

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

JUNE 30, 2004

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Starmont Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Martin Hanson	President	2004
Dan Hayes	Vice-President	2004
Mark Burlage	Board Member	2005
Tim Hamlett	Board Member	2005
Roger Swales	Board Member	2003
Linda Soules	Board Member	2003
Loren Johnson	Board Member	2003

Board of Education (After September 2003 Election)		
Martin Hanson	President	2004
Dan Hayes	Board Member	2004
Mark Burlage	Board Member	2005
Tim Hamlett	Board Member	2005
Ryan Reichers	Board Member	2006
Laura Morine	Board Member	2006
Tom Raithel	Board Member	2006

School Officials		
Gary Stumberg	Superintendent	2004
Vicki Vanter	District Secretary and Business Manager	2004
Stephen D. Saunders	Attorney	2004
Brian L. Gruhn	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Starmont Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Starmont Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Starmont Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated November 4, 2004, on our consideration of the Starmont Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Starmont Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson P.C.
NOLTE, CORNMAN & JOHNSON, P.C.

November 4, 2004

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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,369,766 in fiscal 2003 to \$6,660,331 in fiscal 2004, while General Fund expenditures increased from \$5,891,400 in fiscal 2003 to \$6,395,189 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$1,311,604 in fiscal 2003 to a balance of \$1,576,746 in fiscal 2004, a 20% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the instruction functional area.

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 statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Starmont Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

