



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

July 13, 2012

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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 \$8,290,629 for the year ended June 30, 2010, a 1.4% increase from the prior year. Revenues included \$3,044,539 in local tax, charges for service of \$913,514, operating grants, contributions and restricted interest of \$1,744,793, statewide sales, services and use tax of \$386,799, unrestricted state grants of \$2,162,734, unrestricted investment earnings of \$16,083 and other general revenues of \$22,167.

Expenses for District operations totaled \$7,768,926, a 6.6% decrease from the prior year. Expenses included \$5,155,902 for instruction, \$1,723,799 for support services and \$548,203 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/1030-6175-B00F.pdf>.

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STARMONT COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2010

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Starmont Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2009 Election)		
Laura Morine	President	2011
Kevin Powell	Vice President	2011
Dennis Kleve	Board Member	2009
Tina Pech	Board Member	2009
Jerry Flexsenhar	Board Member	2011
(After September 2009 Election)		
Tina Pech	President	2013
Kevin Powell	Vice President	2011
Jerry Flexsenhar	Board Member	2011
Laura Morine	Board Member	2011
Chris Henry	Board Member	2013
School Officials		
Matt O'Loughlin	Superintendent	Indefinite
Vicki Vanter	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, 2010, 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.

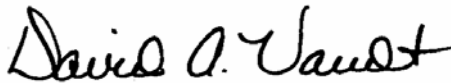
As discussed in Note 13, a special investigation of Starmont Community School District was performed by the Office of Auditor of State for the period of July 1, 1993 through November 30, 2010 and identified \$362,622 of improper and unsupported expenditures made by the former Business Manager and former Superintendent. Of the \$362,622 of improper and unsupported expenditures, approximately \$29,300 apply to the year ended June 30, 2010. The improper and unsupported expenditures pertaining to the year ended June 30, 2010 are included as General Fund expenditures in the District's financial statements and the improper and unsupported expenditures for prior years reduced the net assets of governmental activities and the fund balance of the General Fund approximately \$326,200 at July 1, 2009.

In our opinion, except for the effects of the improper and unsupported expenditures on the fund balance of the General Fund, a major fund, and the net assets of the governmental activities, 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, 2010, 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 May 23, 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. 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 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of the improper and unsupported expenditures which were included in the financial statements for the year ended June 30, 2010 and prior years, 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

May 23, 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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from approximately \$6.7 million in fiscal year 2009 to approximately \$6.6 million in fiscal year 2010 and General Fund expenditures decreased from approximately \$6.9 million in fiscal year 2009 to approximately \$6.8 million in fiscal year 2010. The District's General Fund balance decreased from approximately \$(430,000) at the end of fiscal year 2009 to approximately \$(608,000) at the end of fiscal year 2010, a 41% decrease.
- The majority of the decrease in General Fund revenues is due to the 10% across the board cut in State funding, less the amount offset by funds received under the American Recovery and Reinvestment Act (ARRA). The decrease in expenditures is a result of savings in the support services area.
- The General Fund balance decrease is primarily due to the reduced revenues received by the District as a result of the reduction in State funding.

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 enterprise reported as a proprietary fund. 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

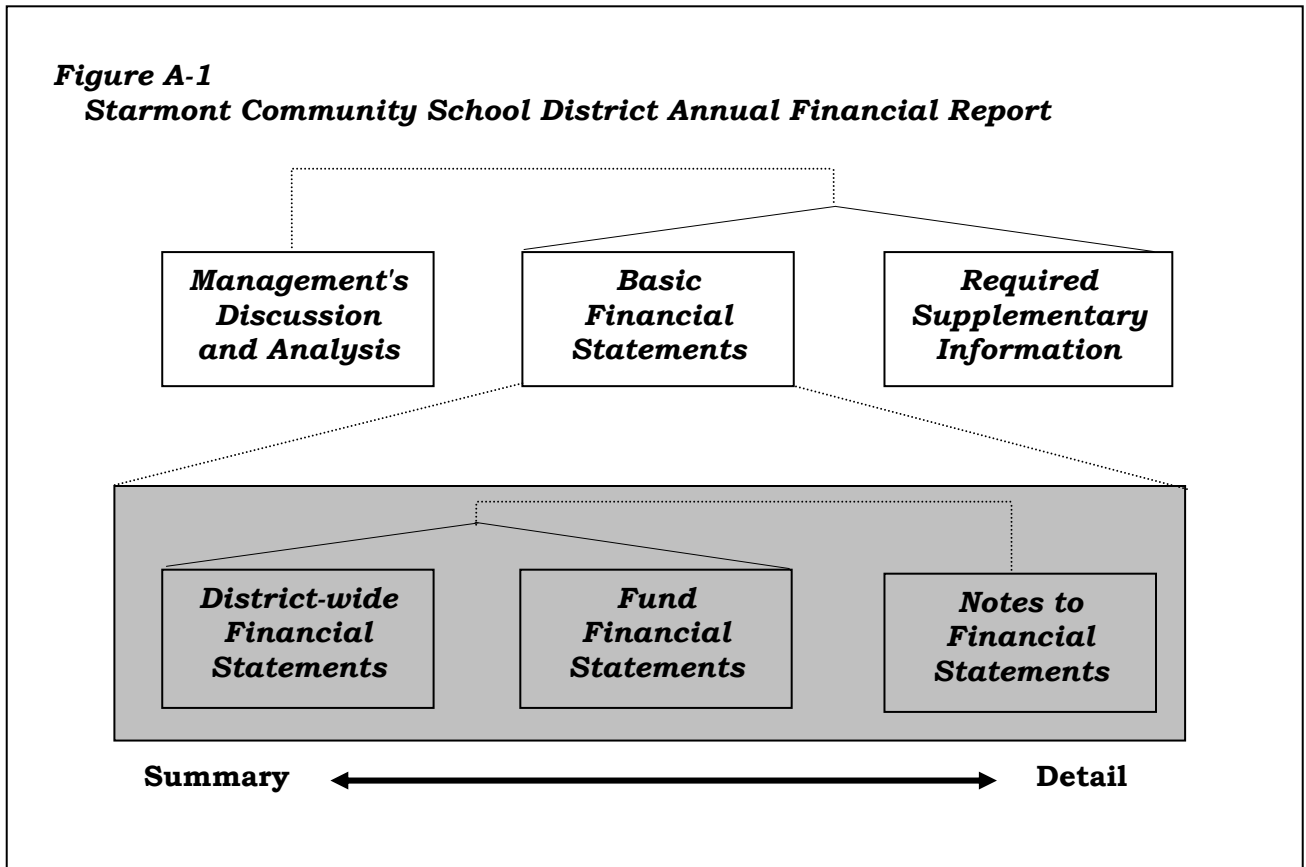


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and 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 the 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 the District 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, is the same as its business type activities, but provides 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, 2010 compared to June 30, 2009.

Figure A-3							
Condensed Statement of Net Assets							
(Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Current and other assets	\$ 3,846	5,759	22	17	3,868	5,776	-33.0%
Capital assets	5,053	4,862	9	13	5,062	4,875	3.8%
Total assets	8,899	10,621	31	30	8,930	10,651	-16.2%
Long-term liabilities	186	788	3	3	189	791	-76.1%
Other liabilities	4,025	5,660	23	29	4,048	5,689	-28.8%
Total liabilities	4,211	6,448	26	32	4,237	6,480	-34.6%
Net assets:							
Invested in capital assets	5,053	4,382	9	13	5,062	4,395	15.2%
Restricted	346	506	-	-	346	506	-31.6%
Unrestricted	(711)	(715)	(4)	(15)	(715)	(730)	2.1%
Total net assets	\$ 4,688	4,173	5	(2)	4,693	4,171	12.5%

The District’s combined net assets increased 12.5%, or approximately \$522,000, 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 decreased approximately \$160,000, or 31.6%, from the prior year.

