid on the bonds and total statewide/city sales, services and use tax revenues were \$2,130,820.

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) The District will make monthly transfers to a revenue account held by the bonding agent.
- 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.

General Obligation Bonds Payable

Details of the District’s June 30, 2014 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of May 22, 2012 | | | |
|----------------------------|----------------------------|--------------|------------|--------------|
| | Rate | Principal | Interest | Total |
| 2015 | 1.00 % | \$ 240,000 | \$ 38,175 | \$ 278,175 |
| 2016 | 1.00 | 240,000 | 35,775 | 275,775 |
| 2017 | 1.00 | 245,000 | 33,375 | 278,375 |
| 2018 | 1.25 | 245,000 | 30,925 | 275,925 |
| 2019 | 1.50 | 250,000 | 27,863 | 277,863 |
| 2020-2024 | 1.5-2.00 | 1,300,000 | 76,475 | 1,376,475 |
| Total | | \$ 2,520,000 | \$ 242,588 | \$ 2,762,588 |

Capital Loan Notes Payable

During the year ended June 30, 2008, the District issued Energy Management Capital Loan Notes of \$1,285,000 for school infrastructure. The capital loan notes are payable from the General Fund. Details of the District’s June 30, 2014 capital loan notes indebtedness are as follows:

| Year Ending June 30, | Capital Loan Note Issue of September 5, 2007 | | | |
|----------------------------|--|------------|----------|---------|
| | Rate | Principal | Interest | Total |
| 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 | 4.27 | 105,000 | 19,215 | 124,215 |
| 2020-2022 | 4.27 | 345,000 | 29,890 | 374,890 |
| Total | | \$ 825,000 | 166,745 | 991,745 |

Note 6. Current Refunding

On December 2, 2013, the District issued a \$1,219,000 revenue bond with an interest rate of 1.60 percent to refund \$1,175,000 of the outstanding revenue bonds dated September 5, 2007 with an interest rate of 3.65 percent. The new refunding revenue bond has been added to the appropriate financial statements and schedules. The economic savings for the District on the refunding is \$58,100.

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. The District also offers the option of up to five years of single health insurance coverage up to \$10,000 a year or to pay an equivalent amount to a qualified 403b plan on an annual basis to eligible retirees these benefits are included in the actuarial valuation as an explicit benefit.

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, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|--------------------------|
| Annual required contribution | \$ 307,309 |
| Interest on net OPEB obligation | 10,368 |
| Adjustment to annual required contribution | <u>(54,564)</u> |
| Annual OPEB cost | 263,113 |
| Contributions made | <u>(161,715)</u> |
| Increase in net OPEB obligation | 101,398 |
| Net OPEB obligation beginning of year | <u>414,739</u> |
| Net OPEB obligation end of year | <u><u>\$ 516,137</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, 2014.

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

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|------------------|--|---------------------|
| 2012 | \$ 149,375 | 48.74 % | \$ 311,721 |
| 2013 | 288,858 | 36.30 | 414,739 |
| 2014 | 263,113 | 61.46 | 516,137 |

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$1,578,006, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of

\$1,578,006. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11,004,294 and the ratio of the UAAL to covered payroll was 14.3%. As of June 30, 2014, 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 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$1,147,960, \$1,077,414, and \$953,188 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 \$1,865,462.

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 \$823,252 for the year ended June 30, 2014 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 2013.

Note 12. Construction Commitments

The District has entered into contracts totaling \$1,847,427 for various construction projects throughout the District. As of June 30, 2014, costs of \$410,984 had been incurred against the contracts. The balance of \$1,436,443 remaining at June 30, 2014 will be paid as work on the projects progresses.

Note 13. Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed the certified budget amounts. During the year ended June 30, 2014 expenditures in the other expenditures functional area exceeded the amount budgeted.