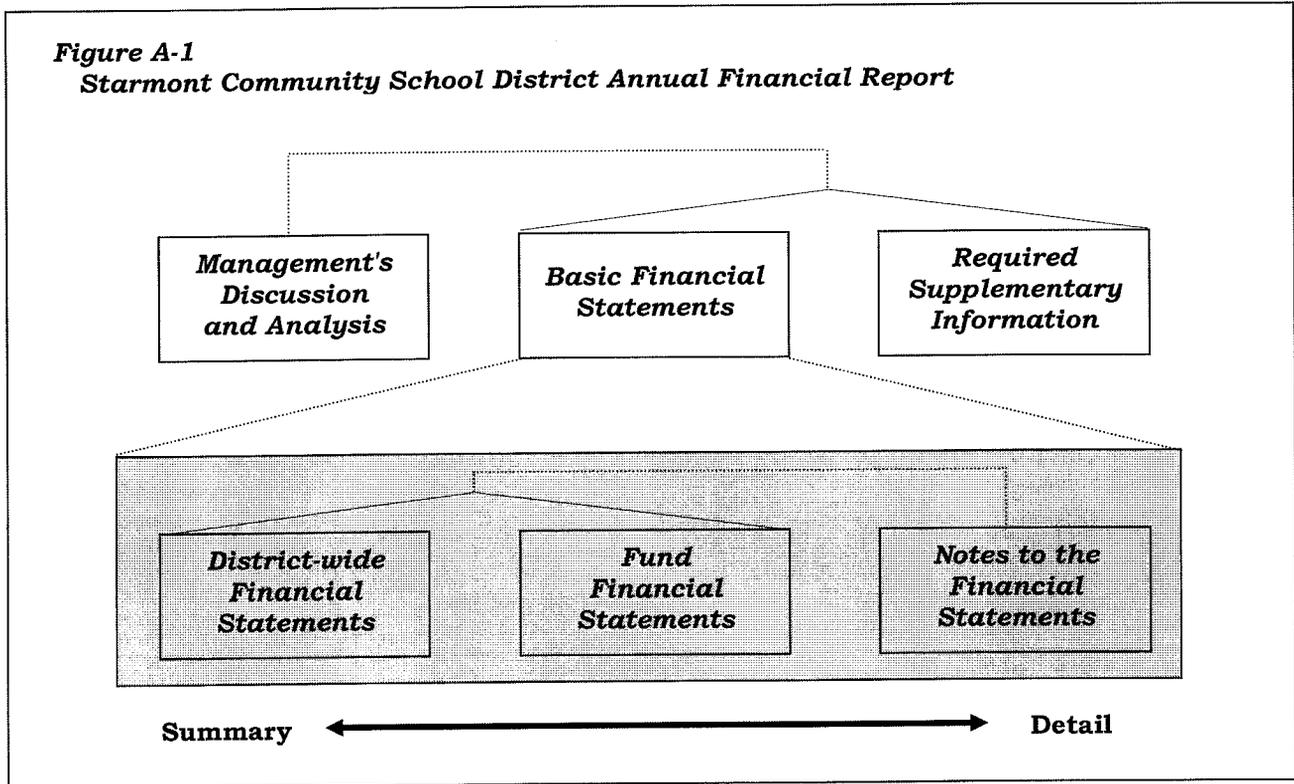


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	District-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 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, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or 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 that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in 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 the Private-Purpose Trust.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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 includes 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 for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 5,979,000	49,268	6,028,268
Capital Assets	5,316,816	43,756	5,360,572
Total assets	<u>11,295,816</u>	<u>93,024</u>	<u>11,388,840</u>
Long-term obligations	2,757,535	0	2,757,535
Other liabilities	3,847,803	3,313	3,851,116
Total liabilities	<u>6,605,338</u>	<u>3,313</u>	<u>6,608,651</u>
Net assets:			
Invested in capital assets, net of related debt	2,714,805	43,756	2,758,561
Restricted	420,122	0	420,122
Unrestricted	1,555,551	45,955	1,601,506
Total net assets	<u>\$ 4,690,478</u>	<u>89,711</u>	<u>4,780,189</u>

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 640,270	162,244	802,514
Operating grants and contributions and restricted interest	1,105,565	158,623	1,264,188
General revenues:			
Property tax	2,946,406	0	2,946,406
Local option sales and service tax	165,917	0	165,917
Unrestricted state grants	2,837,440	0	2,837,440
Unrestricted investment earnings	27,935	133	28,068
Total revenues	<u>7,723,533</u>	<u>321,000</u>	<u>8,044,533</u>
Program expenses:			
Governmental activities:			
Instructional	4,774,074	0	4,774,074
Support services	1,802,956	0	1,802,956
Non-instructional programs	0	322,136	322,136
Other expenses	508,867	0	508,867
Total expenses	<u>7,085,897</u>	<u>322,136</u>	<u>7,408,033</u>
Change in net assets	<u>\$ 637,636</u>	<u>(1,136)</u>	<u>636,500</u>

Property tax and unrestricted state grants account for approximately 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,723,533 and expenses were \$7,085,897.

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.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,774,074	3,282,208
Support services	1,802,956	1,801,344
Other expenses	508,867	256,510
Totals	<u>\$ 7,085,897</u>	<u>5,340,062</u>

-
- The cost financed by users of the District's programs was \$640,270.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$1,105,565.
 - The net cost of governmental activities was financed with \$2,946,406 in property and other taxes, \$165,917 in local option sales and services tax, \$2,837,440 in unrestricted state grants, \$27,935 in unrestricted investment earnings.

Business-Type Activities

Revenues of the District's business-type activities were \$321,000 and expenses were \$322,136. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,136,666, above last year's ending fund balances of a \$1,680,420.

Governmental Fund Highlights

- The District's improved General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues.
- The General Fund balance increased from \$1,311,604 to \$1,576,746, due in part to the increase in revenue from local, state, federal and intermediate sources.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$82,650 at June 30, 2003 to \$89,711 at June 30, 2004, representing an increase of 9%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$137,931 more than budgeted receipts, a variance of 1.76%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, 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 functional areas due to the timing of disbursements paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$5,360,572, 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) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$319,025.

The original cost of the District's capital assets was \$8,246,803. Governmental funds account for \$8,116,671 with the remainder of \$130,132 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$1,124,371 at June 30, 2004, compared to \$1,046,479 reported at June 30, 2003.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Land	\$ 26,300	0	26,300
Buildings	5,095,640	0	5,095,640
Machinery and equipment	194,876	43,756	238,632
Total	\$ 5,316,816	43,756	5,360,572

Long-Term Debt

At June 30, 2004, the District had \$2,757,535 in general obligation and other long-term debt outstanding. This represents a decrease of 13% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 2,695,000	3,095,000	-12.9%
Early retirement	46,368	61,824	-25.0%
Compensated absences	16,167	14,475	11.7%
Totals	\$ 2,757,535	3,171,299	-13.0%

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 that could significantly affect its financial health in the future:

- A 2.5% across-the-board state cut did reduce revenues the District received during the 2003-2004 school year. This was due to a downward estimate in state revenues.
- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.

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 Vicki Vanter, Business Manager, Starmont Community School District, 3202 40th Street, Arlington, Iowa, 50606.

