

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ January 11, 2013

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Auditor of State David A. Vaudt today released an audit report on Starmont Community School District near Arlington, Iowa.

The District's revenues totaled \$8,613,440 for the year ended June 30, 2011, a 3.9% increase from the prior year. Revenues included \$2,998,054 in local tax, charges for service of \$915,676, operating grants, contributions and restricted interest of \$1,344,861, statewide sales, services and use tax of \$465,310, unrestricted state grants of \$2,786,949, unrestricted investment earnings of \$8,744 and other general revenues of \$93,846.

Expenses for District operations totaled \$8,067,500, a 3.8% increase from the prior year. Expenses included \$5,281,131 for instruction, \$1,806,145 for support services and \$656,947 for other expenditures.

A copy of the audit report is available for review in the District Secretary's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1130-6175-B00F.pdf>.

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STARMONT COMMUNITY SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2011

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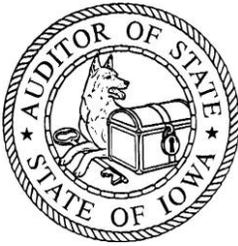
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Starmont Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Tina Pech	President	2013
Kevin Powell	Vice President	2011
Jerry Flexsenhar	Board Member	2011
Laura Morine	Board Member	(Resigned)
Brenda Scott (Appointed)	Board Member	2011
Chris Henry	Board Member	2013
School Officials		
Matt O'Loughlin	Superintendent	Indefinite
Laura Morine	District Secretary/Treasurer and Business Manager	Indefinite
Brian Gruhn	Attorney	Indefinite

Starmont Community School District



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Independent Auditor's Report

To the Board of Education of
Starmont Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Starmont Community School District, Arlington, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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 Starmont Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2012 on our consideration of Starmont Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Starmont Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the fiscal year ended 2010 (which are not presented herein) and expressed a qualified opinion on those financial statements. The financial statements for the six years ended June 30, 2009 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Starmont Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from approximately \$6.6 million in fiscal year 2010 to approximately \$7 million in fiscal year 2011, while General Fund expenditures increased from approximately \$6.8 million in fiscal year 2010 to \$7 million in fiscal year 2011. The District's General Fund balance increased from approximately \$(608,000) at the end of fiscal year 2010 to approximately \$(595,000) at the end of fiscal year 2011, a 2.1% increase.
- The fiscal year 2011 General Fund revenue increase was primarily attributable to increases in state funding. The increase in expenditures was due primarily to an increase in instruction and transportation.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Starmont 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 Starmont Community School District's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In Starmont Community School District, the school nutrition program and childcare operations are the only enterprises reported as proprietary funds. The remaining statements provide financial information about activities for which Starmont Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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

Figure A-1
Starmont Community School District Annual Financial Report

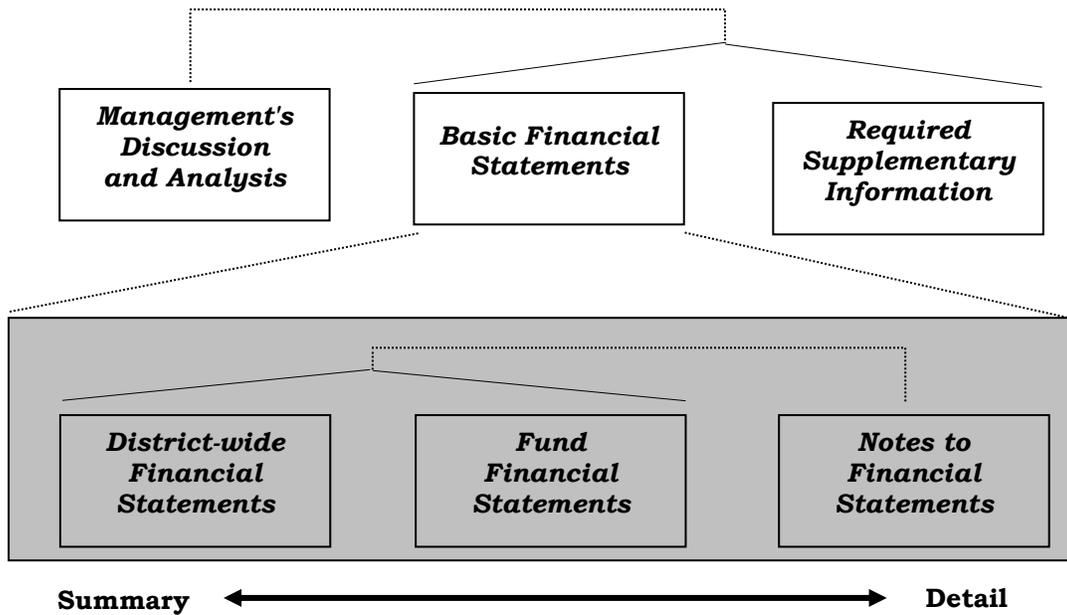


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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 tax 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 program is included here.

Fund Financial Statements

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

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

The District has three 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 Fund.

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 government-wide financial 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's Enterprise Funds are the School Nutrition Fund and the Child Care Fund.

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District’s net assets at June 30, 2011 compared to June 30, 2010.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Current and other assets	\$ 4,604	3,846	55	22	4,659	3,868	20.4%
Capital assets	5,006	5,053	6	9	5,012	5,062	-1.0%
Total assets	9,610	8,899	61	31	9,671	8,930	8.3%
Long-term liabilities	87	186	5	3	92	189	-51.3%
Other liabilities	4,316	4,025	24	23	4,340	4,048	7.2%
Total liabilities	4,403	4,211	29	26	4,432	4,237	4.6%
Net assets:							
Invested in capital assets	5,006	5,053	6	9	5,012	5,062	-1.0%
Restricted	845	346	-	-	845	346	144.2%
Unrestricted	(644)	(711)	26	(4)	(618)	(715)	13.6%
Total net assets	\$ 5,207	4,688	32	5	5,239	4,693	11.6%

The District’s total net assets increased 11.6%, or approximately \$546,000, from the prior year. The largest portion of the District’s net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment).

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets increased approximately \$499,000, or 144.2%, over the prior year. The increase was primarily a result of an increase in net assets restricted for capital projects.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$97,000, or 13.6%.

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

Figure A-4							
Changes in Net Assets							
(Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2011	2010	2011	2010	2011	2010	2010-2011
Revenues:							
Program revenues:							
Charges for service	\$ 717	724	199	190	916	914	0.2%
Operating grants, contributions and restricted interest	1,193	1,586	151	158	1,344	1,744	-22.9%
General revenues:							
Property tax	2,998	3,045	-	-	2,998	3,045	-1.5%
Statewide sales, services and use tax	465	387	-	-	465	387	20.2%
Unrestricted state grants	2,787	2,163	-	-	2,787	2,163	28.8%
Unrestricted investment earnings	9	16	-	-	9	16	-43.8%
Other	94	22	-	-	94	22	327.3%
Total revenues	<u>8,263</u>	<u>7,943</u>	<u>350</u>	<u>348</u>	<u>8,613</u>	<u>8,291</u>	<u>3.9%</u>
Program expenses:							
Instruction	5,281	5,156	-	-	5,281	5,156	2.4%
Support services	1,806	1,724	-	-	1,806	1,724	4.8%
Non-instructional programs	-	-	323	341	323	341	-5.3%
Other expenses	657	548	-	-	657	548	19.9%
Total expenses	<u>7,744</u>	<u>7,428</u>	<u>323</u>	<u>341</u>	<u>8,067</u>	<u>7,769</u>	<u>3.8%</u>
Change in net assets	519	515	27	7	546	522	4.6%
Net assets beginning of year	<u>4,688</u>	<u>4,173</u>	<u>5</u>	<u>(2)</u>	<u>4,693</u>	<u>4,171</u>	<u>12.5%</u>
Net assets end of year	<u>\$ 5,207</u>	<u>4,688</u>	<u>32</u>	<u>5</u>	<u>5,239</u>	<u>4,693</u>	<u>11.6%</u>

In fiscal year 2011, property tax and unrestricted state grants accounted for 70% of governmental activities revenue while charges for service and operating grants, contributions and restricted interest accounted for 100% of business type activities revenue.