Note 14. Categorical Funding

The District’s ending restricted balances for categorical funding as of June 30, 2014 are broken out by the following programs:

| <u>Programs</u> | <u>Amount</u> |
|--|-------------------|
| At-risk supplemental weighting | \$ 990 |
| Gifted and talented | 117,499 |
| Dropout and dropout prevention | 12,478 |
| Teacher salary supplement | 87,010 |
| Market factor | 8,805 |
| Iowa early intervention block grant | 48,955 |
| Successful progression for early readers | 27,743 |
| Professional development for model core curriculum | 136,207 |
| Professional development | 188 |
| Teacher leadership grants | 2,256 |
| Total | <u>\$ 442,131</u> |

Note 15. 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:

| | <u>Invested in Capital Assets</u> | <u>School Infrastructure</u> | <u>Debt Service</u> | <u>Unassigned/ Restricted Balances</u> |
|--|---|----------------------------------|-------------------------|--|
| Fund balance (Exhibit C) | \$ - | 11,378,367 | 1,054,066 | 2,974,635 |
| Capital assets, net of accumulated depreciation | 27,354,912 | - | - | - |
| Capital loan note capitalized indebtedness | (825,000) | - | - | - |
| Revenue bond capitalized indebtedness | (5,092,496) | - | - | - |
| General obligation bond capitalized indebtedness | (2,520,000) | - | - | - |
| Unspent revenue bond proceeds | - | (9,633,504) | - | - |
| Accrued interest payable | - | - | (52,648) | - |
| Accrued compensated absences | - | - | - | (43,912) |
| Income surtax | - | - | - | 467,386 |
| Internal service fund balance | - | - | - | 1,877,806 |
| Net OPEB liability | - | - | - | (490,485) |
| Assigned fund balance | - | - | - | 80,428 |
| Net position (Exhibit A) | <u>\$ 18,917,416</u> | <u>1,744,863</u> | <u>1,001,418</u> | <u>4,865,858</u> |

Note 16. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68 Accounting and Financial Reporting for Pensions – an Amendment to GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government’s proportionate share of the employee pension plan.

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, 2014

| | Governmental | Proprietary | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|---|----------------------|------------------|-------------------|-------------------|-------------------|--------------------------------|
| | Funds | Funds | | Original | Final | |
| | Actual | Actual | | | | |
| Revenues: | | | | | | |
| Local sources | \$ 10,733,853 | 573,407 | 11,307,260 | 12,770,453 | 12,770,453 | (1,463,193) |
| Intermediate sources | 455,250 | - | 455,250 | 450,000 | 450,000 | 5,250 |
| State sources | 13,167,395 | 7,793 | 13,175,188 | 11,178,652 | 11,178,652 | 1,996,536 |
| Federal sources | 762,960 | 570,223 | 1,333,183 | 1,440,000 | 1,440,000 | (106,817) |
| Total revenues | <u>25,119,458</u> | <u>1,151,423</u> | <u>26,270,881</u> | <u>25,839,105</u> | <u>25,839,105</u> | <u>431,776</u> |
| Expenditures/Expenses: | | | | | | |
| Instruction | 16,209,067 | - | 16,209,067 | 16,847,000 | 17,500,000 | 1,290,933 |
| Support services | 5,345,442 | 28,928 | 5,374,370 | 6,000,000 | 6,000,000 | 625,630 |
| Non-instructional programs | - | 1,106,133 | 1,106,133 | 1,250,000 | 1,250,000 | 143,867 |
| Other expenditures | 8,135,005 | - | 8,135,005 | 2,387,999 | 7,400,000 | (735,005) |
| Total expenditures/expenses | <u>29,689,514</u> | <u>1,135,061</u> | <u>30,824,575</u> | <u>26,484,999</u> | <u>32,150,000</u> | <u>1,325,425</u> |
| Excess(Deficiency) of revenues over(under) expenditures/expenses | (4,570,056) | 16,362 | (4,553,694) | (645,894) | (6,310,895) | 1,757,201 |
| Other financing sources, net | 11,238,174 | - | 11,238,174 | 3,000 | 3,000 | 11,235,174 |
| Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses | 6,668,118 | 16,362 | 6,684,480 | (642,894) | (6,307,895) | 12,992,375 |
| Balance beginning of year | 10,890,165 | 224,862 | 11,115,027 | 10,498,782 | 10,498,782 | 616,245 |
| Balance end of year | <u>\$ 17,558,283</u> | <u>241,224</u> | <u>17,799,507</u> | <u>9,855,888</u> | <u>4,190,887</u> | <u>13,608,620</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$5,665,001.