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 \$15,000, or 2.1%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

	Governmental Activities		Business Type Activities		Total District		Total Change
	2010	2009	2010	2009	2010	2009	2009-2010
Revenues:							
Program revenues:							
Charges for service	\$ 724	494	190	185	914	679	34.6%
Operating grants, contributions and restricted interest	1,586	1,018	158	166	1,744	1,184	47.3%
Capital grants, contributions and restricted interest	-	5	-	-	-	5	-100.0%
General revenues:							
Property tax	3,045	2,755	-	-	3,045	2,755	10.5%
Statewide sales, services and use tax	387	399	-	-	387	399	-3.0%
Unrestricted state grants	2,163	2,903	-	-	2,163	2,903	-25.5%
Unrestricted investment earnings	16	78	-	-	16	78	-79.5%
Other	22	172	-	-	22	172	-87.2%
Total revenues	7,943	7,824	348	351	8,291	8,175	1.4%
Program expenses:							
Instruction	5,156	5,196	-	-	5,156	5,196	-0.8%
Support services	1,724	1,942	-	-	1,724	1,942	-11.2%
Non-instructional programs	-	-	341	398	341	398	-14.3%
Other expenses	548	782	-	-	548	782	-29.9%
Total expenses	7,428	7,920	341	398	7,769	8,318	-6.6%
Change in net assets	515	(96)	7	(47)	522	(143)	465.0%
Net assets beginning of year	4,173	4,269	(2)	45	4,171	4,314	-3.3%
Net assets end of year	\$ 4,688	4,173	5	(2)	4,693	4,171	12.5%

In fiscal year 2010, property tax and unrestricted state grants account for 66% 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 \$8.3 million, of which approximately \$7.9 million was for governmental activities and less than \$350,000 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.4% increase in revenues and a 6.6% decrease in expenses. Property tax increased approximately \$290,000.

Governmental Activities

Revenues for governmental activities were \$7,942,418 and expenses were \$7,427,904 for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-2010	2010	2009	Change 2009-2010
Instruction	\$ 5,156	5,196	-0.8%	3,227	3,953	-18.4%
Support services	1,724	1,942	-11.2%	1,629	1,939	-16.0%
Other expenses	548	782	-29.9%	262	511	-48.7%
Total	\$ 7,428	7,920	-6.2%	5,118	6,403	-20.1%

For the year ended June 30, 2010:

- The cost financed by users of the District’s programs was \$723,888.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,586,208.
- The net cost of governmental activities was financed with \$3,431,338 of property and other tax, including statewide sales, services and tax, and \$2,162,734 of unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2010 were \$348,211, representing a 0.8% decrease from the prior year, while expenses totaled \$341,022, a 14.3% decrease from 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 a combined fund balance of \$(178,621), a decrease of \$279,078 compared to last year’s ending fund balance of \$100,457. The decrease is primarily due to the 10% reduction in revenue from the State’s General Fund in fiscal year 2010.

Governmental Fund Highlights

- The General Fund fund balance decreased from \$(430,112) to \$(608,319), primarily due to the 10% across the board cut in state funding, less the amount offset by funds received under the American Recovery and Reinvestment Act (ARRA).
- The Special Revenue, Management Levy Fund fund balance increased from \$95,014 to \$110,745, an increase of 16.6%.

Proprietary Fund Highlights

Enterprise, School Nutrition Fund net assets increased from \$ (666) at June 30, 2009 to \$4,269 at June 30, 2010, representing an increase of approximately 740%, due primarily to an increase in revenue from charges for service.

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 2010.

The District's total revenues were approximately \$376,000 less than total budgeted revenues, a variance of 4%.

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 instruction and other expenditures functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, 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 a net increase of 3.8% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$263,141.

The original cost of the District's capital assets was approximately \$9.7 million. Governmental funds account for approximately \$9.6 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		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Land	\$ 26	26	-	-	26	26	0.0%
Construction in progress	150	-	-	-	150	-	100.0%
Buildings	4,437	4,419	-	-	4,437	4,419	0.4%
Improvements other than buildings	178	166	-	-	178	166	7.2%
Furniture and equipment	261	250	9	13	270	263	2.7%
Total	\$ 5,052	4,861	9	13	5,061	4,874	3.8%

Long-Term Debt

At June 30, 2010, 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 increase the property tax rate.
- The District expects a slight decrease in enrollment due to declining population within the District.
- The District will use resources from the Special Revenue, Physical Plant and Equipment Levy Fund to purchase one new school bus in fiscal year 2011.
- Fiscal year 2010 was the last year of a two-year contract with the Starmont Education Association (SEA). The District will negotiate a new agreement during fiscal year 2011. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

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, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 412,256	18,356	430,612
Receivables:			
Property tax:			
Delinquent	52,784	-	52,784
Succeeding year	3,042,319	-	3,042,319
Accounts	2,022	1,527	3,549
Due from other governments	337,256	-	337,256
Inventories	-	2,491	2,491
Capital assets, net of accumulated depreciation	5,052,663	9,451	5,062,114
Total assets	8,899,300	31,825	8,931,125
Liabilities			
Accounts payable	170,420	1,150	171,570
Salaries and benefits payable	691,251	16,658	707,909
Due to other governments	27,791	-	27,791
Unearned revenue:			
Succeeding year property tax	3,042,319	-	3,042,319
Other	93,477	5,075	98,552
Long-term liabilities:			
Portion due within one year:			
Compensated absences	18,409	3,381	21,790
Early retirement	105,813	-	105,813
Portion due after one year:			
Early retirement	57,201	-	57,201
Net OPEB liability	4,540	60	4,600
Total liabilities	4,211,221	26,324	4,237,545
Net assets			
Invested in capital assets	5,052,663	9,451	5,062,114
Restricted for:			
Categorical funding	79,403	-	79,403
Debt service	12,152	-	12,152
Infrastructure	236,865	-	236,865
Other purposes	17,667	-	17,667
Unrestricted	(710,671)	(3,950)	(714,621)
Total net assets	\$ 4,688,079	5,501	4,693,580

See notes to financial statements.

Starmont Community School District

Statement of Activities

Year ended June 30, 2010

	Expenses	Program Revenues	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 3,218,738	335,410	987,413
Special instruction	921,217	121,268	113,750
Other instruction	1,015,947	219,063	151,853
	<u>5,155,902</u>	<u>675,741</u>	<u>1,253,016</u>
Support services:			
Student	154,749	-	-
Instructional staff	39,469	-	1,500
Administration	660,382	-	42,362
Operation and maintenance of plant	501,400	3,976	-
Transportation	367,799	44,171	2,872
	<u>1,723,799</u>	<u>48,147</u>	<u>46,734</u>
Other expenditures:			
Facilities acquisition	84,428	-	-
Long-term debt interest	10,887	-	-
AEA flow through	286,458	-	286,458
Depreciation (unallocated)*	166,430	-	-
	<u>548,203</u>	<u>-</u>	<u>286,458</u>
Total governmental activities	<u>7,427,904</u>	<u>723,888</u>	<u>1,586,208</u>
Business type activities:			
Non-instructional programs:			
Child care operations	-	2,254	-
Food service operations	341,022	187,372	158,585
Total business type activities	<u>341,022</u>	<u>189,626</u>	<u>158,585</u>
Total	<u>\$ 7,768,926</u>	<u>913,514</u>	<u>1,744,793</u>

General Revenues:

Property tax levied for general purposes
 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 depreciation included in the direct expenses of various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,895,915)	-	(1,895,915)
(686,199)	-	(686,199)
(645,031)	-	(645,031)
<u>(3,227,145)</u>	-	<u>(3,227,145)</u>
(154,749)	-	(154,749)
(37,969)	-	(37,969)
(618,020)	-	(618,020)
(497,424)	-	(497,424)
(320,756)	-	(320,756)
<u>(1,628,918)</u>	-	<u>(1,628,918)</u>
(84,428)	-	(84,428)
(10,887)	-	(10,887)
-	-	-
(166,430)	-	(166,430)
<u>(261,745)</u>	-	<u>(261,745)</u>
<u>(5,117,808)</u>	-	<u>(5,117,808)</u>
-	2,254	2,254
-	4,935	4,935
-	<u>7,189</u>	<u>7,189</u>
<u>(5,117,808)</u>	<u>7,189</u>	<u>(5,110,619)</u>
\$ 3,044,539	-	3,044,539
386,799	-	386,799
2,162,734	-	2,162,734
16,083	-	16,083
22,167	-	22,167
<u>5,632,322</u>	-	<u>5,632,322</u>
514,514	7,189	521,703
4,173,565	(1,688)	4,171,877
<u>\$ 4,688,079</u>	<u>5,501</u>	<u>4,693,580</u>

Exhibit C

Starmont Community School District

Balance Sheet
Governmental Funds

June 30, 2010

	Special Revenue Management			Total
	General	Levy	Nonmajor	
Assets				
Cash and pooled investments	\$ 1,330	87,238	323,688	412,256
Receivables:				
Property tax:				
Delinquent	41,190	3,719	7,875	52,784
Succeeding year	2,659,013	320,500	62,806	3,042,319
Accounts	32	550	1,440	2,022
Due from other funds	-	19,554	-	19,554
Due from other governments	202,351	-	134,905	337,256
Total assets	\$ 2,903,916	431,561	530,714	3,866,191
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 21,149	316	148,955	170,420
Salaries and benefits payable	691,251	-	-	691,251
Due to other governments	27,791	-	-	27,791
Due to other funds	19,554			19,554
Deferred revenue:				
Succeeding year property tax	2,659,013	320,500	62,806	3,042,319
Other	93,477	-	-	93,477
Total liabilities	3,512,235	320,816	211,761	4,044,812
Fund balances:				
Reserved for:				
Categorical funding	79,403	-	-	79,403
Debt service	-	-	12,152	12,152
Capital projects	-	-	236,865	236,865
Unreserved, reported in:				
General fund	(687,722)	-	-	(687,722)
Special revenue funds	-	110,745	69,936	180,681
Total fund balances	(608,319)	110,745	318,953	(178,621)
Total liabilities and fund balances	\$ 2,903,916	431,561	530,714	3,866,191

See notes to financial statements.

Starmont Community School District

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

June 30, 2010

Total fund balances of governmental funds (page 20) \$ (178,621)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 5,052,663

Long-term liabilities, including compensated absences payable, other postemployment benefits payable and early retirement payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. (185,963)

Net assets of governmental activities (page 17) \$ 4,688,079

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, 2010

	Special Revenue			Total
	General	Management Levy	Nonmajor	
Revenues:				
Local sources:				
Local tax	\$ 2,375,759	214,472	841,106	3,431,337
Tuition	373,136	-	-	373,136
Other	121,739	13,929	231,260	366,928
State sources	3,055,448	-	-	3,055,448
Federal sources	673,207	-	42,362	715,569
Total revenues	6,599,289	228,401	1,114,728	7,942,418
Expenditures:				
Current:				
Instruction:				
Regular	3,108,084	129,345	-	3,237,429
Special	930,719	-	-	930,719
Other	813,326	-	305,499	1,118,825
	4,852,129	129,345	305,499	5,286,973
Support services:				
Student	154,689	-	-	154,689
Instructional staff	39,147	-	-	39,147
Administration	655,488	37,314	-	692,802
Operation and maintenance of plant	446,684	40,683	-	487,367
Transportation	301,106	5,328	-	306,434
Central support	41,795	-	-	41,795
	1,638,909	83,325	-	1,722,234
Other expenditures:				
Facilities acquisition	-	-	433,991	433,991
Long-term debt:				
Principal	-	-	480,000	480,000
Interest and other charges	-	-	11,840	11,840
AEA flow through	286,458	-	-	286,458
	286,458	-	925,831	1,212,289
Total expenditures	6,777,496	212,670	1,231,330	8,221,496
Excess (deficiency) of revenues over (under) expenditures	(178,207)	15,731	(116,602)	(279,078)
Other financing sources (uses):				
Operating transfers in	-	-	1,840	1,840
Operating transfers out	-	-	(1,840)	(1,840)
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(178,207)	15,731	(116,602)	(279,078)
Fund balances beginning of year	(430,112)	95,014	435,555	100,457
Fund balances end of year	\$ (608,319)	110,745	318,953	(178,621)

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, 2010

Net change in fund balances - total governmental funds (page 22) \$ (279,078)

**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. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 450,400	
Depreciation expense	<u>(259,527)</u>	190,873

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		480,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		952
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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:

Compensated absences	(1,014)	
Early retirement	127,321	
Other postemployment benefits	<u>(4,540)</u>	<u>121,767</u>

Change in net assets of governmental activities (page 19)		<u><u>\$ 514,514</u></u>
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See notes to financial statements.

Starmont Community School District

Statement of Net Assets
Proprietary Fund

June 30, 2010

	Enterprise		
	School Nutrition	Nonmajor Child Care	Total
Assets			
Cash and cash equivalents	\$ 15,985	2,371	18,356
Accounts receivable	1,516	11	1,527
Inventories	2,491		2,491
Capital assets, net of accumulated depreciation	9,451	-	9,451
Total assets	29,443	2,382	31,825
Liabilities			
Accounts payable	-	1,150	1,150
Salaries and benefits payable	16,658	-	16,658
Unearned revenue	5,075	-	5,075
Compensated absences	3,381	-	3,381
Net OPEB liability	60	-	60
Total liabilities	25,174	1,150	26,324
Net Assets			
Invested in capital assets	9,451	-	9,451
Unrestricted	(5,182)	1,232	(3,950)
Total net assets	\$ 4,269	1,232	5,501

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, 2010

	Enterprise		
	School	Nonmajor	
	Nutrition	Child Care	Total
Operating revenues:			
Local sources:			
Charges for service	\$ 180,852	-	180,852
Miscellaneous	6,520	2,254	8,774
Total operating revenues	<u>187,372</u>	<u>2,254</u>	<u>189,626</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries and benefits	147,592	-	147,592
Supplies	189,816	-	189,816
Depreciation	3,614	-	3,614
Total operating expenses	<u>341,022</u>	<u>-</u>	<u>341,022</u>
Operating income (loss)	<u>(153,650)</u>	<u>2,254</u>	<u>(151,396)</u>
Non-operating revenues:			
State sources	3,827	-	3,827
Federal sources	154,715	-	154,715
Interest income	43	-	43
Total non-operating revenues	<u>158,585</u>	<u>-</u>	<u>158,585</u>
Increase in net assets	4,935	2,254	7,189
Net assets beginning of year	(666)	(1,022)	(1,688)
Net assets end of year	<u>\$ 4,269</u>	<u>1,232</u>	<u>5,501</u>

See notes to financial statements.

Exhibit I

Starmont Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2010

	Enterprise		
	School Nutrition	Nonmajor Child Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 181,053	-	181,053
Cash received from miscellaneous	6,520	3,521	10,041
Cash paid to suppliers for goods or services	(340,077)	-	(340,077)
Net cash provided by (used by) operating activities	(152,504)	3,521	(148,983)
Cash flows from non-capital financing activities:			
State grants received	3,827	-	3,827
Federal grants received	154,715	-	154,715
Net cash provided by non-capital financing activities	158,542	-	158,542
Cash flows from investing activities:			
Interest on investments	43	-	43
Net increase in cash and cash equivalents	6,081	3,521	9,602
Cash and cash equivalents beginning of year	9,904	(1,150)	8,754
Cash and cash equivalents end of year	\$ 15,985	2,371	18,356
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:			
Operating income (loss)	\$ (153,650)	2,254	(151,396)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:			
Depreciation	3,614	-	3,614
Decrease in inventories	4,154	-	4,154
Decrease in accounts receivable	63	117	180
(Decrease) increase in accounts payable	(655)	1,150	495
Increase in compensated absences	673	-	673
Decrease in salaries and benefits payable	(6,841)	-	(6,841)
Increase in OPEB liability	60	-	60
Increase in unearned revenue	78	-	78
Net cash provided by (used by) operating activities	\$ (152,504)	3,521	(148,983)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received \$30,108 of federal commodities.