BASIC FINANCIAL STATEMENTS

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP (Note 3)	\$ 896,256	0	896,256
Other	2,028,546	31,238	2,059,784
Receivables			
Property tax:			
Delinquent	50,757	0	50,757
Succeeding year	2,858,934	0	2,858,934
Accounts	510	0	510
Accrued ISCAP interest (Note 3)	1,386	0	1,386
Due from other governments	142,611	0	142,611
Inventories	0	18,030	18,030
Capital assets, net of accumulated depreciation (Note 4)	5,316,816	43,756	5,360,572
TOTAL ASSETS	11,295,816	93,024	11,388,840
LIABILITIES			
Accounts payable	80,080	0	80,080
ISCAP warrants payable (Note 3)	900,000	0	900,000
ISCAP accrued interest payable (Note 3)	2,101	0	2,101
ISCAP unamortized premium	1,219	0	1,219
Accrued interest payable	5,469	0	5,469
Deferred revenue:			
Succeeding year property tax	2,858,934	0	2,858,934
Other	0	3,313	3,313
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	425,000	0	425,000
Early Retirement	15,456	0	15,456
Compensated absences	16,167	0	16,167
Portion due after one year:			
General obligation bonds	2,270,000	0	2,270,000
Early Retirement	30,912	0	30,912
TOTAL LIABILITIES	6,605,338	3,313	6,608,651
NET ASSETS			
Investment in capital assets, net of related debt	2,714,805	43,756	2,758,561
Restricted for:			
Teacher Compensation	571	0	571
Early Intervention	4,457	0	4,457
Capital projects	136,531	0	136,531
Management levy	121,218	0	121,218
Physical plant and equipment levy	124,025	0	124,025
Other special revenue purposes	33,320	0	33,320
Unrestricted	1,555,551	45,955	1,601,506
TOTAL NET ASSETS	\$ 4,690,478	89,711	4,780,189

SEE NOTES TO FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,945,860	596,683	853,208
Special instruction	1,092,102	41,975	0
Other instruction	736,112	0	0
	<u>4,774,074</u>	<u>638,658</u>	<u>853,208</u>
Support services:			
Student services	140,093	0	0
Instructional staff services	98,399	0	0
Administration services	623,621	0	0
Operation and maintenance of plant services	530,723	0	0
Transportation services	410,120	1,612	0
	<u>1,802,956</u>	<u>1,612</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	29,386	0	0
Long-term debt interest	89,404	0	0
AEA flowthrough	252,357	0	252,357
Depreciation(unallocated) *	137,720	0	0
	<u>508,867</u>	<u>0</u>	<u>252,357</u>
Total governmental activities	7,085,897	640,270	1,105,565
Business-Type activities:			
Non-instructional programs:			
Nutrition services	322,136	162,244	158,623
Total business-type activities	<u>322,136</u>	<u>162,244</u>	<u>158,623</u>
Total	<u>\$ 7,408,033</u>	<u>802,514</u>	<u>1,264,188</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
 Local option sales and services
 Unrestricted state grants
 Unrestricted investment earnings
Total general revenues

Excess(deficiency) of revenues over(under) expenses before capital contributions

Capital contributions
Changes in net assets

Net assets beginning of year, as restated (Note 9)

Net assets end of year

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,495,969)	0	(1,495,969)
(1,050,127)	0	(1,050,127)
(736,112)	0	(736,112)
(3,282,208)	0	(3,282,208)
(140,093)	0	(140,093)
(98,399)	0	(98,399)
(623,621)	0	(623,621)
(530,723)	0	(530,723)
(408,508)	0	(408,508)
(1,801,344)	0	(1,801,344)
(29,386)	0	(29,386)
(89,404)	0	(89,404)
0	0	0
(137,720)	0	(137,720)
(256,510)	0	(256,510)
(5,340,062)	0	(5,340,062)
0	(1,269)	(1,269)
0	(1,269)	(1,269)
(5,340,062)	(1,269)	(5,341,331)
\$ 2,393,546	0	2,393,546
492,061	0	492,061
60,799	0	60,799
165,917	0	165,917
2,837,440	0	2,837,440
27,935	133	28,068
5,977,698	133	5,977,831
637,636	(1,136)	636,500
0	8,197	8,197
637,636	7,061	644,697
4,052,842	82,650	4,135,492
\$ 4,690,478	89,711	4,780,189