During the year ended June 30, 2014, 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 | - | 1,758,552 | 1,758,552 | 0.00% | 10,579,016 | 16.6% |
| 2014 | July 1, 2012 | - | 1,578,006 | 1,578,006 | 0.00% | 11,004,294 | 14.3% |

See Note 7 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SPENCER COMMUNITY SCHOOL DISTRICT
 STATEMENT OF ASSETS, LIABILITES AND NET POSITION - CASH BASIS
 COMPONENT UNIT
 DECEMBER 31, 2013

| | Spencer Community School Foundation |
|-----------------------------|---|
| ASSETS | |
| Cash and pooled investments | \$ 1,632,270 |
| LIABILITIES | |
| Benefits payable | 658 |
| Notes payable | 60,000 |
| TOTAL LIABILITIES | 60,658 |
| NET POSITION | \$ 1,571,612 |

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, 2013

| | Spencer Community School Foundation |
|--------------------------------|---|
| Revenue: | |
| Contributions and gifts | \$ 327,216 |
| Interest | 32,580 |
| Gain on sale of investments | 44,012 |
| Other | 188 |
| Total revenue | 403,996 |
| Expenses: | |
| Scholarships | 223,815 |
| Mini Grants | 62,671 |
| Salaries and benefits | 18,085 |
| Accounting services | 2,275 |
| Investment fees | 7,862 |
| Advertising | 3,659 |
| Office supplies | 1,733 |
| Travel | 1,257 |
| Other | 851 |
| Total expenses | 322,208 |
| Increase in net position | 81,788 |
| Net position beginning of year | 1,489,824 |
| Net position end of year | \$ 1,571,612 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Supplementary Information

SPENCER COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

| | Special Revenue | | |
|---|-------------------------|---------------------|------------------|
| | Manage- ment Levy | Student Activity | Total |
| ASSETS | | | |
| Cash and pooled investments | \$ 800,660 | 162,491 | 963,151 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 4,757 | - | 4,757 |
| Succeeding year | 700,000 | - | 700,000 |
| Accounts | - | 2,543 | 2,543 |
| Due from other governments | 23 | - | 23 |
| TOTAL ASSETS | \$ 1,505,440 | 165,034 | 1,670,474 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 4,435 | 1,631 | 6,066 |
| Deferred inflows of resources: | | | |
| Unavailable revenue: | | | |
| Succeeding year property tax | 700,000 | - | 700,000 |
| Fund balances: | | | |
| Restricted for: | | | |
| Management levy purposes | 801,005 | - | 801,005 |
| Student activities | - | 163,403 | 163,403 |
| Total fund balances | 801,005 | 163,403 | 964,408 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 1,505,440 | 165,034 | 1,670,474 |

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, 2014

| | Special Revenue | | |
|--------------------------------------|-------------------------|---------------------|-----------|
| | Manage- ment Levy | Student Activity | Total |
| REVENUES: | | | |
| Local sources: | | | |
| Local tax | \$ 599,756 | - | 599,756 |
| Other | 21,154 | 379,875 | 401,029 |
| Total revenues | 620,910 | 379,875 | 1,000,785 |
| EXPENDITURES: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 392,103 | - | 392,103 |
| Other | - | 344,395 | 344,395 |
| Support services: | | | |
| Student | 5,038 | - | 5,038 |
| Instructional staff | 5,619 | - | 5,619 |
| Administration | 33,893 | - | 33,893 |
| Operation and maintenance of plant | 132,628 | 3,467 | 136,095 |
| Transportation | 16,015 | 30,235 | 46,250 |
| Total expenditures | 585,296 | 378,097 | 963,393 |
| Excess of revenues over expenditures | 35,614 | 1,778 | 37,392 |
| Fund balances beginning of year | 765,391 | 161,625 | 927,016 |
| Fund balances end of year | \$ 801,005 | 163,403 | 964,408 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS ACCOUNTS
 JUNE 30, 2014