The District's total revenues were approximately \$8.6 million, of which approximately \$8.3 million was for governmental activities and approximately \$350,000 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.9% increase in revenues and a 3.8% increase in expenses. Unrestricted state grants increased approximately \$624,000 to fund the increase in expenses.

Governmental Activities

Revenues for governmental activities were \$8,263,118 and expenses were \$7,744,223 for the year ended June 30, 2011.

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, 2011 compared to the year ended June 30, 2010.

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change	2011	2010	Change
			2010-2011			2010-2011
Instruction	\$ 5,281	5,156	2.4%	3,740	3,227	15.9%
Support services	1,806	1,724	4.8%	1,729	1,629	6.1%
Other expenses	657	548	19.9%	365	262	39.3%
Total	\$ 7,744	7,428	4.3%	5,834	5,118	14.0%

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$716,853.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,193,418.
- The net cost of governmental activities was financed with \$3,463,364 of property and other taxes and \$2,786,949 of unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2011 were \$350,322, representing a .6% increase over the prior year, while expenses totaled \$323,277, a 5.2% decrease over the prior year. The District's business type activities include the School Nutrition and Child Care Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Starmont 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 \$249,274, an increase of \$427,895 compared to last year's combined ending fund balances of \$(178,621). The increase is primarily due to additional state funding.

Governmental Fund Highlights

- The General Fund balance increased from \$(608,319) to \$(594,618), due primarily to increased state funding.
- The Special Revenue, Management Levy Fund fund balance increased from \$110,745 to \$177,481, an increase of 60.3%. The increase was primarily due to increased property tax revenue.

- The Capital Projects Fund balance increased from \$259,126 to \$594,931, an increase of 130%, primarily due to increased local tax revenue and a reduction in capital outlay expenditures.

Proprietary Fund Highlights

The Enterprise, School Nutrition Fund net assets increased from \$4,269 at June 30, 2010 to \$30,874 at June 30, 2011, representing an increase of approximately 623%, due primarily to a decrease in operating expenses.

BUDGETARY HIGHLIGHTS

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. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District’s certified budget is prepared on a GAAP basis. No budget amendments were certified during fiscal year 2011.

The District’s total revenues were approximately \$296,000 less than total budgeted revenues, a variance of 3.3%.

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 support services function.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested approximately \$5 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 represents no change from last year. More detailed information about the District’s capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$269,128.

The original cost of the District’s capital assets was approximately \$9.8 million. Governmental funds account for approximately \$9.7 million, with the remainder of approximately \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 26	26	-	-	26	26	0.0%
Construction in progress	-	150	-	-	-	150	-100.0%
Buildings	4,545	4,437	-	-	4,545	4,437	2.4%
Improvements other than buildings	167	178	-	-	167	178	-6.2%
Furniture and equipment	268	261	6	9	274	270	1.5%
Total	\$ 5,006	5,052	6	9	5,012	5,061	-1.0%

Long-Term Debt

At June 30, 2011, the District had no general obligation bonded indebtedness outstanding.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The total taxable valuation from the 4 counties decreased from the previous year and the Board elected to keep the property tax rate the same as the previous year at \$15.98 per \$1,000 of taxable valuation.
- The District expects an increase in enrollment due to open enrollments in as well as weighted enrollment.
- In fiscal year 2011, the Board renegotiated a one-year agreement with step and lane increases only and no increase to base salaries.
- During fiscal year 2011, an embezzlement related to the former Business Manager was identified. An interim Business Manager was hired for 3 months and a spending freeze was implemented.

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 Laura Morine, District Secretary/Treasurer and Business Manager, Starmont Community School District, 3202 40th Street, Arlington, Iowa, 50606-8199.

Basic Financial Statements

Starmont Community School District

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,002,267	52,205	1,054,472
Receivables:			
Property tax:			
Delinquent	50,754	-	50,754
Succeeding year	3,266,548	-	3,266,548
Accounts	3,288	303	3,591
Due from other governments	281,009	-	281,009
Inventories	-	2,491	2,491
Capital assets, net of accumulated depreciation	5,006,209	6,169	5,012,378
Total assets	9,610,075	61,168	9,671,243
Liabilities			
Accounts payable	82,253	228	82,481
Salaries and benefits payable	713,849	17,949	731,798
Due to other governments	39,193	-	39,193
Unearned revenue:			
Succeeding year property tax	3,266,548	-	3,266,548
Other	214,464	5,075	219,539
Long-term liabilities:			
Portion due within one year:			
Compensated absences	24,263	5,300	29,563
Early retirement	57,201	-	57,201
Portion due after one year:			
Net OPEB liability	5,330	70	5,400
Total liabilities	4,403,101	28,622	4,431,723
Net assets			
Invested in capital assets	5,006,209	6,169	5,012,378
Restricted for:			
Categorical funding	58,451	-	58,451
Management levy purposes	120,280	-	120,280
Capital projects	594,931	-	594,931
Student activities	32,814	-	32,814
Debt service	11,729	-	11,729
Other purposes	26,937	-	26,937
Unrestricted	(644,377)	26,377	(618,000)
Total net assets	\$ 5,206,974	32,546	5,239,520

See notes to financial statements.

Starmont Community School District

Statement of Activities

Year ended June 30, 2011

	Expenses	Program Revenues	
		Charges for Service	Operating Grants Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Instruction:			
Regular instruction	\$ 3,201,127	254,806	665,939
Special instruction	1,010,992	214,014	35,382
Other instruction	1,069,012	244,421	126,698
	<u>5,281,131</u>	<u>713,241</u>	<u>828,019</u>
Support services:			
Student	176,334	-	-
Instructional staff	111,594	-	-
Administration	668,103	-	-
Operation and maintenance of plant	531,641	812	73,171
Transportation	318,473	2,800	-
	<u>1,806,145</u>	<u>3,612</u>	<u>73,171</u>
Other expenditures:			
Facilities acquisition	192,908	-	-
AEA flowthrough	292,228	-	292,228
Depreciation (unallocated)*	171,811	-	-
	<u>656,947</u>	<u>-</u>	<u>292,228</u>
Total governmental activities	<u>7,744,223</u>	<u>716,853</u>	<u>1,193,418</u>
Business type activities:			
Non-instructional programs:			
Child care operations	-	440	-
Food service operations	323,277	198,383	151,443
Total business type activities	<u>323,277</u>	<u>198,823</u>	<u>151,443</u>
Total	<u>\$ 8,067,500</u>	<u>915,676</u>	<u>1,344,861</u>

General Revenues:

Property tax levied for:
General purposes
Capital outlay
Statewide sales, services and use tax
Unrestricted state grants
Unrestricted investment earnings
Other
Total general revenues
Change in net assets
Net assets beginning of year
Net assets end of year

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(2,280,382)	-	(2,280,382)
(761,596)	-	(761,596)
(697,893)	-	(697,893)
(3,739,871)	-	(3,739,871)
-	-	-
(176,334)	-	(176,334)
(111,594)	-	(111,594)
(668,103)	-	(668,103)
(457,658)	-	(457,658)
(315,673)	-	(315,673)
(1,729,362)	-	(1,729,362)
(192,908)	-	(192,908)
-	-	-
(171,811)	-	(171,811)
(364,719)	-	(364,719)
(5,833,952)	-	(5,833,952)
-	440	440
-	26,549	26,549
	26,989	26,989
(5,833,952)	26,989	(5,806,963)
\$ 2,935,535	-	2,935,535
62,519	-	62,519
465,310	-	465,310
2,786,949	-	2,786,949
8,688	56	8,744
93,846	-	93,846
6,352,847	56	6,352,903
518,895	27,045	545,940
4,688,079	5,501	4,693,580
\$ 5,206,974	32,546	5,239,520

Exhibit C

Starmont Community School District

Balance Sheet
Governmental Funds

June 30, 2011

	Special Revenue				Total
	General	Management Levy	Capital Projects	Nonmajor	
Assets					
Cash and pooled investments	\$ 247,469	172,134	510,848	71,816	1,002,267
Receivables:					
Property tax:					
Delinquent	44,359	5,347	1,048	-	50,754
Succeeding year	3,051,937	150,000	64,611	-	3,266,548
Accounts	682	-	-	2,606	3,288
Due from other governments	152,574	-	128,435	-	281,009
Total assets	\$ 3,497,021	327,481	704,942	74,422	4,603,866
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 33,911	-	45,400	2,942	82,253
Salaries and benefits payable	713,849	-	-	-	713,849
Due to other governments	39,193	-	-	-	39,193
Deferred revenue:					
Succeeding year property tax	3,051,937	150,000	64,611	-	3,266,548
Other	252,749	-	-	-	252,749
Total liabilities	4,091,639	150,000	110,011	2,942	4,354,592
Fund balances:					
Restricted for:					
Categorical funding	58,451	-	-	-	58,451
Management levy purposes	-	177,481	-	-	177,481
Student activities	-	-	-	32,814	32,814
Debt service	-	-	-	11,729	11,729
Booster Clubs	-	-	-	26,937	26,937
School infrastructure	-	-	531,605	-	531,605
Physical plant and equipment	-	-	63,326	-	63,326
Unassigned	(653,069)	-	-	-	(653,069)
Total fund balances	(594,618)	177,481	594,931	71,480	249,274
Total liabilities and fund balances	\$ 3,497,021	327,481	704,942	74,422	4,603,866

See notes to financial statements.

Starmont Community School District

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2011

Total fund balances of governmental funds (page 20)	\$ 249,274
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,006,209
Other long-term assets are not available to pay current year expenditures and, therefore, are deferred in the governmental funds.	38,285
Long-term liabilities, including compensated absences payable, early retirement payable and other postemployment benefits payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	<u>(86,794)</u>
Net assets of governmental activities (page 17)	<u><u>\$ 5,206,974</u></u>

See notes to financial statements.

Exhibit E

Starmont Community School District

Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2011

	Special Revenue		Capital Projects	Nonmajor	Total
	General	Management Levy			
Revenues:					
Local sources:					
Local tax	\$ 2,616,497	319,038	527,937	-	3,463,472
Tuition	342,301	-	-	-	342,301
Other	78,810	8,251	47,089	245,474	379,624
State sources	3,633,374	-	73,171	-	3,706,545
Federal sources	332,891	-	-	-	332,891
Total revenues	7,003,873	327,289	648,197	245,474	8,224,833
Expenditures:					
Current:					
Instruction:					
Regular	3,017,997	167,439	-	-	3,185,436
Special	1,005,017	-	-	-	1,005,017
Other	845,390	-	-	233,821	1,079,211
	4,868,404	167,439	-	233,821	5,269,664
Support services:					
Student	176,324	-	-	-	176,324
Instructional staff	111,538	-	-	-	111,538
Administration	643,337	44,854	-	-	688,191
Operation and maintenance of plant	489,609	40,643	-	-	530,252
Transportation	333,054	7,617	90,307	-	430,978
Central support	75,678	-	-	-	75,678
	1,829,540	93,114	90,307	-	2,012,961
Other expenditures:					
Facilities acquisition	-	-	222,085	-	222,085
AEA flowthrough	292,228	-	-	-	292,228
	292,228	-	222,085	-	514,313
Total expenditures	6,990,172	260,553	312,392	233,821	7,796,938
Net change in fund balances	13,701	66,736	335,805	11,653	427,895
Fund balances beginning of year, as restated	(608,319)	110,745	259,126	59,827	(178,621)
Fund balances end of year	\$ (594,618)	177,481	594,931	71,480	249,274

See notes to financial statements.

Starmont Community School District

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2011

22) \$ 427,895

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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Expenditures for capital assets	\$ 219,392	
Depreciation expense	<u>(265,846)</u>	(46,454)

Certain revenue not collected for several months after year end is not considered available revenue and is deferred in the governmental funds. 38,285

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, as follows:

Early retirement	105,813	
Compensated absences	(5,854)	
Other postemployment benefits	<u>(790)</u>	<u>99,169</u>

Change in net assets of governmental activities (page 19) \$ 518,895

See notes to financial statements.

Starmont Community School District

Statement of Net Assets
Proprietary Fund

June 30, 2011

	Enterprise		
	School	Nonmajor	Total
	Nutrition	Child Care	
Assets			
Cash and cash equivalents	\$ 50,533	1,672	52,205
Accounts receivable	303	-	303
Inventories	2,491	-	2,491
Capital assets, net of accumulated depreciation	6,169	-	6,169
Total assets	59,496	1,672	61,168
Liabilities			
Accounts payable	228	-	228
Salaries and benefits payable	17,949	-	17,949
Unearned revenue	5,075	-	5,075
Compensated absences	5,300	-	5,300
Net OPEB liability	70	-	70
Total liabilities	28,622	-	28,622
Net Assets			
Invested in capital assets	6,169	-	6,169
Unrestricted	24,705	1,672	26,377
Total net assets	\$ 30,874	1,672	32,546

See notes to financial statements.

Starmont Community School District

Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2011

	Enterprise		
	School	Nonmajor	Total
	Nutrition	Child Care	
Operating revenues:			
Local sources:			
Charges for service	\$ 191,051	-	191,051
Miscellaneous	7,332	440	7,772
Total operating revenue	198,383	440	198,823
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	110,423	-	110,423
Benefits	23,976	-	23,976
Purchased services	8,568	-	8,568
Supplies	177,028	-	177,028
Depreciation	3,282	-	3,282
Total operating expenses	323,277	-	323,277
Operating income (loss)	(124,894)	440	(124,454)
Non-operating revenues:			
State sources	3,265	-	3,265
Federal sources	148,178	-	148,178
Interest income	56	-	56
Total non-operating revenues	151,499	-	151,499
Increase in net assets	26,605	440	27,045
Net assets beginning of year	4,269	1,232	5,501
Net assets end of year	\$ 30,874	1,672	32,546

See notes to financial statements.