See notes to financial statements.

Starmont Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2010

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Cash and pooled investments	\$ 77,539	8,382
Accounts receivable	90	-
Total assets	77,629	8,382
Liabilities		
Trust payable	-	8,382
Net assets		
Reserved for scholarships	\$ 77,629	-

See notes to financial statements.

Exhibit K

Starmont Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2010

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Investment income	\$ 3,998
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>3,010</u>
Change in net assets	988
Net assets beginning of year	<u>76,641</u>
Net assets end of year	<u>\$ 77,629</u>

See notes to financial statements.

Starmont Community School District

Notes to Financial Statements

June 30, 2010

(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 jointly governed organizations that provide services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the 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 and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor 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 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.

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

Proprietary funds distinguish operating revenues and expenses from 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 Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

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 years
Improvements other than buildings	20 years
Furniture and equipment	2-20 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been 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, 2010. 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, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures exceeded the amounts budgeted in the instruction and other expenditures functions.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 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, 2010, the District had investment 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) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 1,840</u>

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

(4) 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 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 2009-10A warrants was 2.50%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year	Interest Payable
2009-10A	7/21/09	5/24/10	\$ -	800,000	800,000	-	-
2009-10B	2/9/10	6/30/10	-	610,000	610,000	-	-
Total			\$ -	1,410,000	1,410,000	-	-

During the year ended June 30, 2010, the District paid \$4,501 of interest on the ISCAP warrants.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 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	-	149,610
Total capital assets not being depreciated	26,300	149,610	-	175,910
Capital assets being depreciated:				
Buildings	7,632,214	173,630	-	7,805,844
Improvements other than buildings	264,318	21,950	-	286,268
Furniture and equipment	1,220,224	105,210	37,943	1,287,491
Total capital assets being depreciated	9,116,756	300,790	37,943	9,379,603
Less accumulated depreciation for:				
Buildings	3,212,717	156,117	-	3,368,834
Improvements other than buildings	98,158	10,313	-	108,471
Furniture and equipment	970,391	93,097	37,943	1,025,545
Total accumulated depreciation	4,281,266	259,527	37,943	4,502,850
Total capital assets being depreciated, net	4,835,490	41,263	-	4,876,753
Governmental activities capital assets, net	\$ 4,861,790	190,873	-	5,052,663
Business type activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 124,845	-	-	124,845
Less accumulated depreciation	111,780	3,614	-	115,394
Business type activities capital assets, net	\$ 13,065	(3,614)	-	9,451

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	
Regular	\$ 12,883
Special	1,139
Support services:	
Operation and maintenance of plant	12,786
Transportation	66,289
	<u>93,097</u>
Unallocated	166,430
Total depreciation expense - governmental activities	<u>\$ 259,527</u>
Business type activities:	
Food service operations	<u>\$ 3,614</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 480,000	-	480,000	-	-
Compensated absences	17,395	18,409	17,395	18,409	18,409
Early retirement	290,335	-	127,321	163,014	105,813
Net OPEB liability	-	4,540	-	4,540	-
Total	\$ 787,730	22,949	624,716	185,963	124,222
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Compensated absences	\$ 2,708	673	-	3,381	3,381
Net OPEB liability	-	60	-	60	-
Total	\$ 2,708	733	-	3,441	3,381

Early Retirement

During certain prior years, the District offered a voluntary early retirement plan to its certified employees. During the year ended June 30, 2010, the District did not offer a voluntary early retirement plan to its certified employees. However, the District did offer the plan in prior years.

Early retirement benefits of \$127,321 were paid during the year ended June 30, 2010 relating to early retirement plan offered in prior years.

(7) 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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$ 256,448, \$257,335 and \$252,137, respectively, equal to the required contributions for each year.

(8) 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 77 active and 3 retired members in the plan. 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, 2010, the amount actually contributed to the plan and changes in the District’s net OPEB obligation:

Annual required contribution	\$ 57,200
Contributions made	<u>(52,600)</u>
Increase in net OPEB obligation	4,600
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$ 4,600</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, 2010.

For the year ended June 30, 2010, the District contributed \$52,600 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, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 57,200	92%	\$ 4,600

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$461,991, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$461,991. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,269,000 and the ratio of the UAAL to covered payroll was 14.1%. As of June 30, 2010, 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, 2008 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 \$498 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.

(9) 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.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$286,458 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Categorical Funding

The District's ending balances for categorical funding by project as of June 30, 2010 are as follows:

Project	Amount
Statewide Voluntary Preschool Program Grants	\$ 48,693
Professional Development	20,317
Market Factor Incentives	5,525
Market Factor	4,118
Beginning Administrator Mentoring and Induction Program	750
	\$ 79,403

(12) Deficit Fund Balances

The General Fund had a deficit unreserved fund balance of \$687,722 and the Enterprise, School Nutrition Fund had a deficit unrestricted fund balance of \$5,182 at June 30, 2010. The deficit balance in the General Fund was a result of the reduction in state funding received, less the amount offset by funds received under the American Recovery and Reinvestment Act (ARRA), the cumulative effect of salary increases approved in prior years and the improper and unsupported expenditures identified by the special investigation discussed below. The deficits will be eliminated through reductions in future expenditures.

(13) Special Investigation

Starmont Community School District requested the Office of Auditor of State perform a special investigation of the District as a result of concerns identified with payroll issued to the District's former Business Manager. The Auditor of State's special investigation identified improper and unsupported disbursements of \$362,622 between July 1, 1993 and November 30, 2010. Approximately \$29,300 of the improper and unsupported disbursements were made during the year ended June 30, 2010, approximately \$326,200 were made during the period July 1, 1993 through June 30, 2009 and approximately \$7,100 were made during the year ending June 30, 2011.

Copies of the Auditor of State's special investigation report were filed with the Fayette County Sheriff's office, the Division of Criminal Investigation, the Fayette County Attorney's Office and the Attorney General's Office.

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, 2010

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual
Revenues:			
Local sources	\$ 4,171,401	189,669	4,361,070
State sources	3,055,448	3,827	3,059,275
Federal sources	715,569	154,715	870,284
Total revenues	<u>7,942,418</u>	<u>348,211</u>	<u>8,290,629</u>
Expenditures/Expenses:			
Instruction	5,286,973	-	5,286,973
Support services	1,722,234	-	1,722,234
Non-instructional programs	-	341,022	341,022
Other expenditures	1,212,289	-	1,212,289
Total expenditures/expenses	<u>8,221,496</u>	<u>341,022</u>	<u>8,562,518</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(279,078)	7,189	(271,889)
Balances beginning of year	100,457	(1,688)	98,769
Balances end of year	<u>\$ (178,621)</u>	<u>5,501</u>	<u>(173,120)</u>

See accompanying independent auditor's report.

Original and Final Budget	Final to Actual Variance
4,475,169	(114,099)
3,748,006	(688,731)
443,568	426,716
<u>8,666,743</u>	<u>(376,114)</u>
4,826,571	(460,402)
2,775,819	1,053,585
342,000	978
785,314	(426,975)
<u>8,729,704</u>	<u>167,186</u>
(62,961)	(208,928)
<u>649,629</u>	<u>(550,860)</u>
<u><u>586,668</u></u>	<u><u>(759,788)</u></u>

Starmont Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2010

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, 2010.

During the year ended June 30, 2010, expenditures exceeded the amounts budgeted in the instruction and other expenditures functions.