| | Capital Projects | | | Total |
|---|--|--------------------------------------|--|-------------------|
| | Statewide Sales, Services and Use Tax | City Sales and Services Tax | Physical Plant and Equipment Levy | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 11,034,843 | 398,039 | 659,627 | 12,092,509 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | - | - | 4,599 | 4,599 |
| Succeeding year | - | - | 600,791 | 600,791 |
| Due from other governments | 265,013 | - | 22 | 265,035 |
| TOTAL ASSETS | \$ 11,299,856 | 398,039 | 1,265,039 | 12,962,934 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 319,528 | - | - | 319,528 |
| Deferred inflows or resources: | | | | |
| Unavailable revenue: | | | | |
| Succeeding year property tax | - | - | 600,791 | 600,791 |
| Fund balances: | | | | |
| Restricted for: | | | | |
| School infrastructure | 10,980,328 | 398,039 | - | 11,378,367 |
| Physical plant and equipment | - | - | 664,248 | 664,248 |
| Total fund balances | 10,980,328 | 398,039 | 664,248 | 12,042,615 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 11,299,856 | 398,039 | 1,265,039 | 12,962,934 |

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, 2014

| | Capital Projects | | | Total |
|--|--|--------------------------------------|--|-------------------|
| | Statewide Sales, Services and Use Tax | City Sales and Services Tax | Physical Plant and Equipment Levy | |
| REVENUES: | | | | |
| Local sources: | | | | |
| Local tax | \$ - | - | 592,866 | 592,866 |
| Other | 61,324 | 421 | 4,351 | 66,096 |
| Intermediate sources: | | | | |
| City tax | - | 455,250 | - | 455,250 |
| State sources | 1,675,570 | - | - | 1,675,570 |
| Total revenues | <u>1,736,894</u> | <u>455,671</u> | <u>597,217</u> | <u>2,789,782</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | - | - | 227,904 | 227,904 |
| Support services: | | | | |
| Administration | 7,000 | - | - | 7,000 |
| Operation and maintenance of plant | - | - | 21,380 | 21,380 |
| Transportation | - | - | 108,890 | 108,890 |
| Capital outlay | 1,594,493 | 50,253 | 260,025 | 1,904,771 |
| Long-term Debt: | | | | |
| Interest and fiscal charges | 99,021 | - | - | 99,021 |
| Total expenditures | <u>1,700,514</u> | <u>50,253</u> | <u>618,199</u> | <u>2,368,966</u> |
| Excess(Deficiency) of revenues over(under) expenditures | 36,380 | 405,418 | (20,982) | 420,816 |
| Other financing sources(uses): | | | | |
| Transfer in | - | - | 9,000 | 9,000 |
| Transfer out | (920,396) | (374,811) | - | (1,295,207) |
| Revenue bond issuance | 10,000,000 | - | - | 10,000,000 |
| Total other financing sources(uses) | <u>9,079,604</u> | <u>(374,811)</u> | <u>9,000</u> | <u>8,713,793</u> |
| Change in fund balances | 9,115,984 | 30,607 | (11,982) | 9,134,609 |
| Fund balances beginning of year | <u>1,864,344</u> | <u>367,432</u> | <u>676,230</u> | <u>2,908,006</u> |
| Fund balances end of year | <u>\$ 10,980,328</u> | <u>398,039</u> | <u>664,248</u> | <u>12,042,615</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET POSITION
 INTERNAL SERVICE FUNDS
 JUNE 30, 2014

| | Governmental Activities: Internal Service Funds | | |
|-----------------------------|--|-----------------|------------------|
| | Partially Self-funded Health Insurance | Flex Benefit | Total |
| ASSETS | | | |
| Cash and pooled investments | \$ 1,818,405 | 46,986 | 1,865,391 |
| Accounts receivable | 12,632 | - | 12,632 |
| TOTAL ASSETS | 1,831,037 | 46,986 | 1,878,023 |
| LIABILITIES | | | |
| Accounts payable | 217 | - | 217 |
| NET POSITION | \$ 1,830,820 | 46,986 | 1,877,806 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2014