Exhibit I

Starmont Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2011

	Enterprise		Total
	School Nutrition	Nonmajor Child Care	
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 192,264	-	192,264
Cash received from miscellaneous	7,332	451	7,783
Cash paid to employees and suppliers for goods or services	(316,547)	(1,150)	(317,697)
Net cash used by operating activities	<u>(116,951)</u>	<u>(699)</u>	<u>(117,650)</u>
Cash flows from non-capital financing activities:			
State grants received	3,265	-	3,265
Federal grants received	148,178	-	148,178
Net cash provided by non-capital financing activities	<u>151,443</u>	<u>-</u>	<u>151,443</u>
Cash flows from investing activities:			
Interest on investments	56	-	56
Net increase (decrease) in cash and cash equivalents	34,548	(699)	33,849
Cash and cash equivalents beginning of year	15,985	2,371	18,356
Cash and cash equivalents end of year	<u>\$ 50,533</u>	<u>1,672</u>	<u>52,205</u>
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	\$ (124,894)	440	(124,454)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	3,282	-	3,282
Decrease in accounts receivable	1,213	11	1,224
Increase (decrease) in accounts payable	228	(1,150)	(922)
Increase in salaries and benefits payable	1,291	-	1,291
Increase in compensated absences	1,919	-	1,919
Increase in OPEB liability	10	-	10
Net cash used by operating activities	<u>\$ (116,951)</u>	<u>(699)</u>	<u>(117,650)</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2011, the District received \$15,487 of federal commodities.

See notes to financial statements.

Starmont Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Cash and pooled investments	\$ 78,214	2,894
Accrued interest receivable	90	-
Total assets	78,304	2,894
Liabilities		
Trusts payable	-	2,894
Net assets		
Reserved for scholarships	\$ 78,304	-
See notes to financial statements.		

Exhibit K

Starmont Community School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2011

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Investment income	\$ 3,267
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>2,592</u>
Change in net assets	675
Net assets beginning of year	<u>77,629</u>
Net assets end of year	<u>\$ 78,304</u>

See notes to financial statements.

Starmont Community School District

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

Starmont 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. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Arlington, Lamont and Strawberry Point, Iowa and the predominate agricultural territory in the counties of Buchanan, Clayton, Delaware and Fayette. 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 Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Starmont 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. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – The District participates in a jointly governed organization that provides services to the District but does 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 Fayette County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. 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 Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation.

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

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources 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 are offset by program revenues. Direct expenses are those 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 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 and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues 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 expenditures, including instructional, support and other costs.

The Special Revenue, Management Levy Fund is utilized to account for property tax and other revenues collected and used to pay the costs of unemployment benefits, liability insurance and agreements, judgments and certain early retirement benefits.

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

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

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

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund 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 year or soon enough thereafter to pay liabilities of the current year. For this purpose, the District 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 the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Funds 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 non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes 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, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. 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 District is required to certify its budget in April 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 in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

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 – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50
Improvements other than buildings	20
Furniture and equipment	2-20

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 accrued as liabilities.

Unearned Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Unearned revenue in the governmental fund financial statements 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Unearned revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Unearned revenue in the Statement of Net Assets for governmental activities consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Unearned revenue in the Statement of Net Assets for business type activities consists of monies collected for lunches not yet served.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures exceeded the amount budgeted in the support services function.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2011, the District had investments in certificates of deposit and mutual funds.

Interest rate risk and custodial credit risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the District.

(3) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2010-11A warrants is 1.20% plus the one-month LIBOR rate, adjusted daily. The interest rate on the Series 2010-11B warrants is a variable rate, calculated daily based upon the LIBOR rate plus 120 basis points. A summary of the District's ISCAP activity for the year ended June 30, 2011 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2010-11A	6/30/10	6/23/11	\$ -	1,150,000	1,150,000	-
2010-11B	1/26/11	1/25/12	-	300,000	300,000	-
Total			\$ -	1,450,000	1,450,000	-

During the year ended June 30, 2011, the District paid \$5,573 of interest on the ISCAP warrants.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 26,300	-	-	26,300
Construction in progress	149,610	119,460	(269,070)	-
Total capital assets not being depreciated	175,910	119,460	(269,070)	26,300
Capital assets being depreciated:				
Buildings	7,805,844	269,070	-	8,074,914
Improvements other than buildings	286,268	-	-	286,268
Furniture and equipment	1,287,491	99,932	(57,286)	1,330,137
Total capital assets being depreciated	9,379,603	369,002	(57,286)	9,691,319
Less accumulated depreciation for:				
Buildings	3,368,834	161,498	-	3,530,332
Improvements other than buildings	108,471	10,313	-	118,784
Furniture and equipment	1,025,545	94,035	(57,286)	1,062,294
Total accumulated depreciation	4,502,850	265,846	(57,286)	4,711,410
Total capital assets being depreciated, net	4,876,753	103,156	-	4,979,909
Governmental activities capital assets, net	\$ 5,052,663	222,616	(269,070)	5,006,209
Business type activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 124,845	-	-	124,845
Less accumulated depreciation	115,394	3,282	-	118,676
Business type activities capital assets, net	\$ 9,451	(3,282)	-	6,169

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	
Regular	\$ 14,049
Other	1,139
Support services:	
Operation and maintenance of plant	2,910
Transportation	75,937
	<u>94,035</u>
Unallocated	<u>171,811</u>
Total depreciation expense - governmental activities	<u>\$ 265,846</u>
Business type activities:	
Food service operations	<u>\$ 3,282</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
Compensated absences	\$ 18,409	24,263	18,409	24,263	24,263
Early retirement	163,014	-	105,813	57,201	57,201
Net OPEB liability	4,540	790	-	5,330	-
Total	<u>\$ 185,963</u>	<u>25,053</u>	<u>124,222</u>	<u>86,794</u>	<u>81,464</u>
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Compensated absences	\$ 3,381	5,300	3,381	5,300	5,300
Net OPEB liability	60	10	-	70	-
Total	<u>\$ 3,441</u>	<u>5,310</u>	<u>3,381</u>	<u>5,370</u>	<u>5,300</u>

Early Retirement

The District offered a voluntary early retirement plan to its certified employees during prior years. During the year ended June 30, 2011, the District did not offer a voluntary early retirement plan to its certified employees.

Early retirement benefits of \$105,813 were paid during the year ended June 30, 2011 under the early retirement plans offered in prior years.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$283,975, \$256,448 and \$257,335, respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

Plan Description - The District is a member of a twelve school trust – Northeast Iowa Schools Insurance Trust (NEISIT). The plan provides medical benefits to employees and retirees and their spouses. Each school in the trust provided active and retired member information. There are 62 active and 5 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through NEISIT. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 52,000
Contributions made	<u>(51,200)</u>
Increase in net OPEB obligation	800
Net OPEB obligation beginning of year	<u>4,600</u>
Net OPEB obligation end of year	<u>\$ 5,400</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$51,200 to the medical plan. The District contributed 100% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$57,200	92%	\$ 4,600
2011	52,000	98	5,400

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$430,826, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$430,826. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,286,000 and the ratio of the UAAL to covered payroll was 13.1%. As of June 30, 2011, there were no trust fund assets.

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

and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2010 actuarial valuation date, the unit credit 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%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$387 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) Risk Management

The 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.