STARMONT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 896,256	0	896,256
Other	1,518,439	510,107	2,028,546
Receivables:			
Property tax:			
Delinquent	39,531	11,226	50,757
Succeeding year	2,326,563	532,371	2,858,934
Accounts	0	510	510
Accrued ISCAP interest(Note 3)	1,386	0	1,386
Due from other governments	102,503	40,108	142,611
TOTAL ASSETS	\$ 4,884,678	1,094,322	5,979,000
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 78,049	2,031	80,080
ISCAP warrants payable(Note 3)	900,000	0	900,000
ISCAP accrued interest payable(Note 3)	2,101	0	2,101
ISCAP unamortized premium	1,219	0	1,219
Deferred revenue:			
Succeeding year property tax	2,326,563	532,371	2,858,934
Total liabilities	3,307,932	534,402	3,842,334
Fund balances:			
Reserved for:			
Teacher Compensation	571	0	571
Early Intervention	4,457	0	4,457
Unreserved:			
Undesignated	1,571,718	559,920	2,131,638
Total fund balances	1,576,746	559,920	2,136,666
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,884,678	1,094,322	5,979,000

SEE NOTES TO FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 17)	\$	2,136,666
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		5,316,816
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(5,469)
Long-term liabilities, including bonds payable, early retirement, and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(2,757,535)</u>
Net assets of governmental activites (page 14)	\$	<u>4,690,478</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 2,293,928	818,395	3,112,323
Tuition	281,318	0	281,318
Other	60,748	244,807	305,555
Intermediate Sources	81,332	0	81,332
State sources	3,318,245	0	3,318,245
Federal sources	624,760	0	624,760
Total revenues	<u>6,660,331</u>	<u>1,063,202</u>	<u>7,723,533</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,927,143	2,142	2,929,285
Special instruction	1,092,102	0	1,092,102
Other instruction	500,160	231,027	731,187
	<u>4,519,405</u>	<u>233,169</u>	<u>4,752,574</u>
Support services:			
Student services	140,093	0	140,093
Instructional staff services	98,399	0	98,399
Administration services	620,689	2,932	623,621
Operation and maintenance of plant services	443,916	69,836	513,752
Transportation services	320,330	43,374	363,704
	<u>1,623,427</u>	<u>116,142</u>	<u>1,739,569</u>
Other expenditures:			
Facilities acquisitions	0	29,386	29,386
Long-term debt:			
Principal	0	400,000	400,000
Interest and fiscal charges	0	93,401	93,401
AEA flowthrough	252,357	0	252,357
	<u>252,357</u>	<u>522,787</u>	<u>775,144</u>
Total expenditures	<u>6,395,189</u>	<u>872,098</u>	<u>7,267,287</u>
Net change in fund balances	265,142	191,104	456,246
Fund balance beginning of year	1,311,604	368,816	1,680,420
Fund balance end of year	<u>\$ 1,576,746</u>	<u>559,920</u>	<u>2,136,666</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STAR MONT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2004

Net change in fund balances - total governmental funds (page 19) \$ 456,246

*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 Net Assets 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	\$ 77,892	
Depreciation expense	<u>(314,263)</u>	(236,371)

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. Current year repayments were as follows:

Repaid	400,000
--------	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental fund because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

3,997

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement	15,456	
Compensated absences	<u>(1,692)</u>	13,764

Changes in net assets of governmental activities (page 16) \$ 637,636

SEE NOTES TO FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 31,238
Inventories	18,030
Capital assets, net of accumulated depreciation	<u>43,756</u>
Total assets	<u>93,024</u>
LIABILITIES	
Deferred revenue:	
Other	<u>3,313</u>
Total liabilities	<u>3,313</u>
NET ASSETS	
Invested in capital assets, net of related debt	43,756
Unrestricted	<u>45,955</u>
Total net assets	<u>\$ 89,711</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STAR MONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 162,244
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	118,911
Benefits	21,849
Services	7,716
Supplies	168,824
Other	74
Depreciation	4,762
Total operating expenses	322,136
Operating loss	(159,892)
Non-operating revenues:	
State sources	4,864
Federal sources	153,759
Interest on investments	133
Total non-operating revenues	158,756
Loss before capital contributions	(1,136)
Capital Contributions	8,197
Change in net assets	7,061
Net assets beginning of year	82,650
Net assets end of year	\$ 89,711