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%

See Note 8 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, 2010

	Special Revenue					Total
	Student Activity	Physical Plant and Equipment Levy	Donations	Capital Projects	Debt Service	
Assets						
Cash and pooled investments	\$ 20,925	14,828	26,645	255,922	5,368	323,688
Receivables:						
Property tax:						
Delinquent	-	1,091	-	-	6,784	7,875
Succeeding year	-	62,806	-	-	-	62,806
Accounts	1,440	-	-	-	-	1,440
Due from other governments	-	17,362	-	117,543	-	134,905
Total assets	\$ 22,365	96,087	26,645	373,465	12,152	530,714
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,335	11,020	-	136,600	-	148,955
Unearned revenue:						
Succeeding year property tax	-	62,806	-	-	-	62,806
Total liabilities	1,335	73,826	-	136,600	-	211,761
Fund balances:						
Reserved for:						
Debt service	-	-	-	-	12,152	12,152
Capital projects	-	-	-	236,865	-	236,865
Unreserved	21,030	22,261	26,645	-	-	69,936
Total fund balances	21,030	22,261	26,645	236,865	12,152	318,953
Total liabilities and fund balances	\$ 22,365	96,087	26,645	373,465	12,152	530,714

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, 2010

	Special Revenue					Total
	Student Activity	Physical Plant and Equipment Levy	Donations	Capital Projects	Debt Service	
Revenues:						
Local sources:						
Local tax	\$ -	62,945	-	386,798	391,363	841,106
Other	219,334	2,096	805	7,967	1,058	231,260
Federal sources	-	42,362	-	-	-	42,362
Total revenues	219,334	107,403	805	394,765	392,421	1,114,728
Expenditures:						
Current:						
Instruction:						
Other	201,303	-	-	-	-	201,303
Equipment	-	-	-	104,196	-	104,196
Other expenditures:						
Facilities acquisition	-	132,854	-	301,137	-	433,991
Long-term debt:						
Principal	-	-	-	-	480,000	480,000
Interest and other charges	-	-	-	-	11,840	11,840
Total expenditures	201,303	132,854	-	405,333	491,840	1,231,330
Excess (deficiency) of revenues over (under) expenditures	18,031	(25,451)	805	(10,568)	(99,419)	(116,602)
Other financing sources (uses):						
Operating transfers in	-	-	-	-	1,840	1,840
Operating transfers out	-	-	-	(1,840)	-	(1,840)
Total other financing sources (uses)	-	-	-	(1,840)	1,840	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	18,031	(25,451)	805	(12,408)	(97,579)	(116,602)
Fund balances beginning of year	2,999	47,712	25,840	249,273	109,731	435,555
Fund balances end of year	\$ 21,030	22,261	26,645	236,865	12,152	318,953

See accompanying independent auditor's report.

Schedule 3

Starmont Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ (49,403)	72,595	70,300	(47,108)
Clubs and Organizations	(8,950)	58,227	54,155	(4,878)
General Activity	13,726	24,513	24,543	13,696
Classes	1,253	10,803	8,074	3,982
Elementary	20,778	40,470	31,737	29,511
Middle	25,595	12,726	12,494	25,827
Total	\$ 2,999	219,334	201,303	21,030

See accompanying independent auditor's report.

Starmont Community School District
 Schedule of Changes in Assets and Liabilities -
 Agency Fund

Year ended June 30, 2010

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ -	55,017	46,635	8,382
Liabilities				
Trusts payable	\$ -	55,017	46,635	8,382

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 Seven Years

	Modified Accrual Basis			
	2010	2009	2008	2007
Revenues:				
Local sources:				
Local tax	\$ 3,431,337	3,154,146	3,116,869	3,123,692
Tuition	373,136	310,458	336,016	304,705
Other	366,928	433,836	326,378	405,111
State sources	3,055,448	3,656,798	3,595,897	3,249,708
Federal sources	715,569	264,448	211,370	286,433
Total	\$ 7,942,418	7,819,686	7,586,530	7,369,649
Expenditures:				
Instruction:				
Regular	\$ 3,237,429	3,264,965	3,320,934	3,210,255
Special	930,719	963,902	947,664	958,126
Other	1,014,629	1,056,644	967,278	897,360
Support services:				
Student	154,689	142,101	176,021	166,603
Instructional staff	39,147	39,464	53,547	68,584
Administration	692,802	720,703	852,861	988,136
Operation and maintenance of plant	487,367	573,349	543,131	550,559
Transportation	306,434	364,346	318,043	411,636
Central support	41,795	-	-	-
Other expenditures:				
Facilities acquisition	538,187	414,510	254,409	312,778
Long-term debt:				
Principal	480,000	470,000	450,000	440,000
Interest and other charges	11,840	25,241	37,130	47,918
AEA flowthrough	286,458	265,962	261,316	255,118
Total	\$ 8,221,496	8,301,187	8,182,334	8,307,073

See accompanying independent auditor's report.

2006	2005	2004
3,237,183	3,223,515	3,112,323
264,920	267,575	281,318
361,255	338,652	386,887
3,320,090	3,304,236	3,318,245
450,135	412,781	624,760
<u>7,633,583</u>	<u>7,546,759</u>	<u>7,723,533</u>
3,042,684	2,848,767	2,929,285
877,718	846,947	1,092,102
868,440	864,244	731,187
157,106	167,889	140,093
104,580	102,330	98,399
731,733	716,653	623,621
572,437	839,606	513,752
339,875	25,189	363,704
-	-	-
475,096	150,406	29,386
430,000	425,000	400,000
57,080	65,945	93,401
248,778	247,899	252,357
<u>7,905,527</u>	<u>7,300,875</u>	<u>7,267,287</u>

Schedule 6

Starmont Community School District
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2010

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	\$ 29,745
National School Lunch Program	10.555	FY10	155,078 *
			<u>184,823</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	112,940
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	37,574
			<u>150,514</u>
Safe and Drug-Free Schools and Communities _ State Grants	84.186	FY10	2,432
Fund for the Improvement of Education	84.215	FY10	17,363
Improving Teacher Quality State Grants	84.367	FY10	37,428
Grants for State Assessments and Related Activities	84.369	FY10	4,394
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	17,735 **
ARRA - State Fiscal Stabilization (SFSF) - Education State Grants, Recovery Act	84.394	FY10	287,582
Keystone Area Education Agency:			
Special Education _ Grants to States	84.027	FY10	34,847 **
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	76,227 **
			<u>111,074</u>
Career and Technical Education - Basic Grants to States	84.048	FY10	6,547
Total			<u>\$ 819,892</u>

* - Includes \$30,108 of non-cash awards.

** - Total for CFDA Number 84.391 is \$93,962 and total for Special Education Cluster (IDEA) is \$128,809.

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Auditor of State

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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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated May 23, 2012. Our report expressed unqualified opinions on the financial statements of the business type activities, each major fund, except for the General Fund and the aggregate remaining fund information. Our report also expressed qualified opinions on the financial statements of the governmental activities and the General Fund as a result of improper and unsupported expenditures identified. 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 and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 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 Part II of the accompanying Schedule of Findings and Questioned Costs as item II-C-10 through II-Z-10 to be significant deficiencies.

Compliance and Other Matters

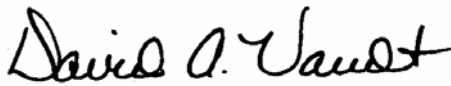
As part of obtaining reasonable assurance about whether Starmont Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have 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 an instance of non-compliance or other matters that is required to be reported under Government Auditing Standards and is described in Part II of the accompanying Schedule of Findings and Questioned Costs. We also noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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.