(9) 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 \$292,228 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Categorical Funding

The District's ending balances for categorical funding by project as of June 30, 2011 are as follows:

<u>Project</u>	<u>Amount</u>
Statewide Voluntary Preschool Program Grants	\$ 31,849
Professional Development	20,327
Market Factor Incentives	5,525
Beginning Administrator Mentoring and Induction Program	750
Total	<u>\$ 58,451</u>

(11) Deficit Fund Balance

The General Fund had a deficit unassigned fund balance of \$653,069 at June 30, 2011. The deficit balance was a result of the cumulative effect of the reduction in state funding received and the salary increases approved in prior years. The deficit will be eliminated through reductions in future expenditures.

(12) Accounting Change/Restatement

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

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously reported	\$ 236,865	22,261
Change in fund type classification per implementation of GASB Statement No. 54	22,261	(22,261)
Balances July 1, 2010, as restated	<u>\$ 259,126</u>	<u>-</u>

Required Supplementary Information

Starmont Community School District

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual – All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual
Revenues:			
Local sources	\$ 4,185,397	198,879	4,384,276
State sources	3,706,545	3,265	3,709,810
Federal sources	332,891	148,178	481,069
Total revenues	8,224,833	350,322	8,575,155
Expenditures/Expenses:			
Instruction	5,359,971	-	5,359,971
Support services	1,922,654	-	1,922,654
Non-instructional programs	-	323,277	323,277
Other expenditures	514,313	-	514,313
Total expenditures/expenses	7,796,938	323,277	8,120,215
Excess of revenues over expenditures/expenses	427,895	27,045	454,940
Balances beginning of year	(178,621)	5,501	(173,120)
Balances end of year	\$ 249,274	32,546	281,820

See accompanying independent auditor's report.

Original and Final Budget	Final to Actual Variance
4,351,129	33,147
4,054,536	(344,726)
465,264	15,805
8,870,929	(295,774)
5,433,328	73,357
1,883,540	(39,114)
350,000	26,723
774,822	260,509
8,441,690	321,475
429,239	25,701
(98,999)	(74,121)
330,240	(48,420)

Starmont Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental 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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The budget was not amended during the year ended June 30, 2011.

During the year ended June 30, 2011, expenditures exceeded the amount budgeted in the support services function.

Starmont Community School District

Schedule of Funding Progress for the
Retiree Health Plan
(in Thousands)

Required Supplementary Information

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)
2010	Jul 1, 2008	-	\$ 462	462	0.0%	\$ 3,269	14.1%
2011	Jul 1, 2010	-	431	431	0.0%	3,286	13.1%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Starmont Community School District

Other Supplementary Information

Schedule 1

Starmont Community School District

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2011

	<u>Special Revenue</u>			
	Student		Debt	
	Activity	Donations	Service	Total
Assets				
Cash and pooled investments	\$ 33,150	26,937	11,729	71,816
Accounts receivable	2,606	-	-	2,606
Total assets	\$ 35,756	26,937	11,729	74,422
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 2,942	-	-	2,942
Fund balances:				
Restricted for:				
Student activities	32,814	-	-	32,814
Debt service	-	-	11,729	11,729
Booster clubs	-	26,937	-	26,937
Total fund balances	32,814	26,937	11,729	71,480
Total liabilities and fund balances	\$ 35,756	26,937	11,729	74,422

See accompanying independent auditor's report.

Starmont Community School District

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2011

	Special Revenue		Debt Service	Total
	Student Activity	Donations		
Revenues:				
Local sources:				
Other	\$ 245,154	292	28	245,474
Expenditures:				
Current:				
Other	233,370	-	451	233,821
Excess (deficiency) of revenues over (under) expenditures	11,784	292	(423)	11,653
Fund balances beginning of year	21,030	26,645	12,152	59,827
Fund balances end of year	\$ 32,814	26,937	11,729	71,480

See accompanying independent auditor's report.

Schedule 3

Starmont Community School District

Combining Balance Sheet

Capital Projects Accounts

Year ended June 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 448,570	62,278	510,848
Receivables:			
Property tax:			
Delinquent	-	1,048	1,048
Succeeding year	-	64,611	64,611
Due from other governments	128,435	-	128,435
Total assets	577,005	127,937	704,942
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	45,400	-	45,400
Deferred revenue:			
Succeeding year property tax	-	64,611	64,611
Total liabilities	45,400	64,611	110,011
Fund balances:			
Restricted for:			
School infrastructure	531,605	-	531,605
Physical plant and equipment	-	63,326	63,326
Total fund balances	531,605	63,326	594,931
Total liabilities and fund balances	\$ 577,005	127,937	704,942

See accompanying independent auditor's report.

Starmont Community School District
 Combining Schedule of Revenues,
 Expenditures and Changes in Fund Balances

Capital Projects Accounts

Year ended June 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 465,310	62,627	527,937
Other	47,089	-	47,089
State sources	70,851	-	70,851
Federal sources	-	2,320	2,320
Total revenues	<u>583,250</u>	<u>64,947</u>	<u>648,197</u>
Expenditures:			
Current:			
Instruction:			
Transportation	90,307	-	90,307
Other expenditures:			
Facilities acquisition	198,203	23,882	222,085
Total expenditures	<u>288,510</u>	<u>23,882</u>	<u>312,392</u>
Excess of revenues over expenditures	294,740	41,065	335,805
Fund balances beginning of year	<u>236,865</u>	<u>22,261</u>	<u>259,126</u>
Fund balances end of year	<u>\$ 531,605</u>	<u>63,326</u>	<u>594,931</u>

See accompanying independent auditor's report.

Schedule 5

Starmont Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ (47,108)	81,273	69,573	(35,408)
Clubs and Organizations	(4,878)	97,393	88,119	4,396
General Activity	13,696	732	11,639	2,789
Classes	3,982	7,895	7,754	4,123
Elementary	29,511	38,039	35,759	31,791
Middle	25,827	19,822	20,526	25,123
Total	<u>\$ 21,030</u>	<u>245,154</u>	<u>233,370</u>	<u>32,814</u>

See accompanying independent auditor's report.

Starmont Community School District
 Schedule of Changes in Assets and Liabilities

Agency Fund

Year ended June 30, 2011

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and investments	\$ 8,382	40,458	45,946	2,894
Liabilities				
Due to other governments	\$ 8,382	40,458	45,946	2,894

See accompanying independent auditor's report.

Starmont Community School District

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Eight Years

	Modified Accrual Basis			
	2011	2010	2009	2008
Revenues:				
Local sources:				
Local tax	\$ 3,463,472	3,431,337	3,154,146	3,116,869
Tuition	342,301	373,136	310,458	336,016
Other	379,624	366,928	433,836	326,378
State sources	3,706,545	3,055,448	3,656,798	3,595,897
Federal sources	332,891	715,569	264,448	211,370
Total	\$ 8,224,833	7,942,418	7,819,686	7,586,530
Expenditures:				
Instruction:				
Regular	\$ 3,185,436	3,237,429	3,264,965	3,320,934
Special	1,005,017	930,719	963,902	947,664
Other	1,169,518	1,014,629	1,056,644	967,278
Support services:				
Student	176,324	154,689	142,101	176,021
Instructional staff	111,538	39,147	39,464	53,547
Administration services	688,191	692,802	720,703	852,861
Operation and maintenance of plant	530,252	487,367	573,349	543,131
Transportation	340,671	306,434	364,346	318,043
Central support	75,678	41,795	-	-
Other expenditures:				
Facilities acquisition	222,085	538,187	414,510	254,409
Long-term debt:				
Principal	-	480,000	470,000	450,000
Interest and other charges	-	11,840	25,421	37,130
AEA flow through	292,228	286,458	265,962	261,316
Total	\$ 7,796,938	8,221,496	8,301,367	8,182,334

See accompanying independent auditor's report.

