

STARMONT COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

## Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Fiduciary Fund Financial Statements:		
Statement of Net Assets	J	24
Statement of Changes in Net Assets	K	25
Notes to Basic Financial Statements		26-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		37-38
Budget to GAAP Reconciliation		39
Notes to Required Supplementary Information - Budgetary Reporting		40
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	44
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		45-46
Schedule of Findings		47-48

Starmont Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Martin Hanson	President	2004
Dan Hayes	Board Member	2004
Mark Burlage	Board Member	2004
Tim Hamlett	Board Member	2005
Ryan Reichers	Board Member	2006
Laura Morine	Board Member	2006
Tom Raithel	Board Member	2006
Board of Education (After September 2004 Election)		
Martin Hanson	President	2007
Dan Hayes	Board Member	2005
Loren Johnson	Board Member	2007
Laura Morine	Board Member	2006
Tom Raithel	Board Member	2006
Tim Hamlett	Board Member	2005
Ryan Reichers	Board Member	2006
School Officials		
Gary Stumberg	Superintendent	2005
Vicki Vanter	Board Secretary/ Business Manager	2005
Stephen D. Saunders	Attorney	2005
Brian L. Gruhn	Attorney	2005

**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, the business-type activities, each major fund, and the aggregate remaining fund information of the Starmont Community School District, Arlington, Iowa as of and for the year ended June 30, 2005, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Starmont Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2005 on our consideration of Starmont Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 40 are not required parts of the basic financial statements, but are supplementary

**Members American Institute & Iowa Society of Certified Public Accountants**

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Starmont Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, 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.

  
Robb Cornman, Johnson PC  
NOLTE, CORNMAN & JOHNSON, P.C.

November 11, 2005

---

---

## **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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$6,660,331 in fiscal 2004 to \$6,417,598 in fiscal 2005, while General Fund expenditures also decreased from \$6,395,189 in fiscal 2004 to \$6,341,492 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$1,576,746 in fiscal 2004 to \$1,652,852 in fiscal 2005, a 4.83% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state and federal sources in fiscal 2005. The decrease in expenditures was due primarily to a decrease 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 District government.

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 funds.

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

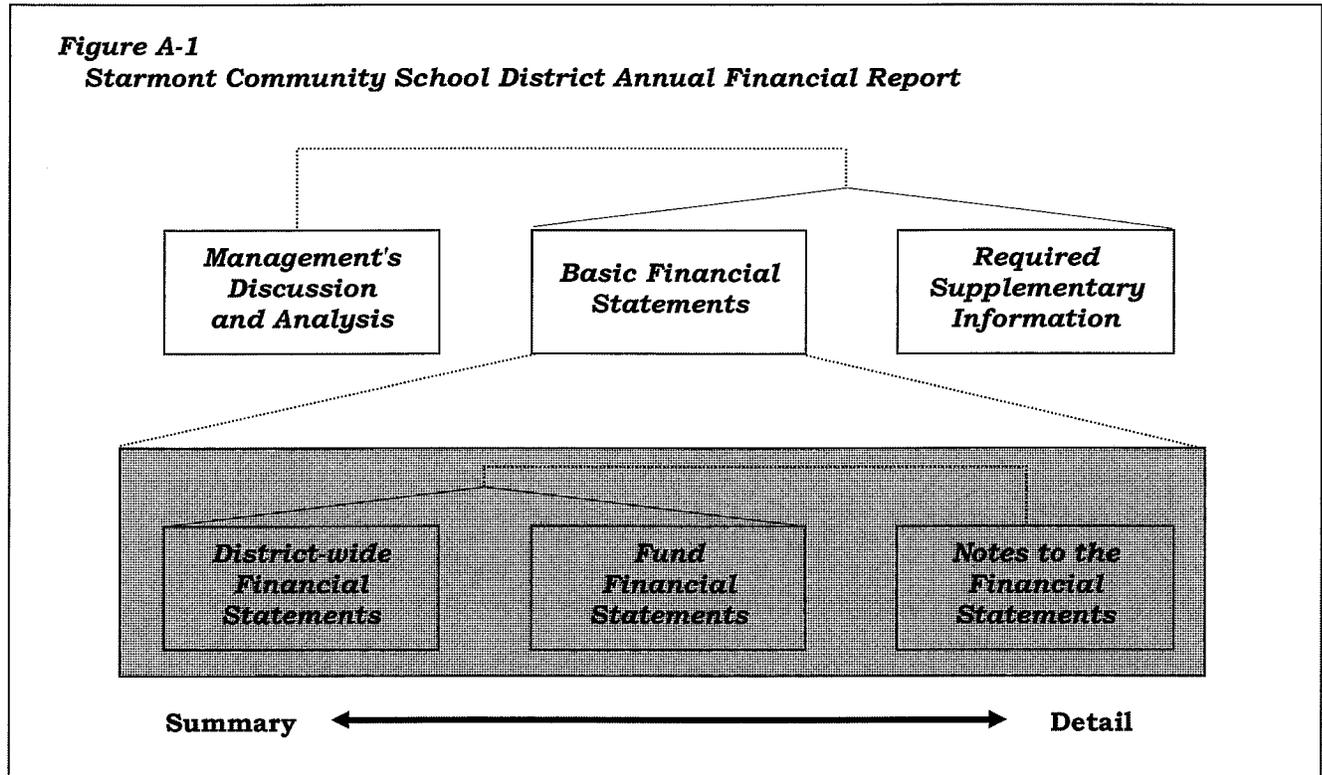


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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 and Capital Projects Fund.

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 a trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust funds.