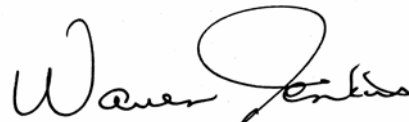
Starmont Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Starmont Community School District's responses and, 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, including federal awarding agencies and pass-through entities, 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

May 23, 2012

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

Starmont Community School District



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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Board of Education of
Starmont Community School District:

Compliance

We have audited the compliance of Starmont Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Starmont Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Starmont Community School District's management. Our responsibility is to express an opinion on Starmont Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Starmont Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Starmont Community School District's compliance with those requirements.

In our opinion, Starmont Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our audit procedures disclosed an instance of non-compliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and is described as item III-A-10 in Part III of the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of Starmont Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Starmont Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing

our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Starmont Community School District's internal control over compliance.

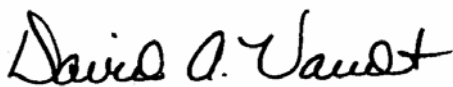
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance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

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-B-10 to be a material weakness.

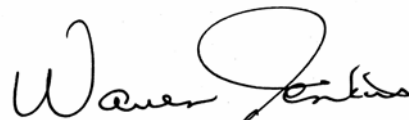
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-C-10 through III-I-10 to be significant deficiencies.

Starmont Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit 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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 23, 2012

Starmont Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

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

- (a) Qualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies and material weaknesses in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Fund (SFSP) – Education State Grants, Recovery Act
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Starmont Community School District did not qualify as a low-risk auditee.

Starmont Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

A special report dated June 7, 2012 covering the period July 1, 1993 through November 30, 2010 identified improper and unsupported expenditures of \$362,622 made by the former Business Manager and former Superintendent. Of the \$362,622 of improper and unsupported expenditures, approximately \$29,300 were made during the year ended June 30, 2010.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 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. For the District, one individual has control over each of the following areas.

- (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) Federal reporting – preparing and approving.
- (14) School lunch program – collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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 – Adjustments are being made to implement dual control of the areas identified. The District has hired a Central Office Administrative Assistant to replace the Superintendent’s Secretary who will be more involved in the daily financial reporting. In addition, new financial reports are being presented to the Board which provide a clearer picture of the monthly financial status.

Conclusion – Response accepted.

II- B-10 Financial Reporting – During the audit, we identified material amounts of receivables and capital asset additions not recorded in the District’s financial statements. In addition, delinquent taxes and due from other governments were misclassified as accounts receivable and salaries payable and due to other governments were incorrectly classified as accounts payable. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all receivables 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 assets are properly classified and included in the District’s financial statements. In addition, more detailed financial reports are being provided to the Board.

Conclusion – Response accepted.

II-C-10 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.
- Requiring backups of system information.

Starmont Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

- 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 will develop written procedures for employees in regard to computer systems, as well as develop a written disaster plan.

Conclusion – Response accepted.

II-D-10 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 has started training other personnel in the operation of the accounting system as well as formalizing a manual for the Central Office to have as guidance. The procedures manual for processing payroll is in the final stages.

Conclusion – Response accepted.

II-E-10 Bank Reconciliation – Monthly reconciliation of the District's balances to the bank accounts and investments were not reviewed by an independent person. In addition, the numerical sequence of checks issued is not tracked. The reconciling items and listing of outstanding checks are not reviewed for propriety. In addition, bank reconciliations were not documented for the Capital Projects Fund.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and reviewed by an independent individual. Any variances should be investigated and resolved in a timely manner. The numerical sequence of checks issued should be tracked. Outstanding checks and reconciling items should be reviewed for propriety.

Response – Monthly reports to the Board document the check numbers so sequence can be monitored. In addition, the accounts are in the process of being reconciled. Once a reconciliation has been completed, they will continue to be done on a monthly basis.

Conclusion – Response accepted.

II-F-10 Property Tax Receipts – The District did not reconcile property tax deposited to tax orders received from the County.

Recommendation – The District should reconcile the property tax deposited 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.

II-G-10 Prenumbered Receipts – Although receipts were issued, they were not issued for all collections. In addition, account coding is not placed on receipts to properly document to which account the receipt should be credited.

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. In addition, account coding should be placed on each receipt.

Response – The District is now using prenumbered receipts for all collections. In addition, one person prepares the receipt and documents the account coding and another person records the receipt in the accounting system and verifies the account coding is correct.

Conclusion – Response accepted.

II-H-10 Restrictive Endorsement - Checks received were not restrictively endorsed immediately upon receipt.

Recommendation - Checks should be restrictively endorsed upon receipt.

Response – Current practice is to endorse checks immediately upon receipt.

Conclusion – Response accepted.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-I-10 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 – The Business Manager completes a form for all ACH payments and automatic deposits, which includes a description of the source and purpose of the transaction.

Conclusion – Response acknowledged. The Board should also ensure all adjusting and/or corrective journal entries have sufficient supporting documentation which is reviewed and approved prior to processing.

II-J-10 Unused Checks and Purchase Orders – The District does not adequately control and monitor the supply of unused checks. In addition, there were two sets of checks for the same bank account which had the same check numbers. The District also does not secure blank purchase orders.

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 second set of checks has now been destroyed and unused checks are stored in a fire proof cabinet. In addition, the purchase order form is located on the server but the purchase order number is to be obtained from the building principal or the Business Manager. There is also a Board policy requiring purchase orders be signed by the building principal and Superintendent.

Conclusion – Response accepted.

II-K-10 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 – Checks are now prepared by one person and verified and mailed by another person.

Conclusion – Response accepted.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-L-10 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 could not locate a capital assets listing for the Student 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.

Recommendation – The District should implement procedures to ensure the capital assets listing for the District and Student Nutrition Program are accurate, current and the assets on the listing can be identified. 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.

Response – The District’s capital assets listing will be updated on a regular basis and a capital assets listing for the Student Nutrition Program is being developed. In addition, the District has a software program to record this information which will be utilized.

Conclusion – Response accepted.

II-M-10 Inventory – The District could not locate the inventory listing for June 30, 2010.

Recommendation – The District should implement procedures to ensure inventory is counted at the end of the fiscal year and the listing is retained.

Response – The District has a software program to record this information which will be utilized.

Conclusion – Response accepted.

II-N-10 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, Student Activity Fund in the District’s accounting system.

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

Response – The Student Activity Fund will be reconciled on a monthly basis and a quarterly report will be provided to the individual sponsors for comparison to their records.

Conclusion – Response accepted.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-O-10 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.

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 mail is currently opened by one person who prepares a listing of cash and checks received which is given to another person to prepare the deposit. During the reconciliation process, the listing prepared will be cross-referenced.

Conclusion - Response accepted.

II-P-10 Bank Accounts - The District has twelve separate checking, saving and money market accounts as of June 30, 2010. 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. In addition, the District paid \$525 in bank charges and insufficient fund charges.

Transfers between bank accounts and between funds are not balanced monthly, adequately explained or classified as transfers rather than receipts or disbursements. In addition, checks were written from one District checking account to another District checking account for reimbursements between funds as well as to correct deposit errors. These were recorded as disbursements and revenues, overstating revenues and disbursements in the affected funds.

Recommendation - The District should minimize the number of checking and savings accounts to avoid the need to transfer funds between accounts. In addition, the District would avoid additional bank fees and insufficient fund charges due to timing of transfers.

The District should balance transfers monthly and provide an explanation for each transfer. In addition, checks written between funds should be reviewed and recorded appropriately as reimbursements and error corrections.

Response - Half of the bank accounts have now been closed and the District is working to close a few more. All checks are printed through the accounting system, and if a manual check has to be prepared, a check is processed through the accounting system on blank paper to be retained as supporting documentation.

Transfers between accounts are recorded in each account with a description of the transfer, which are used in the reconciliation process.

Conclusion - Response accepted.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-Q-10 Long-Term Debt – The District has approved an early retirement incentive package in prior years and allows certain employees to be paid out a portion of their sick leave upon termination after a specified number of years. One of the Business Manager’s duties is to track the District’s future liability for these benefits. The District did not have the information for the early retirement liability for the fiscal year ended June 30, 2010. The Business Manager did prepare the information for compensated absences. However, the information was not reviewed for accuracy by an independent person.