| | Governmental Activities: Internal Service Funds | | |
|---------------------------------|--|-----------------|------------------|
| | Partially Self-funded Health Insurance | Flex Benefit | Total |
| OPERATING REVENUES: | | | |
| Local sources: | | | |
| Miscellaneous | \$ 2,614,470 | 149,842 | 2,764,312 |
| OPERATING EXPENSES: | | | |
| Support services: | | | |
| Instruction: | | | |
| Benefits | 5,100 | - | 5,100 |
| Administration: | | | |
| Benefits | 2,211,321 | 121,200 | 2,332,521 |
| TOTAL OPERATING EXPENSES | 2,216,421 | 121,200 | 2,337,621 |
| Operating income | 398,049 | 28,642 | 426,691 |
| NON-OPERATING REVENUES: | | | |
| Interest on investments | 6,835 | 91 | 6,926 |
| Change in net position | 404,884 | 28,733 | 433,617 |
| Net position beginning of year | 1,425,936 | 18,253 | 1,444,189 |
| Net position end of year | \$ 1,830,820 | 46,986 | 1,877,806 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2014

| | Governmental Activities: Internal Service Funds | | |
|---|--|-----------------|-------------|
| | Partially Self-funded Health Insurance | Flex Benefit | Total |
| Cash flows from operating activities: | | | |
| Cash received from miscellaneous | \$ 2,601,838 | 149,842 | 2,751,680 |
| Cash payments to employees for services | (2,216,204) | (121,200) | (2,337,404) |
| Net cash provided by operating activities | 385,634 | 28,642 | 414,276 |
| Cash flows from investing activities: | | | |
| Interest on investments | 6,835 | 91 | 6,926 |
| Net increase in cash and cash equivalents | 392,469 | 28,733 | 421,202 |
| Cash and cash equivalents at beginning of year | 1,425,936 | 18,253 | 1,444,189 |
| Cash and cash equivalents at end of year | \$ 1,818,405 | 46,986 | 1,865,391 |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 398,049 | 28,642 | 426,691 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Increase in accounts receivable | (12,632) | - | (12,632) |
| Increase in accounts payable | 217 | - | 217 |
| Net cash provided by operating activities | \$ 385,634 | 28,642 | 414,276 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2014