2007	2006	2005	2004
3,123,692	3,237,183	3,223,515	3,112,323
304,705	264,920	267,575	281,318
405,111	361,255	338,652	386,887
3,249,708	3,320,090	3,304,236	3,318,245
286,433	450,135	412,781	624,760
7,369,649	7,633,583	7,546,759	7,723,533
3,210,255	3,042,684	2,848,767	2,929,285
958,126	877,718	846,947	1,092,102
897,360	868,440	864,244	731,187
166,603	157,106	167,889	140,093
68,584	104,580	102,330	98,399
988,136	731,733	716,653	623,621
550,559	572,437	839,606	513,752
411,636	339,875	25,189	363,704
-	-	-	-
312,778	475,096	150,406	29,386
440,000	430,000	425,000	400,000
47,918	57,080	65,945	93,401
255,118	248,778	247,899	252,357
8,307,073	7,905,527	7,300,875	7,267,287

Starmont Community School District



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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
Starmont Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Starmont Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Starmont Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Starmont Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Starmont Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Starmont Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (V) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Starmont Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Starmont Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Starmont Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Starmont Community School District and other parties to whom Starmont Community School District may report and is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 31, 2012

Starmont Community School District

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

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

- (1) Cash – initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Investments – investing, detailed recordkeeping, custody of investments and reconciling earnings.
- (3) Receipts – collecting, recording, depositing, journalizing, posting and reconciling.
- (4) Disbursements – purchase order processing, check preparation, mailing and recording.
- (5) Inventories – ordering, receiving, issuing and storing.
- (6) Capital assets – purchasing, recording and reconciling.
- (7) Long-term debt – recording, reconciling and performing cash functions.
- (8) Wire transfers – processing and approving.
- (9) Payroll – recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- (10) Transfers – preparing and approving.
- (11) Financial reporting – preparing, reconciling and approving.
- (12) Computer systems – performing all general accounting functions and controlling all data input and output.
- (13) School lunch program – collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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 – We are utilizing the Central Office Administrative Assistant (COAA) to implement more dual controls in our daily financial reporting. We also have an aide who is helping with the School Lunch program to add an additional person in that department.

Conclusion – Response accepted.

Starmont Community School District

Schedule of Findings

Year ended June 30, 2011

- (B) Financial Reporting – During the audit, we identified material amounts of receivables, payables, delinquent property tax and capital asset additions not recorded in the District’s financial statements. In addition, due from other governments was misclassified as accounts receivable and salaries payable and due to other governments was incorrectly classified as accounts payable. The District did not perform bank reconciliations during the fiscal year and material variances existed between cash in the Districts accounting system and cash in the bank. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure bank reconciliations are performed and reconciling items are resolved in a timely manner and all receivables, payables and capital asset additions are identified and included in the District’s financial statements. In addition, the District should implement procedures to ensure receivables and payables are properly classified in the financial statements.

Response – The District is implementing procedures to ensure all receivables, payables and capital asset additions are identified and included in the District’s financial statements. In addition, more detailed financial reports are being provided to the Board. The COAA is doing the reconciliation of the accounts to provide dual control on the accounts.

Conclusion – Response accepted.

- (C) Bank Reconciliation – Monthly reconciliation of the District's balances to the bank accounts and investments was not performed for most of the District’s bank accounts during the fiscal year. Once bank reconciliations were prepared, there were material variances which could not be explained. In addition, the listing of outstanding checks is not reviewed for propriety.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared. Any variances should be investigated and resolved in a timely manner. Outstanding checks and reconciling items should be reviewed for propriety.

Response – Monthly reports to the Board document the check numbers so the check sequence can be monitored by the Board. We are utilizing the COAA to reconcile the accounts to be done on a monthly basis.

Conclusion – Response accepted.

- (D) Computer Systems – During our review of internal control, the existing control activities in the District’s computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the District’s computer systems were noted:

The District does not have written policies for:

- Requiring the maintenance of password privacy and confidentiality.
- Requiring passwords be changed at least every 60-90 days.
- Requiring use of screen savers when computers are not in use.

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Year ended June 30, 2011

- Requiring backups of system information.
- Installing software from a vendor and ensuring only software licensed to the District is installed on computers.
- Running an anti-virus program on computers.
- Usage of the internet.
- Personal use of computer equipment and software.

Also, the District does not have a written disaster recovery plan.

Recommendation – The District should develop written policies addressing the above items in order to improve the District’s control over computer systems.

Response – The District is working on developing written procedures for employees in regard to computer systems, as well as a written disaster recovery plan.

Conclusion – Response accepted.

(E) Accounting Procedures Manual – We encourage the development of office procedures and standardized accounting manuals for the District. In addition, we encourage obtaining or developing user manuals/help guides for the accounting records the District utilizes. These manuals and guides should provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or similar, situation arises.
- (4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Recommendation – Office procedures and a standardized accounting manual should be developed for the District.

Response – The District is still training other personnel in the operation of the accounting system as well as developing a manual for the Central Office to have as guidance. Processing the payroll has been completed and working on other areas.

Conclusion – Response accepted.

(F) Property Tax Receipts – The District did not reconcile property tax recorded to tax orders received from the counties.

Recommendation – The District should reconcile the property tax recorded to tax orders from the counties to ensure all receipts are recorded and credited to the correct fund.

Response – The District will reconcile the tax receipts for each of the four counties on an annual basis.

Conclusion – Response accepted.

Starmont Community School District

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Year ended June 30, 2011

- (G) Prenumbered Receipts – Although receipts were issued, they were not issued for all collections or properly monitored. In addition, account coding is not placed on receipts to properly document to which account the receipt should be credited. Supporting documentation for miscellaneous receipts was not always maintained and a receipt was identified for which the amount recorded in the accounting records was misstated by \$2,000.

Recommendation – Receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all money. The District should use prenumbered receipts and develop procedures to account for the numerical sequence of the receipts. In addition, the District should retain supporting documentation for miscellaneous receipts and develop procedures to ensure account coding is placed on each receipt.

Response – The District is using pre-numbered receipts for revenues and the account coding is identified on the receipt. Supporting documentation for receipts is being maintained with the deposit slips. One person is creating the receipt and another person is entering it into the accounting system.

Conclusion – Response accepted.

- (H) Journal Entries – The Business Manager processes journal entries to record adjustments to accounting records, record ACH payments and record automatic deposits from the counties and state. Journal entries did not consistently include an explanation, include sufficient supporting documentation or have evidence of independent review or approval.

Recommendation – All journal entries should include an explanation and have appropriate supporting documentation. In addition, all journal entries should be approved by the Superintendent or Board prior to processing and should document evidence of the review.

Response – A form has been developed to identify the ACH payments and automatic deposits from the counties and the state which identifies the source and purpose of the transaction. We will have approval on adjusting transactions by the Superintendent and description of the transaction written on the report.

Conclusion – Response accepted.