SEE NOTES TO FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 163,269
Cash received from miscellaneous operating activities	2,288
Cash payments to employees for services	(140,760)
Cash payments to suppliers for goods or services	(143,384)
Net cash used in operating activities	(118,587)
Cash flows from non-capital financing activities:	
State grants received	4,864
Federal grants received	123,365
Net cash provided by non-capital financing activities	128,229
Cash flows from capital and related financing activities:	
Purchase of capital assets	(10,000)
Net cash used in capital and related financing activities	(10,000)
Cash flows from investing activities:	
Interest on investments	133
Net cash provided by investing activities	133
Net decrease in cash and cash equivalents	(225)
Cash and cash equivalents at beginning of year	31,463
Cash and cash equivalents at end of year	\$ 31,238
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (159,892)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	30,394
Depreciation	4,762
Decrease in inventories	4,063
Decrease in accounts payable	(1,227)
Increase in deferred revenue	3,313
Net cash used in operating activities	\$ (118,587)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 31,238

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$30,394.

During the year ended June 30, 2004, the District received capital contributions of \$8,197.

SEE NOTES TO FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Private Purpose Trust</u> <u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 73,033
Total assets	<u>73,033</u>
Liabilities	
Total liabilities	<u>0</u>
Net assets	
Reserved for scholarships	<u>\$ 73,033</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2004

	Private Purpose Trust <u>Scholarship</u>
Additions:	
Local sources:	
Interest Income	\$ <u>3,225</u>
Deductions:	
Support services:	
Scholarships awarded	<u>3,226</u>
Change in net assets	(1)
Net assets beginning of year	<u>73,034</u>
Net assets end of year	<u>\$ 73,033</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The 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. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Arlington, Strawberry Point, and Lamont, Iowa, and the predominate agricultural territory in Buchanan, Fayette, Delaware, and Clayton Counties. 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, account groups, 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 Starmont Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Buchanan, Fayette, Delaware, and Clayton Counties Assessors' 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 support.

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 three categories:

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

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

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

The District reports the following major governmental funds:

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

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

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

The Private Purpose Trust 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.

C. Measurement Focus and Basis of Accounting

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and

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

The District maintains its financial records on 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 balance sheet:

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

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

Property Tax Receivable - Property tax in the governmental funds are 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 that 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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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, machinery, 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 repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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 the governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rate of pay in effect at June 30, 2004. 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 that are not available for appropriation or are 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 imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the instruction and other expenditures functional areas exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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.

The District had no investments at June 30, 2004.

(3) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as

noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 254,723	1,386	253,000	2,101
2004-05A	6/30/04	6/30/05	641,533	0	647,000	0
			<u>\$ 896,256</u>	<u>1,386</u>	<u>900,000</u>	<u>2,101</u>

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. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no advance activity in the General Fund during the year ended June 30, 2004.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 26,300	0	0	26,300
Total capital assets not being depreciated	26,300	0	0	26,300
Capital assets being depreciated:				
Buildings	6,886,000	0	0	6,886,000
Improvements other than buildings	80,000	0	0	80,000
Machinery and equipment	1,046,479	77,892	0	1,124,371
Total capital assets being depreciated	8,012,479	77,892	0	8,090,371
Less accumulated depreciation for:				
Buildings	1,652,640	137,720	0	1,790,360
Improvements other than buildings	80,000	0	0	80,000
Machinery and equipment	752,952	176,543	0	929,495
Total accumulated depreciation	2,485,592	314,263	0	2,799,855
Total capital assets being depreciated, net	5,526,887	(236,371)	0	5,290,516
Governmental activities capital assets, net	\$ 5,553,187	(236,371)	0	5,316,816

	Balance Year	Increases	Decreases	Balance of Year
Business-type activities:				
Machinery and equipment	\$ 111,935	18,197	0	130,132
Less accumulated depreciation	81,614	4,762	0	86,376
Business-type activities capital assets, net	\$ 30,321	13,435	0	43,756

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 30,339
Other		8,415
Support services:		
Operation and maintenance of plant		16,971
Transportation		120,818
		176,543
Unallocated depreciation		137,720
Total governmental activities depreciation expense		\$ 314,263
Business-type activities:		
Food services		\$ 4,762
Total business-type activities depreciation expense		\$ 4,762

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,095,000	0	400,000	2,695,000	425,000
Early retirement	61,824	0	15,456	46,368	15,456
Compensated absences	14,475	1,692	0	16,167	16,167
Total	\$ 3,171,299	1,692	415,456	2,757,535	456,623