Recommendation – The Business Manager should prepare and an independent person should review long term liability information for the District.

Response – The District is developing a report from the accounting system to determine future liability. In addition, the District will work with the local Starmont Education Association to verify accuracy.

Conclusion – Response accepted.

II-R-10 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. In addition, the District has a mutual fund with Edward Jones valued at \$14,195 on June 30, 2010, which was donated to be used for a scholarship, which 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 annual financial reporting.

Response – The Edward Jones account is now recorded in the District’s accounting records. In addition, the District is maintaining a listing of certificates of deposit and all other investments held by the District, which is reviewed by an independent person annually.

Conclusion – Response acknowledged. The investments held and interest received should be reviewed monthly in conjunction with the monthly reconciliation of book and bank balances.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-S-10 Timesheets – Employees of the District do not complete timesheets.

Recommendation – The District should implement procedures to require all employees to complete timesheets to ensure hours worked and paid leave are recorded accurately.

Response – Employees are now completing timesheets. In addition, a time clock system is being implemented.

Conclusion – Response accepted.

II-T-10 Payroll and Benefits – The following discrepancies in payroll and benefits were noted:

- Each contract outlines the amount of the authorized Health Savings Account (HSA) an individual is eligible for, but instances were identified where the actual HSA was more than the approved HSA amount. Teachers received additions to their HSA to bring the total paid for medical premiums to the maximum allowed per their contracts (i.e., if the contract specified the Board would pay no more than \$541 and the premium was \$496, the teacher was credited with \$45 to an HSA each month to bring the total paid to the maximum allowed by the Board). This was not specifically approved
- There were instances noted where the District did not pay for the medical plan approved in the contract.
- There was no supporting documentation for administrative staff “Extra Pay.”
- Salary proposals were not always determined using prior year salary.
- Employee contracts appeared to be altered without evidence of the employee’s approval.

Recommendation – The District should implement procedures to ensure the pay rates and benefits are entered into the accounting system by an independent person. The District’s monthly payroll should be reviewed and approved by an independent person prior to processing. All extra pay issued to employees should be accompanied by sufficient supporting documentation which is retained in the payroll file. Contributions to HSAs and subsequent payments for health insurance should be reviewed to ensure the District is contributing the proper amount to approved HSAs and is paying for the appropriate medical plan.

Response – The District will involve the Central Office Administrative Assistant in this process.

Conclusion – Response accepted.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-U-10 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:

- 33 of 88 disbursements tested were not supported by invoices, receipts or other appropriate documentation.
- purchase orders and reimbursement requests were prepared and approved by the same individual.
- reimbursement requests containing very limited descriptions of the type of conference or meeting attended and purchase orders which did not include the quantity, price and description of the items requested.
- purchase orders which appear to have been prepared after the purchase actually occurred.
- 11 cash withdrawals for school events from the activity fund account. However, there was no evidence of who received the cash, approval for the withdrawal or the funds being redeposited to the District’s account.

In addition, the District has a credit card policy which is not enforced.

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.
- all purchase orders, reimbursement requests and other forms of documentation are approved by someone independent of their preparation and in a position of appropriate authority over the preparer.
- all vendors with whom District staff have a business or personal relationship are identified and purchases from the vendor are properly scrutinized by an independent party as to need, price, quantity and quality of the goods or services purchased.
- reimbursement requests contain full descriptions and purchase orders are properly completed prior to the purchase of goods or services.

Response – The District will implement the recommendations regarding disbursements.

Conclusion – Response accepted.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-V-10 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.

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.

II-W-10 Chart of Accounts – Grant revenues and expenditures were not always properly coded to the correct function, program or project.

Recommendation - The District should review the coding of receipts and disbursements to ensure all receipts and disbursements associated with a specific grant or project are properly recorded. The function, program and project numbers may be obtained from the Uniform Financial Accounting for Iowa Local Education Agencies and Area Education Agencies. The proper coding also allows the District to maintain accountability for the grants by matching the receipts to the disbursements and proper recording of disbursements aids budgeting and financial reporting.

Response – The Uniform Financial Accounting Manual has been printed and is being utilized. In addition, for regular monthly bills, the accounting system has the ability to memorize transactions to ensure consistency in recording.

Conclusion – Response accepted.

II-X-10 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.

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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 – The new Central Office Administrative Assistant will verify all changes in pay rates and payroll taxes in the payroll system. In addition, the monthly payroll register is reviewed for propriety.

Conclusion – Response accepted.

II-Y-10 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 – All wire transfers will now be reviewed and approved by the Superintendent.

Conclusion – Response accepted.

II-Z-10 Document Retention Policy – The District does not have a document retention policy.

Recommendation – The Board should adopt a formal document retention policy to ensure all pertinent documents are adequately maintained.

Response – The Board will implement a document retention policy.

Conclusion – Response accepted.

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Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-A-10 Eligibility and Special Tests and Provisions – The District certified 186 students as eligible for free lunches and 84 students as eligible for reduced price lunches. Only 185 applications for free lunches and 67 applications for reduced price lunches were located. As a result, 18 students were certified to receive free and reduced price lunches, although their applications could not be located, representing 7% of the total applications. Students could have entered and/or left the District and it is unclear whether all applications were retained or if only those applicants currently eligible were retained. In addition, it could not be determined if, or how, incomes were verified. A total of 8 families should have had income verification performed based on the fiscal year 2010 certification at October 1, 2009. The District should have certified 3% of the total applications, or 7.59 applications.

Recommendation – The District should maintain complete records to ensure certification of the exact number of students receiving full or reduced price lunches. Notification letters should be sent to all families who apply indicating their free/reduced price lunch status. Copies of letters sent should be retained by the District. In addition, the District should verify income for 3% of all applications received and retain documentation of the verification.

Response and Corrective Action Planned – New staff hired is now verifying all applications. In addition, notification letters are sent and copies are retained by the District.

Conclusion – Response accepted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

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III-B-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipt preparation, the posting of the cash receipts to the cash receipts journal and bank reconciliations are all done by the same person. Also, vouchers are processed, disbursements are recorded and checks are prepared by the same person.

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 using currently available personnel, including elected officials.

Response and Corrective Action Planned - The building secretaries are collecting the payments and the Nutrition Aide is recording the information in the accounting system. Bank reconciliations will be prepared by the Business Manager. In addition, once checks are prepared, they are verified and mailed by an independent person.

Conclusion - Response accepted.

III-C-10 Purchasing, Procurement and Debarment - The District does not have written policies for federal program purchases, including ensuring purchases are not made from vendors who have been suspended or disbarred in accordance with OMB Circular A-133.

Recommendation - The District should adopt and implement written purchasing policies for federal programs.

Response and Corrective Action Planned - The District will consult with legal counsel on this policy.

Conclusion - Response accepted.

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-D-10 Subrecipient Special Reporting - All meals claimed for reimbursement must be supported by accurate meal counts and records indicating the number of meals served by category and type. The District did not retain daily lunch count sheets once the information was transferred to the monthly reports. Therefore, the accuracy of the report cannot be determined. However, based on total student count and the number of students eligible for free/reduced price meals, the monthly counts appear reasonable. In addition, the report was not reviewed or approved by an independent person.

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Recommendation – Support used to prepare monthly CNP-1 reports submitted to the Iowa Department of Education should be retained. In addition, the report should be reviewed and approved by an independent person prior to submission.

Response and Corrective Action Planned – The daily reports are being retained and verified by an independent person.

Conclusion – Response accepted.

III-E-10 Purchasing - The District could not locate purchase contracts for milk, bread or the Iowa Educators Consortium for the fiscal year ended June 30, 2010.

Recommendation – The District should retain purchase contracts and other supporting documentation.