- (I) Unused Checks and Purchase Orders – The District does not adequately control and monitor the supply of unused checks. The District also did not secure blank purchase orders for several months of the fiscal year.

Recommendation – The District should store the unused checks and purchase orders in a secure location and monitor the numerical sequence to ensure checks and purchase orders are not written without proper authorization.

Response – The unused checks are currently being locked up. Board reports indicate the numerical sequence each month. Purchase order numbers are obtained from the building Principals or the Business Office.

Conclusion – Response accepted.

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- (J) Check Signing – District checks are electronically signed without any subsequent review.

Recommendation – The District should establish procedures to ensure checks are reviewed for propriety after they are printed to prevent unauthorized checks from being issued.

Response – The District checks are mailed by an independent person to verify the amount and purpose of the expenses.

Conclusion – Response accepted.

- (K) Capital Assets Listing – The District did not include all asset additions, capital projects, deletions and construction in progress in the capital assets listing. In addition, the District did not update its financial statements to reflect changes in depreciation for the School Nutrition Program for the current fiscal year. There was also no evidence the capital assets listing was periodically reviewed by an independent person to determine if assets on the listing existed and the listing included all of the District's capital assets. In addition, the capital assets listing did not include a tag number, serial number or other identifying information. The District has not adopted an intangible asset policy.

Recommendation – The District should implement procedures to ensure the capital assets listing for the District and School Nutrition Program are accurate, current and the assets on the listing can be identified and cost is calculated correctly. Capital projects should be tracked and added as construction in progress or as a capital asset when completed. In addition, a physical inventory should be conducted periodically and reconciled to the capital assets listing by an independent person for accuracy. The District should also adopt an intangible asset policy.

Response – The District's capital asset listing will be updated on a regular basis. The District is researching options for a company to come in to do inventory control.

Conclusion – Response accepted.

- (L) Student Activity Accounts Ledger – The Business Manager for the District maintained a separate ledger to track balances for individual Student Activity Accounts. This subsidiary ledger was not reconciled to the account balance maintained for the Special Revenue Fund, Student Activity Accounts in the District's accounting system.

Recommendation – The District should reconcile all subsidiary ledgers to the account balance maintained by the District's accounting system.

Response – Reports are given to the sponsors/Treasurers of the subsidiary ledgers. The Business Manager is working with the sponsors/Treasurers of the groups to establish procedures for each to have their own accounting records.

Conclusion – Response accepted.

- (M) Incoming Mail - Incoming mail is opened by the same employee authorized to make entries to the accounting records. In addition, an initial listing of cash and checks received is not prepared.

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Recommendation – All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare an initial listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. The initial listing of receipts should then be periodically compared to deposits by an independent person.

Response – The Superintendent opens the mail and the Business Manager records any funds received in a log. Checks are then given to the COAA to prepare the receipt and deposit. The Superintendent or the Business Manager makes the deposit at the bank.

Conclusion – Response accepted.

- (N) Bank Accounts – The District has eight separate checking, savings and money market accounts as of June 30, 2011. The Business Manager issued checks from the Student Nutrition Fund to the General Fund for IPERS payments, increasing the likelihood for error or fraud. Checks issued from the Capital Projects checking account were hand-written due to the format of the checks.

Transfers between bank accounts and between funds are not balanced monthly, adequately explained or classified as transfers rather than receipts or disbursements.

Recommendation – The District should minimize the number of checking and savings accounts to avoid the need to transfer funds between bank accounts. In addition, the District should balance transfers monthly and provide an explanation for each transfer.

Response – The District is still in the process of consolidating accounts so there will be three accounts to write checks from. All checks are being printed through the software system. Transfers between accounts are recorded in each account with the description of the transfer, which are being used in the reconciliation process.

Conclusion – Response acknowledged. However, the District should consider maintaining only one checking account to minimize the need for transfers between accounts.

- (O) Investments – The District does not maintain a listing of certificates of deposit and other investments held by the District. The Business Manager reinvests the certificates of deposit and records the interest without any independent review or approval. Investments recorded in the accounting records did not agree with the amount invested according to the certificates of deposit. In addition, the District has a mutual fund with Edward Jones valued at \$15,877 at June 30, 2011 which was donated to be used for a scholarship but is not recorded in the District's accounting records or included in the District's financial reports. The District does not track interest earned but not received for financial reporting purposes.

Recommendation – The District should maintain a listing of all investments held by the District. This listing should be reviewed by a responsible individual to ensure all investments are recorded and, when an investment matures, it is appropriately recorded and reinvested or deposited into the District's accounts. In addition, the District should track the amount of interest received annually on the investments and record the interest in the accounting records when received. The District should also track the interest earned but not received at the end of the year for financial reporting purposes.

Starmont Community School District

Schedule of Findings

Year ended June 30, 2011

Response – The Edward Jones Account is now recorded in the District’s accounting system. In addition, the District is maintaining a listing of certificates of deposit and all other investments held by the District and tracking the interest.

Conclusion – Response accepted.

(P) Disbursements – The District’s disbursements were not always properly supported, approved and for an appropriate purpose. During our review of the District’s disbursements, we identified:

- 8 of 86 disbursements tested were not supported by invoices, receipts or other appropriate documentation.
- sales tax was paid on 1 transaction.
- a down payment for work yet to be performed. The District should not prepay for services.
- a service charge for nonsufficient funds.

In addition, the District has a credit card policy which is not enforced and no procedures are in place to verify the mathematical accuracy of invoices and to ensure disbursements are recorded correctly in the accounting system.

Recommendation – The District should implement policies and procedures to ensure:

- all disbursements are properly supported by detailed invoices, receipts or other appropriate documentation to allow an independent party to ensure the disbursement is appropriate.
- sales tax is not paid on purchases.
- prepayments for goods and services are not made.
- nonsufficient funds charges are not incurred.

In addition, the District should ensure the established credit card policy is enforced and all invoices are reviewed for mathematical accuracy and recorded correctly in the accounting system.

Response – The District is implementing the use of purchase orders which are attached to the invoice or receipts and kept in a monthly folder. A member of the Board reviews the disbursements on a monthly basis.

Conclusion – Response accepted.

(Q) Receipts – Admission fees and concession sales are collected for athletic events, dances and other events held at the school. The District does not use tickets to provide a record of the completeness of collections or issue receipts for all collections. In addition, all collections are given to the Business Manager for recording and deposit with no independent reconciliation to determine all funds were recorded or deposited.

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Recommendation – The District should use prenumbered tickets at all events and reconcile collections to the number of tickets sold. Additionally, the reconciliation documentation should be retained to support collections submitted to Central Office and to support the deposit. Prenumbered receipts should also be issued at the time of collection to provide additional control over the proper collection and recording of all money.

Whenever possible, two individuals should sell the tickets and sign off on the reconciliation at the end of the event. The documentation prepared should not be submitted to the District's Central Office along with the proceeds, but should be delivered separately by the individual responsible for collecting the funds. The documentation should be reviewed by an independent party and reconciled to the amount actually deposited.

Response – The District has implemented new procedures for admissions. Two ticket takers are utilized and there is a reconciliation form for each gate which is receipted into the receipt book with a description of the activity.

Conclusion – Response accepted.

- (R) Pay Rates and Payroll Taxes – The Business Manager enters all pay rates and payroll tax rates for federal and state withholding, as well as FICA and IPERS rates. The Business Manager also adds new employees to the payroll system. However, the information entered in the payroll system is not reviewed by an independent individual for accuracy or propriety.