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bond indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond issue dated March 1, 2003		
		Principal	Interest	Total
2005	2.00	425,000	131,928	556,928
2006	2.25	430,000	112,922	542,922
2007	2.50	440,000	92,286	532,286
2008	2.65	450,000	70,340	520,340
2009	2.95	470,000	46,515	516,515
2010	3.25	480,000	20,665	500,665
Total		\$ 2,695,000	474,656	3,169,656

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each employee is equal to a percentage of years eligible times the employees salary received by the retiree equal to 70 days pay. Early retirement benefits paid during the year ended June 30, 2004, totaled \$15,456.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$205,058, \$198,350, \$207,587, respectively, equal to the required contributions for each year.

(7) Risk Management

Starmont Community School District is a member in the Northeast Iowa Schools Insurance Trust, and Iowa Code Chapter 28E organization. The Northeast Iowa Schools Insurance Trust (NEIST) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. NEIST was formed in July 1999 for the purpose of managing and funding employee benefits. NEIST provides coverage and protection in the following categories: medical, dental, LTD, and life insurance.

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to NEIST for the year ended June 30, 2004 were \$786,391.

Payments from participating members are the sole source for paying claims and establishing reserves for the NEIST self-funded programs. Stop loss insurance is purchased by NEIST to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonable estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

Starmont Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) 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 \$252,357 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) **Accounting Change and Restatements**

Governmental Accounting Standards Board(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$10,256,394 were restated to \$8,038,779. The restatement primarily removed assets below the District's capitalizations threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		Total
	General	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 1,311,604	368,816	1,680,420
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 1,311,604</u>	<u>368,816</u>	<u>1,680,420</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$2,485,592			5,553,187
Long-term liabilities:			
General obligation bonds		\$ 3,095,000	
Early Retirement		61,824	
Compensated Absences		14,475	(3,171,299)
Accrued interest payable			<u>(9,466)</u>
Net assets, July 1, 2003, as restated			<u>\$ 4,052,842</u>

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the instruction and other expenditures functional areas exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

STARMONT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 3,645,308	165,690
Intermediate sources	78,264	0
State sources	3,317,291	4,864
Federal sources	616,020	153,759
Total revenues	<u>7,656,883</u>	<u>324,313</u>
Disbursements:		
Instruction	4,675,986	0
Support services	1,734,066	0
Non-instructional programs	0	324,538
Other expenditures	775,144	0
Total expenditures	<u>7,185,196</u>	<u>324,538</u>
Excess(deficiency) of receipts over(under) disbursements	471,687	(225)
Balance beginning of year	<u>1,556,859</u>	<u>31,463</u>
Balance end of year	<u>\$ 2,028,546</u>	<u>31,238</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,810,998	3,895,651	3,895,651	(84,653)
78,264	52,000	52,000	26,264
3,322,155	3,414,614	3,414,614	(92,459)
769,779	481,000	481,000	288,779
<u>7,981,196</u>	<u>7,843,265</u>	<u>7,843,265</u>	<u>137,931</u>
4,675,986	4,339,791	4,339,791	(336,195)
1,734,066	2,509,804	2,509,804	775,738
324,538	340,000	340,000	15,462
775,144	763,252	763,252	(11,892)
<u>7,509,734</u>	<u>7,952,847</u>	<u>7,952,847</u>	<u>443,113</u>
471,462	(109,582)	(109,582)	581,044
<u>1,588,322</u>	<u>1,293,875</u>	<u>1,293,875</u>	<u>294,447</u>
<u>2,059,784</u>	<u>1,184,293</u>	<u>1,184,293</u>	<u>875,491</u>

STARMONT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 7,656,883	66,650	7,723,533
Expenditures	7,185,196	82,091	7,267,287
Net	471,687	(15,441)	456,246
Beginning fund balances	1,556,859	123,561	1,680,420
Ending fund balances	\$ 2,028,546	108,120	2,136,666

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 324,313	(3,313)	321,000
Expenditures	324,538	(2,402)	322,136
Net	(225)	(911)	(1,136)
Capital contributions	0	8,197	8,197
Beginning net assets	31,463	51,187	82,650
Ending net assets	\$ 31,238	58,473	89,711

STARMONT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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

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

During the year ended June 30, 2004, disbursements in the instruction and other expenditures functional areas exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