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|------------------------------|---------------------------------|----------------|-------------------|---------------------------|
| <u>DISTRICT WIDE</u> | | | | |
| CONCESSIONS | \$ 2,277 | 29,333 | 31,610 | - |
| GENERAL DISTRICT WIDE | 4,519 | - | - | 4,519 |
| INTEREST | 475 | - | - | 475 |
| | <u>7,271</u> | <u>29,333</u> | <u>31,610</u> | <u>4,994</u> |
| <u>ELEMENTARY:</u> | | | | |
| ART/TECHNOLOGY | 782 | - | - | 782 |
| ELEMENTARY FUNDRAISING | 10,975 | - | - | 10,975 |
| | <u>11,757</u> | <u>-</u> | <u>-</u> | <u>11,757</u> |
| <u>MIDDLE SCHOOL:</u> | | | | |
| INSTRUMENTAL | 1,552 | 4,281 | 3,071 | 2,762 |
| CONCESSIONS | 413 | 9,247 | 8,977 | 683 |
| TIGER'S PRAIRIE | 292 | - | - | 292 |
| STUDENT COUNCIL | 483 | - | - | 483 |
| FUNDRAISERS | 5,416 | - | - | 5,416 |
| | <u>8,156</u> | <u>13,528</u> | <u>12,048</u> | <u>9,636</u> |
| <u>HIGH SCHOOL:</u> | | | | |
| DRAMA | 862 | 12,870 | 13,732 | - |
| SPEECH CLUB | 1,847 | 16,673 | 17,516 | 1,004 |
| VOCAL | 240 | 15,991 | 16,231 | - |
| INSTRUMENTAL | 100 | 6,117 | 6,217 | - |
| BAND/CHOIR | 203 | 12,729 | 12,932 | - |
| SPECIAL OLYMPICS | 353 | 4,218 | 1,667 | 2,904 |
| ARCHERY | - | 353 | 353 | - |
| TRACK | 406 | 11,915 | 12,321 | - |
| CROSS COUNTRY | - | 1,985 | 1,985 | - |
| BOYS BASKETBALL | - | 8,269 | 8,269 | - |
| FOOTBALL | 526 | 17,124 | 17,650 | - |
| BOYS SOCCER | - | 5,943 | 5,943 | - |
| BASEBALL | 336 | 7,225 | 7,561 | - |
| BOYS TENNIS | 3 | 2,983 | 2,986 | - |
| BOYS GOLF | 548 | 2,300 | 2,848 | - |
| BOYS SWIMMING | 249 | 717 | 966 | - |
| WRESTLING | - | 12,192 | 12,192 | - |
| GIRLS BASKETBALL | - | 10,815 | 10,815 | - |
| VOLLEYBALL | - | 7,797 | 7,797 | - |
| GIRLS SOCCER | 627 | 2,039 | 2,666 | - |
| SOFTBALL | 446 | 7,432 | 7,878 | - |
| GIRLS TENNIS | 501 | 1,027 | 1,528 | - |
| GIRLS GOLF | 190 | 1,435 | 1,625 | - |
| GIRLS SWIMMING | - | 4,202 | 4,202 | - |
| GENERAL ATHLETICS | 83,362 | 18,832 | 22,044 | 80,150 |
| FFA | 7,818 | 7,221 | 15,039 | - |
| BUSINESS MANAGEMENT CLUB | 325 | - | - | 325 |
| SKILLS USA | 2,593 | 1,438 | 1,937 | 2,094 |
| STUDENT COUNCIL | 6,875 | 2,662 | 6,209 | 3,328 |
| PEP CLUB | 708 | 4,598 | 5,306 | - |
| SPANISH CLUB | 3,780 | 2,912 | 2,606 | 4,086 |
| BUILDERS CLUB | - | 300 | - | 300 |
| FUNDRAISERS | 3,713 | 4,613 | 3,953 | 4,373 |
| NATIONAL HONOR SOCIETY | - | 395 | 395 | - |
| JUNIOR CLASS | 367 | 14,363 | 8,537 | 6,193 |
| SENIOR CLASS | 5 | 2,624 | 2,619 | 10 |
| MOCK TRIAL | 300 | - | 150 | 150 |
| DEBATE | 332 | 380 | 624 | 88 |
| SPECERIAN | 325 | 6,471 | 6,796 | - |
| DANCE TEAM | 2,178 | 2,980 | 3,615 | 1,543 |
| MUSIC DEPT TRIP | - | 25,530 | - | 25,530 |
| ATHLETIC REVOLVING | 54 | 35,282 | 35,336 | - |
| TOURNEY AND HOSTED EVENTS | 5,789 | 28,682 | 34,246 | 225 |
| WEIGHT ROOM | 8,480 | 3,380 | 7,147 | 4,713 |
| | <u>134,441</u> | <u>337,014</u> | <u>334,439</u> | <u>137,016</u> |
| TOTALS | \$ <u>161,625</u> | <u>379,875</u> | <u>378,097</u> | <u>163,403</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, | | | | | | | | | |
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Revenues: | | | | | | | | | | |
| Local sources: | | | | | | | | | | |
| Local tax | \$ 8,985,137 | 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 |
| Tuition | 956,481 | 866,901 | 916,469 | 977,964 | 1,108,358 | 1,089,092 | 1,095,425 | 1,339,680 | 1,112,866 | 1,030,567 |
| Other | 792,235 | 815,328 | 714,451 | 980,694 | 624,677 | 887,012 | 1,511,587 | 1,203,973 | 1,333,398 | 1,912,346 |
| Intermediate sources | 455,250 | 495,145 | 451,924 | 496,020 | 296,750 | 407,976 | - | - | - | - |
| State sources | 13,167,395 | 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 |
| Federal sources | 762,960 | 929,223 | 703,668 | 1,446,223 | 2,049,461 | 908,241 | 528,674 | 771,965 | 872,062 | 991,030 |
| Total | \$ 25,119,458 | 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 |
| Expenditures: | | | | | | | | | | |
| Instruction | \$ 16,209,067 | 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 |
| Support services: | | | | | | | | | | |
| Student | 130,089 | 125,556 | 149,184 | 95,179 | 200,923 | 86,271 | 181,649 | 198,050 | 138,449 | 384,533 |
| Instructional staff | 304,419 | 273,364 | 254,651 | 297,430 | 302,151 | 278,099 | 363,734 | 343,820 | 269,397 | 235,468 |
| Administration | 2,441,572 | 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 |
| Operation and maintenance of plant | 1,727,250 | 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 |
| Transportation | 742,112 | 702,141 | 476,877 | 452,611 | 517,180 | 648,619 | 498,411 | 561,278 | 603,875 | 400,540 |
| Non-instructional programs | - | - | - | - | - | - | - | - | - | 34,369 |
| Capital outlay | 1,904,771 | 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 |
| Long-term debt: | | | | | | | | | | |
| Principal | 4,908,000 | 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 | 498,982 | 435,771 | 271,942 | 378,902 | 425,110 | 468,633 | 580,900 | 389,683 | 394,410 | 385,130 |
| Other expenditures: | | | | | | | | | | |
| AEA flow-through | 823,252 | 781,621 | 755,803 | 810,639 | 786,034 | 707,167 | 684,941 | 641,561 | 601,508 | 600,878 |
| Total | \$ 29,689,514 | 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 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SPENCER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2014