Recommendation – All information input to the payroll system should be reviewed by an independent individual for accuracy. In addition, the monthly payroll register should be reviewed for propriety.

Response – Any changes to the system for pay rates and tax rates are verified by the COAA to ensure accuracy. Payroll journals are spot checked by the Superintendent.

Conclusion – Response accepted.

- (S) Wire Transfers – The Business Manager has the ability to process wire transfers without approval from another individual.

Recommendation – All wire transfers should be approved by an independent individual.

Response – If wire transfers are used, the transactions will be approved by the Superintendent.

Conclusion – Response accepted.

- (T) Electronic Funds Transfers – Many payments issued to the District from the State are deposited directly to the District's bank account through electronic funds transfer. There were numerous instances when the deposits were not recorded in the District's accounting system. In addition, there were instances when the District recorded the deposit to the correct fund but did not transfer the funds to the corresponding bank account.

Recommendation – The District should implement procedures to ensure deposits and transfers are recorded timely and properly.

Starmont Community School District

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Response – The District has combined bank accounts and is also working with the Department of Management to have funds deposited into the correct accounts so transfers are not necessary.

Conclusion – Response accepted.

- (U) Document Retention Policy – The District has a document retention policy. However, Central Office personnel were not able to locate certain documents.

Recommendation – The District should remind personnel of the document retention policy and ensure it is followed.

Response – The Board will enforce the document retention policy.

Conclusion – Response accepted.

- (V) Food and Nutrition Program – The District completes CNP-1 reports which are submitted monthly to the Department of Education. However, there is no evidence the reports were reviewed or approved. In addition, the District tracks meal tickets electronically, but the electronic tickets do not always agree with the Accuscan sales reports.

Recommendation – The District should implement procedures to ensure the monthly CNP-1 reports and Accuscan sales reports are accurate.

Response – The District will reconcile the account on a monthly basis and review the monthly CNP-1 reports for accuracy.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Starmont Community School District

Schedule of Findings

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Findings Related To Required Statutory Reporting:

- (1) Certified Budget – Expenditures for the year ended June 30, 2011 exceeded the amount budgeted in the support services function. In addition, the District did not maintain supporting documentation to determine if a notice of public hearing on the proposed budget was published in accordance with the Code of Iowa.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget. In addition, the District should ensure supporting documentation for public hearings is retained.

Response – With the new financial reports given to the Board, we will be able to monitor our expenditures to budget on a monthly basis. This will allow us to know if we need to amend the budget or not. If an amendment is needed, documentation will be retained. The Board is also using the Iowa School Finance Information Services electronic finance tool to verify budget amounts which are presented to the Board.

In addition, a copy of the publication documenting proper notice of a public hearing on the proposed budget will be maintained in the future.

Conclusion – Response accepted.

- (2) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) 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.
- (4) Business Transactions – No business transactions between the District and District officials or employees were noted.
- (5) Bond Coverage – The District does not have surety bond coverage of District officials and employees in accordance with Chapter 279.8 and 291.2 of the Code of Iowa.

Recommendation – The District should obtain surety bond coverage for officials and employees in accordance with the Code of Iowa.

Response – The Board is covered under the crime section of our insurance policy, which covers all employees/organizations of the District rather than just the Secretary/Treasurer.

Conclusion – Response acknowledged. The District is required to obtain surety bond coverage in accordance with Chapters 279.8 and 291.2 of the Code of Iowa. The District should consult with its insurance company to ensure the District's insurance coverage complies with these statutory requirements.

- (6) Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

Starmont Community School District

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- (7) Certified Enrollment – One variance in the basic enrollment data certified to the Department of Education was noted. The District did not include one student who had attended school in the District.

Recommendation – The District should implement procedures to ensure accurate attendance counts are taken throughout the year and accurate enrollment data is certified to the Iowa Department of Education.

Response – The District will implement a cross-check process in verifying enrollment figures.

Conclusion – Response accepted.

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

- (9) Deposits and Investments – 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 were noted.

- (10) Certified Annual Report – The Certified Annual Report was not submitted timely to the Iowa Department of Education. In addition, there were material misstatements due to incorrectly recorded payable and receivable amounts which affected cash and fund balances.

Recommendation – The District should correct the accounting records to ensure the 2012 Certified Annual Report is completed accurately and timely.

Response – The Business Manager will start earlier with the certification process of the Certified Annual Report and work with area business managers to obtain a better understanding of the report.

Conclusion – Response accepted.

- (11) Categorical Funding – Except as noted, no instances of categorical funding being used to supplant rather than supplement other funds were noted. The District established a fund for the Home School Assistance Program (HSAP), Talented and Gifted Program and Dropout Prevention. However, no expenses were recorded in these funds. Transfers were recorded at the end of the fiscal year to allocate expenses to these funds.

Recommendation – The District should record expenses to the appropriate program at the time the expenses are incurred.

Response – There is a better understanding of categorical funding and the expenses will be recorded to the proper category as they happen.

Conclusion – Response accepted.

Starmont Community School District

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- (12) 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.5 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. For the year ended June 30, 2011, the District’s financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

Beginning balance		\$	-
Revenues:			
Statewide sales, services and use tax			465,310
Expenditures:			
School infrastructure:			
Buildings	\$	198,203	
Equipment		90,307	288,510
			<u> </u>
Ending balance			<u>\$ 176,800</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2011 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Physical plant and equipment levy	\$.33000	465,310

- (13) Financial Condition – The General Fund had a deficit unassigned fund balance at June 30, 2011 of \$653,069. In addition, the Athletics Account within the Special Revenue Fund, Student Activity Accounts had a deficit balance at June 30, 2011.

Recommendation – The District should continue to investigate alternatives to eliminate these deficits in order to return the fund and account to a sound financial condition.

Response – The District is working on reducing expenses to correct the deficits. The new reports will allow us a clearer picture of our income and expenses.

Conclusion – Response accepted.

- (14) Payroll Authorization – The District does not have written authorization to mail employee's payroll checks. Chapter 91A.3 of the Code of Iowa requires an employer to have a written request from an employee before wages can be sent to an employee by mail.

Recommendation – The District should obtain written authorization from each employee who desires to receive a payroll check by mail.

Response – The District will obtain written authorization from each employee who desires to receive a paycheck by mail.

Conclusion – Response accepted.

Starmont Community School District

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- (15) Officiating Contracts – The Board President did not sign officiating contracts. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation – The District should ensure the Board President signs all contracts entered into by the District.

Response – The Board is considering implementation of a policy to allow the Activities Director to sign the officiating contracts.

Conclusion – Response acknowledged. Pursuant to Chapter 291.1 of the Code of Iowa, the Board President is required to sign all contracts made for the Board. The Board may specifically permit and delegate responsibility to sign teaching contracts and support personnel contracts to the Superintendent by Board policy in accordance with Chapter 279.13(1)(c) and Chapter 279.20(2) of the Code of Iowa, respectively. However, we do not believe the Activities Director can sign contracts on behalf of the District. The District should consult legal counsel for further clarification in regard to this matter.

Starmont Community School District

Staff

This audit was performed by:

Jennifer Campbell, CPA, Manager
Karen J. Kibbe, Senior Auditor II
Kelly L. Hilton, Senior Auditor
Philip A. Rethwisch, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State