STARMONT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Capital Projects	
ASSETS								
Cash and pooled investments	\$ 167,223	13,691	122,980	19,792	323,686	89,998	96,423	510,107
Receivables:								
Property tax:								
Current year delinquent	1,721	0	1,045	0	2,766	8,460	0	11,226
Succeeding year	50,000	0	58,466	0	108,466	423,905	0	532,371
Accounts	0	510	0	0	510	0	0	510
Due from other governments	0	0	0	0	0	0	40,108	40,108
TOTAL ASSETS	\$ 218,944	14,201	182,491	19,792	435,428	522,363	136,531	1,094,322
LIABILITIES AND FUND EQUITY								
Liabilities:								
Accounts payable	\$ 1,358	673	0	0	2,031	0	0	2,031
Deferred revenue:								
Succeeding year property tax	50,000	0	58,466	0	108,466	423,905	0	532,371
Total Liabilities	51,358	673	58,466	0	110,497	423,905	0	534,402
Fund equity:								
Fund balances:								
Unreserved:								
Undesignated	167,586	13,528	124,025	19,792	324,931	98,458	136,531	559,920
Total fund balances	167,586	13,528	124,025	19,792	324,931	98,458	136,531	559,920
TOTAL LIABILITIES AND FUND EQUITY	\$ 218,944	14,201	182,491	19,792	435,428	522,363	136,531	1,094,322

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, 2004

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Capital Projects	
REVENUES:								
Local sources:								
Local tax	\$ 99,618	0	60,799	0	160,417	492,061	165,917	818,395
Other	10,980	226,760	1,137	4,195	243,072	1,735	0	244,807
TOTAL REVENUES	110,598	226,760	61,936	4,195	403,489	493,796	165,917	1,063,202
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	604	0	0	1,538	2,142	0	0	2,142
Other instruction	0	231,027	0	0	231,027	0	0	231,027
Support services:								
Administration services	2,932	0	0	0	2,932	0	0	2,932
Operation and maintenance of plant services	60,128	0	9,708	0	69,836	0	0	69,836
Student transportation	777	0	42,597	0	43,374	0	0	43,374
Other expenditures:								
Facilities acquisitions	0	0	0	0	0	0	29,386	29,386
Long-term debt:								
Principal	0	0	0	0	0	400,000	0	400,000
Interest and fiscal charges	0	0	0	0	0	93,401	0	93,401
TOTAL EXPENDITURES	64,441	231,027	52,305	1,538	349,311	493,401	29,386	872,098
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	46,157	(4,267)	9,631	2,657	54,178	395	136,531	191,104
FUND BALANCE BEGINNING OF YEAR	121,429	17,795	114,394	17,135	270,753	98,063	0	368,816
FUND BALANCE END OF YEAR	\$ 167,586	13,528	124,025	19,792	324,931	98,458	136,531	559,920

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ (46,011)	66,161	78,171	(57,303)
Clubs/Organizations	(2,284)	48,996	59,393	(12,872)
General Activity	1,513	8,329	6,760	2,683
Classes	9,372	12,038	10,352	11,034
Elementary	16,206	32,964	27,211	21,958
Middle School	38,999	58,272	49,140	48,028
 Total	 \$ 17,795	 226,760	 231,027	 13,528

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 3,112,323	2,931,187	2,541,792	2,322,701
Tuition	281,318	223,834	186,819	185,853
Other	305,555	337,010	327,116	389,506
Intermediate sources	81,332	25,819	33,214	28,230
State sources	3,318,245	3,412,668	3,542,485	3,578,592
Federal sources	624,760	398,888	307,170	258,462
Total	<u>\$ 7,723,533</u>	<u>7,329,406</u>	<u>6,938,596</u>	<u>6,763,344</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,929,285	2,484,402	2,587,181	2,626,227
Special instruction	1,092,102	914,090	930,376	816,893
Other instruction	731,187	720,548	706,491	752,295
Support services:				
Student services	140,093	150,921	149,180	152,847
Instructional staff services	98,399	120,061	125,619	126,428
Administration services	623,621	772,822	772,331	717,230
Operation and maintenance of plant services	513,752	467,143	432,808	512,143
Transportation services	363,704	309,831	273,384	369,980
Other expenditures:				
Facilities acquisitions	29,386	10,756	84,700	1,500
Long-term debt:				
Principal	400,000	365,000	345,000	335,000
Interest and other charges	93,401	180,804	181,340	195,291
AEA flow-through	252,357	270,780	274,219	281,060
Total	<u>\$ 7,267,287</u>	<u>6,767,158</u>	<u>6,862,629</u>	<u>6,886,894</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (NON-CASH)	10.550	FY 04	\$ <u>30,394</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	16,720
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	<u>106,645</u>
			<u>123,365</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6175-G-04	<u>141,134</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 03	<u>5,582</u>
TITLE I ACCOUNTABILITY GRANTS (DATA DRIVEN LEADERSHIP)	84.348	FY 04	<u>3,550</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	<u>5,020</u>
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332	FY 04	<u>66,760</u>
TITLE IIA FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	<u>30,714</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 04	<u>4,944</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)			
	84.027	FY 04	<u>32,967</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 03	115
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	<u>97,888</u>
			<u>98,003</u>
TOTAL			<u>\$ 542,433</u>