| GRANTOR/PROGRAM | CFDA NUMBER | GRANT NUMBER | EXPENDITURES |
|---|----------------|-----------------|---------------------|
| INDIRECT: | | | |
| DEPARTMENT OF AGRICULTURE: | | | |
| IOWA DEPARTMENT OF EDUCATION: | | | |
| SCHOOL NUTRITION CLUSTER PROGRAMS: | | | |
| SCHOOL BREAKFAST PROGRAM | 10.553 | FY 14 | \$ 99,537 |
| NATIONAL SCHOOL LUNCH PROGRAM | 10.555 | FY 14 | 444,062 * |
| SUMMER FOOD SERVICE PROGRAM FOR CHILDREN | 10.559 | FY 14 | 26,624 |
| | | | <u>570,223</u> |
| DEPARTMENT OF EDUCATION: | | | |
| IOWA DEPARTMENT OF EDUCATION: | | | |
| TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES | 84.010 | 6102-G | 317,983 |
| TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES | 84.010 | 6102-GC | 1,377 |
| | | | <u>319,360</u> |
| SPECIAL EDUCATION - GRANTS TO STATES (PART B HI COST CLAIMS) | 84.027 | FY 14 | <u>17,841</u> ** |
| VOCATIONAL EDUCATION - BASIC GRANTS TO STATES | 84.048 | FY 14 | <u>12,140</u> |
| IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA) | 84.367 | FY 13 | 4 |
| IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA) | 84.367 | FY 14 | 64,041 |
| | | | <u>64,045</u> |
| GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A) | 84.369 | FY 14 | <u>10,653</u> |
| COOPERATIVE AGREEMENTS TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTATNT HEALTH PROBLEMS (AIDS EDUCATION) | 93.938 | FY 14 | <u>255</u> |
| PRAIRIE LAKES AREA EDUCATION AGENCY: | | | |
| TITLE III- ENGLISH LANGUAGE ACQUISITION STATE GRANTS | 84.365 | FY 14 | <u>973</u> |
| SPECIAL EDUCATION - GRANTS TO STATES (PART B) | 84.027 | FY 14 | <u>98,625</u> ** |
| TOTAL | | | <u>\$ 1,094,115</u> |

* Includes \$54,334 of non-cash awards.

** Total for special education cluster (IDEA) is \$116,466.

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, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 13, 2015.

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 significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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-14 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 deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-14 and II-C-14 to be significant deficiencies.

Compliance and Other Matters

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

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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, 2014 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 13, 2015
Newton, Iowa

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 Compliance
for Each Major Federal Program and on Internal Control Over Compliance
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 its major federal programs for the year ended June 30, 2014. 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 of the major federal programs. 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, 2014.

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 certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiency.

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-14 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 in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-B-14 to be a significant deficiency.

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 13, 2015
Newton, Iowa

SPENCER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) Significant deficiencies 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 significant deficiency and 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, 2014

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-14 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, and posting.
- 6) Transfers - preparing and approving.
- 7) Financial reporting - preparing, and reconciling.

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-14 Capital Assets - 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.

Recommendation - 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 attempt to research dollar amounts with no description in the capital asset listing for buildings and land improvements. We are currently using detailed descriptions when capital assets are recorded so they will be accurately removed at disposal.