Response and Corrective Action Planned – Contracts and bids are now retained.

Conclusion – Response accepted.

**CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education**

III-F-10 Allowable Costs/Cost Principles – The A-133 Compliance Supplement states local education agencies must maintain documentation demonstrating the amount of State Fiscal Stabilization Funds (SFSF) used to support salaries. However, proper supporting documentation was not maintained. Supporting documentation could not be located for the journal entry made to record the majority of the expenditures for the SFSF funds. There were sufficient payroll expenditures to support the amount of payroll reported. However, no specific support could be located for the journal entry to indicate which salaries or group of salaries were paid from those funds.

Recommendation – Transactions made from federal funds should be properly supported, reviewed and authorized. Evidence of support, review and authorization should be maintained for the time period specified in the grant documents

Response and Corrective Action Planned – The District will adopt the recommendation.

Conclusion – Response accepted.

III-G-10 Proper Authorization and Support - There was no evidence of independent review or approval for textbook expenditures from SFSF funds.

Recommendation – Transactions made from federal funds should be properly supported, reviewed, monitored and authorized. Evidence of support, review, monitoring and authorization should be maintained for the time period specified in the grant documents.

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Response and Corrective Action Planned – The District will adopt the recommendation.

Conclusion – Response accepted.

- III-H-10 Payroll – Payroll amounts tested varied from approved amounts. The total variance is an underpayment of \$1,461.61 for 5 teachers tested. Additionally, teacher contracts contained facsimile signatures of the Board and there was no additional evidence of Board approval for 4 of the 5 payroll amounts tested.

Recommendation – Payroll calculations should be reviewed and approved by an independent person before checks are prepared. Original signatures should be obtained on all contracts, and the Board should authorize all contracts with the authorization recorded in the minutes.

Response and Corrective Action Planned – The Board President will sign all contracts and the Central Office Administrative Assistant will verify accuracy.

Conclusion – Response accepted.

- III-I-10 Monitoring and Reporting – The District established a fund to track SFSF expenditures. However, the fund was not properly utilized to monitor expenditures throughout the fiscal year. Furthermore, there was no evidence of independent review of reports submitted documenting payroll expenditures or revenues received by the District from SFSF funding.

Recommendation – Transactions made with federal funds should be properly monitored and subsequent reporting should be reviewed and approved by an independent person.

Response and Corrective Action Planned – The District will adopt the recommendation.

Conclusion – Response accepted.

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Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget – Expenditures for the year ended June 30, 2010 exceeded the amounts budgeted in the instruction and other expenditures functions.

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.

Response – The District is using an Iowa School Finance Information Services electronic finance tool to verify budget amounts which are presented to the Board.

Conclusion – Response accepted.

IV-B-10 Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were identified. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Elkader Floral Shop	Plant	\$ 27
Iowa Workforce Development	Late filing penalty	1,018
Sam’s Club	2 membership fees	70
Discover	Personal credit card payment	6,750
Casey’s	Gift card	100

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Board should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the District should establish written policies and procedures, including the requirements for proper documentation. In addition, should payment of an employee’s personal credit card be presented for reimbursement, the Board should ensure sufficient supporting documentation, including original receipts, is presented documenting the purchase was made on behalf of the District.

Response – The Board will review public purpose for all expenditures.

Conclusion – Response accepted.

IV-C-10 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.

Starmont Community School District

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IV-D-10 Business Transactions – No business transactions between the District and District officials or employees were noted.

IV-E-10 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 District is working with the insurance provider and legal counsel to resolve this matter.

Conclusion – Response accepted.

IV-F-10 Board Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Board minutes but were not.

The District did not retain copies of support for salary increases and package increases with the signed Board minutes. Therefore, it is not possible to determine exactly what the Board approved.

Recommendation – The Board should maintain supporting documentation for salary and package increases approved in the Board minutes to ensure salary and benefits approved are the salary and benefits paid.

Response – Board minutes now reflect the salary base increases with detailed descriptions.

Conclusion – Response accepted.

IV-G-10 Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 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.

IV-J-10 Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education. However, there were material misstatements due to a receipt recorded to an incorrect fiscal year and negative cash balances reported as payables rather than interfund loans.

Recommendation – The District should correct the accounting records to ensure the 2011 Certified Annual Report is completed accurately.

Response – The District is currently working to ensure the accuracy of the Certified Annual Report for fiscal year 2012.

Conclusion – Response accepted.

Starmont Community School District

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IV-K-10 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). However, no expenses were recorded in the fund. At the end of the fiscal year, a transfer of \$8,673, the amount allocated, was recorded from the General Fund to the HSAP Fund.

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

Response – The District will adopt the recommendation.

Conclusion – Response accepted.

IV-L-10 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, 2010, 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			386,798
Interest on investments			<u>2,967</u>
Total revenues			389,765
Expenditures:			
School infrastructure:			
Buildings	\$ 387,925		
Debt service for school infrastructure:			
General obligation debt		<u>1,840</u>	<u>389,765</u>
Ending balance		\$	<u><u>-</u></u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$.00962	\$ 1,840
Physical plant and equipment levy	2.02875	387,925

Starmont Community School District

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Year ended June 30, 2010

IV-M-10 Financial Condition – The General Fund had a deficit unreserved fund balance at June 30, 2010 of \$687,722, and the Enterprise, School Nutrition Fund had a deficit unrestricted fund balance of \$5,182. In addition, two Special Revenue Fund, Student Activity Accounts had deficit balances and the General Fund had a negative cash balance of \$19,733 on June 30, 2010.

Recommendation – The District should continue to investigate alternatives to eliminate these deficits in order to return these funds and accounts to a sound financial condition. In addition, the District should approve an interfund loan in accordance with Iowa Department of Education Declaratory Order #4672, including Board approval of the loan, interest to be paid on the loan and timely repayment.

Response – The District will ensure appropriate transfers are authorized by the Board prior to a negative balance occurring.

Conclusion – Response accepted.

IV-N-10 Student Activity Fund – In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Special Revenue, Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District’s educational program. The Book Orders, General Activity and various supplies reported in the Special Revenue, Student Activity Fund do not appear to be extracurricular or co-curricular in nature.

Recommendation – The District should review and reclassify these accounts to the appropriate fund in accordance with the guidelines.

Response – The District has made corrections to the Student Activity accounts as recommended.

Conclusion – Response accepted.

IV-O-10 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 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 has developed and implemented a form to address this.

Conclusion – Response accepted.

Starmont Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

IV-P-10 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. However, 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. The District should consult legal counsel for further clarification in regard to this matter.

IV-Q-10 Beginning Teacher Pay and Teacher Quality Grants – The Business Manager received \$1,000 in beginning teacher pay although she was ineligible. In addition, the Business Manager made journal entries at the end of the fiscal year to reconcile beginning teacher pay so the amount paid from the grant reconciled to grant proceeds. In addition, the allocation of pay for teacher quality funds were not properly supported and were erroneously reduced by 10% for the across-the-board reduction of state funding. The teacher quality proceeds were also not properly recorded when received. The Business Manager transferred funds from other revenue sources at the end of the fiscal year to ensure the teacher quality proceeds from the State agreed with the District’s accounting records for receipts and subsequent payout.

Recommendation – The District should implement procedures to ensure state grants are allocated properly at the time they are received. In addition, the District should review support for the expenditure allocation for teacher quality and beginning teacher pay funds. This review should ensure only individuals eligible for additional pay receive the additional pay. Furthermore, the grant revenues and expenditures should be recorded properly when the transactions occur, eliminating the need to record entries at the end of the fiscal year.

Response – The District will adopt the recommendation.

Conclusion – Response accepted.

Starmont Community School District

Staff

This audit was performed by:

Jennifer Campbell, CPA, Manager
Karen J. Kibbe, Senior Auditor II
Kelly L. Hilton, Staff Auditor
Brett A. Hoffman, Staff Auditor
Brandon J. Vogel, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State