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 on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

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

We have audited the financial statements of Starmont Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 4, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Starmont Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II 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, 2004 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. Prior year statutory comments have all been resolved except for IV-B-04.

Internal Control Over Financial Reporting

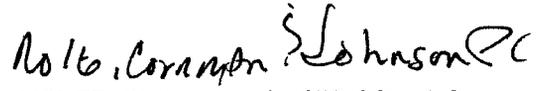
In planning and performing our audit, we considered Starmont Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item II-A-04.

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. This report 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.


NOLTE, CORNMAN & JOHNSON, P.C.

November 4, 2004

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

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

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, 2004. 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 grants 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, Chapter 11 of the Code of Iowa, 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 provisions 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, 2004.

Internal Control Over Compliance

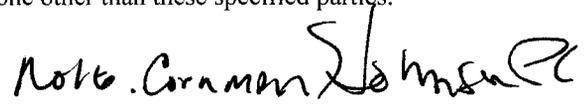
The management of Starmont Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Starmont Community 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.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Starmont Community School District's ability to administer

a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-04 is a material weakness.

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. This report is not intended to be and should not be use by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

November 4, 2004

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

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

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Individual Programs:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - CFDA Number 10.550 – Food Donation (Non-Cash)
 - 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
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 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 receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. 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.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

II-B-04 Financial Condition – The Student Activity Fund has a few accounts with deficit balances at June 30, 2004.

Recommendation – The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

Response – We will monitor these accounts.

Conclusion – Response accepted.

II-C-04 Student Activity Account – We noted during the audit that the Student Activity Fund includes a interest account that is not allocated to other accounts on a yearly basis.

Recommendation – The interest account should be allocated to other Student Activity accounts on a yearly basis.

Response – We will review how we handle the interest in that account.

Conclusion – Response accepted.

II-D-04 Officials – We noted during the audit that payroll employees were officiating for the school and the amount of money they received for those services was not included on their W-2's.

Recommendation – The amount paid to payroll employees for officiating should be included on the employees W-2.

Response – We will include the amount paid to payroll employees for officiating in the future.

Conclusion – Response accepted.

II-E-04 Outstanding Checks and Check Signers – We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year. We also noted that a check was written from the Debt Service Fund without any signatures, and two signatures were crossed out and other signatures written in on an Activity Fund check.

Recommendation – The District should adopt a policy which would allow for the write off of outstanding checks after a reasonable length of time. The Board President and Board Secretary are to sign all checks written by the District to be in compliance with Chapter 291.1 of the Code of Iowa. However, the board can designate an authorized signer only upon approval in the board minutes.

Response – We will review our procedures in place to ensure proper signatures on checks.

Conclusion – Response accepted.

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.550: Food Donation (Non-Cash)
CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2004
U. S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Numbers: 6175-G-04
Federal Award Year: 2004
U. S. Department of Education
Passed through the Iowa Department of Education

III-A-04 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will investigate available alternatives and implement as soon as possible.

Conclusion – Response accepted.

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation – The District should increase their depository limits.

Response – We will increase our depository limits.

Conclusion – Response accepted.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the instruction and other expenditures functional program areas.

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

Response – We will amend the budget in the future if necessary.

Conclusion – Response accepted.

IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-04 Business Transactions – No business transactions between the District and District officials were noted.

IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation – The District should contact the appropriate bank and rectify the situation.

Response – We will contact our bank to resolve this matter.

Conclusion – Response accepted.

IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.