Conclusion - Response accepted.

II-C-14 Payroll Contract - We noted during our audit the District paid its Food Service Director \$2,500 for being in charge of the summer food program, however, we noted that this amount was not listed on the employee's contract with the District.

Recommendation - The District should have a valid employment contract with all employees for all services performed by such employees. If the District wishes to pay the Food Service Director to run its summer food program the amount of pay for these duties should be included in a valid employment contract, either with the original or in a separate contract.

Response - The District will issue the Food Service Director a separate contract to run the summer food program.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 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: 2014
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: 2014
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-14 Segregation of Duties - One important aspect of internal accounting control is the (2014-001) 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, and reconciling.

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.

III-B-14 Free and Reduced Lunch Applications - We noted during our audit that one of the (2014-002) fifteen free and reduced lunch applications tested was not signed off on by the determining official.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure all applications are signed off on by the determining official.

Response - The Food Service Director will ensure all free and reduced applications are signed off on.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-14 Certified Budget - District expenditures for the year ended June 30, 2014 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 - The District will monitor the budget 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-14 Questionable Disbursements - We noted during our audit instances of disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Teacher Appreciation Gifts: Check #26044 was issued to Newton Manufacturing Co. and used to purchase laptop bags that were given as appreciation gifts to teachers during teacher appreciation week.

Retirement Reception Purchases: Checks #50395, #50603, and #50689 were issued to purchase flowers, balloons, cake, and beverages for retirement reception for a District staff member.

Recommendation - Article III, Section 31 of the Constitution of Iowa provides that public funds may only be spent for the public benefit. Expenditures in these “gray” areas should be evaluated and determined through the criteria of “public purpose” and the Board should document the public purpose served including how the public benefits through the expenditure of public funds for the particular purpose such as gift awards to

staff. Documentation should be in the Board minutes and/or through established Board policy. The decision and documentation should be in place prior to spending the public funds. Keep in mind, this decision and related documentation may not eliminate the shadow of doubt surrounding this type of expenditure. It simply establishes the District's consideration and justification for the expenditure. Better alternatives would be to ask an outside organization such as a Booster Club to provide the gifts to the teachers in lieu of using public funds for the purchase.

Response - The District is exploring options with local support organizations to provide gifts to teachers instead of using public funds for this purpose.

Conclusion - Response accepted.

IV-C-14 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-14 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-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-F-14 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 | \$ 3,475 |
| Diane Fuller, Custodian Owner of Good Booty BBQ | Catering Services | \$ 760 |
| Brett Groen, Coach Owner of Spencer Trophy | Trophies/Awards | \$ 2,605 |
| Ben Macrae, Coach Manager of Goal Kick Sporting Goods | Sports Apparel/Supplies | \$ 5,060 |

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 manages 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-14 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by one student and we also noted two Pre-K students who were listed with the incorrect entry codes for a net change of zero.

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-14 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-14 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-14 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-14 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-14 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. However, we noted expenditures which do not appear to be related to cocurricular or extracurricular activities.

BoxTop Donations: We noted during our audit that the District receipted BoxTop donations into the Instrumental and Fundraisers accounts within the Student Activity Fund.

Recommendation - Donations given to a school should be expended according to donor request. According to information contained on the website for BoxTops, the donation can be used for items such as books, computers or playground equipment. Since the items listed for purchase with BoxTop donations appear more instructional in nature, the most logical place to record these donations would be the general fund.

Response - The District will receipt BoxTop donations into the General Fund.

Conclusion - Response accepted.

IV-M-14 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, 2014, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

| | | |
|------------------------------------|--------------|----------------------|
| Beginning balance | | \$ 1,864,344 |
| Revenues: | | |
| Sales tax revenues | \$ 1,675,570 | |
| Other local revenues | 61,324 | |
| Sale of revenue bonds | 10,000,000 | 11,736,894 |
| Expenditures/transfer out: | | 13,601,238 |
| School infrastructure construction | \$ 1,594,493 | |
| Other | 106,021 | |
| Transfers to other funds: | | |
| Debt service fund | 920,396 | 2,620,910 |
| Ending balance | | <u>\$ 10,980,328</u> |

For the year ended June 30, 2014, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.