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

The District is responsible for ensuring that 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, 2005 compared to June 30, 2004.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 6,580,697	5,979,000	54,142	49,268	6,634,839	6,028,268	10.06%
Capital assets	4,668,576	5,316,816	25,304	43,756	4,693,880	5,360,572	-12.44%
Total assets	11,249,273	11,295,816	79,446	93,024	11,328,719	11,388,840	-0.53%
Long-term obligations	2,331,859	2,757,535	0	0	2,331,859	2,757,535	-15.44%
Other liabilities	4,202,904	3,847,803	5,902	3,313	4,208,806	3,851,116	9.29%
Total liabilities	6,534,763	6,605,338	5,902	3,313	6,540,665	6,608,651	-1.03%
Net assets:							
Invested in capital assets, net of related debt	2,793,976	2,714,805	25,304	43,756	2,819,280	2,758,561	2.20%
Restricted	284,000	420,122	0	0	284,000	420,122	-32.40%
Unrestricted	1,636,534	1,555,551	48,240	45,955	1,684,774	1,601,506	5.20%
Total net assets	\$ 4,714,510	4,690,478	73,544	89,711	4,788,054	4,780,189	0.16%

The District's combined net assets increased by .16%, or \$7,865, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$136,122, or 32.4% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$83,268, or 5.2%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 564,257	640,270	161,032	162,244	725,289	802,514	-9.62%
Operating grants and contributions and restricted interest	881,487	1,105,565	152,987	158,623	1,034,474	1,264,188	-18.17%
General revenues:							
Property tax	2,855,508	2,946,406	0	0	2,855,508	2,946,406	-3.09%
Local option sales and services tax	368,007	165,917	0	0	368,007	165,917	100.00%
Unrestricted state grants	2,835,530	2,837,440	0	0	2,835,530	2,837,440	-0.07%
Other	41,970	27,935	267	133	42,237	28,068	50.48%
Total revenues	7,546,759	7,723,533	314,286	321,000	7,861,045	8,044,533	-2.28%
Program expenses:							
Governmental activities:							
Instructional	4,562,416	4,774,074	0	0	4,562,416	4,774,074	-4.43%
Support services	1,845,731	1,802,956	0	0	1,845,731	1,802,956	2.37%
Non-instructional programs	(58)	0	330,453	322,136	330,395	322,136	2.56%
Other expenses	1,114,638	508,867	0	0	1,114,638	508,867	119.04%
Total expenses	7,522,727	7,085,897	330,453	322,136	7,853,180	7,408,033	6.01%
Changes in net assets	24,032	637,636	(16,167)	(1,136)	7,865	636,500	-98.76%
Beginning net assets	4,690,478	4,052,842	89,711	90,847	4,780,189	4,143,689	15.36%
Ending net assets	\$ 4,714,510	4,690,478	73,544	89,711	4,788,054	4,780,189	0.16%

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 82% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in property tax monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

**Governmental Activities**

Revenues for governmental activities were \$7,546,759 and expenses were \$7,522,727. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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	\$ 4,562,416	3,366,807
Support services	1,845,731	1,843,495
Non-instructional programs	(58)	(58)
Other expenses	1,114,638	866,739
Totals	<u>\$ 7,522,727</u>	<u>6,076,983</u>

- The cost financed by users of the District’s programs was \$564,257.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$881,487.
- The net cost of governmental activities was financed with \$2,855,508 in property tax, \$368,007 in local option sales and services tax, \$2,835,530 in state foundation aid and \$41,970 in interest income.

**Business-Type Activities**

Revenues of the District’s business-type activities were \$314,286 and expenses were \$330,453. 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 \$2,382,550 above last year’s ending fund balances of a \$2,136,666. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to the local option sales and services tax monies in fiscal 2005.

---

## Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors:
  - Even though the District had a decrease in revenues, the decrease in expenditures caused the General Fund balance to improve substantially.

## Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$89,711 at June 30, 2004 to \$73,544 at June 30, 2005, representing a decrease of 18%. For fiscal 2005, the District saw an increase in expenditures as well as a decrease in revenues.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$9,582 more than budgeted revenues, a variance of .12%. The most significant variance resulted from the District receiving more in intermediate sources than originally anticipated.

Total disbursements were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget disbursements 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 disbursements for the year.

In spite of the District's budgetary practice, disbursements in the instruction and other expenditures functional program areas exceeded the certified budget amounts.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, the District had invested \$4,693,880, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 14.2% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$727,586.

The original cost of the District's capital assets was \$8,297,335. Governmental funds account for \$8,177,565 with the remainder of \$119,770 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$4,444,540 at June 30, 2005, compared to \$5,095,640 reported at June 30, 2004.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 26,300	26,300	0	0	26,300	26,300	0.00%
Buildings	4,444,540	5,095,640	0	0	4,444,540	5,095,640	-14.65%
Land improvements	0	0	0	0	0	0	0.00%
Machinery and equipment	197,736	194,876	25,304	43,756	223,040	238,632	-6.99%
Total	\$ 4,668,576	5,316,816	25,304	43,756	4,693,880	5,360,572	-14.20%

---

## Long-Term Debt

At June 30, 2005, the District had \$2,331,969 in general obligation and other long-term debt outstanding. This represents a decrease of 15.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had general obligation bonds payable of \$2,270,000 at June 30, 2005.

The District had compensated absences payable of \$16,213 from the General Fund at June 30, 2005.

The District had early retirement payable of \$45,756 from the Special Revenue, Management Levy Fund at June 30, 2005.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 2,270,000	2,695,000	-15.8%
Compensated absences	16,213	46,368	-65.0%
Early retirement	45,756	16,167	183.0%
Totals	<u>\$ 2,331,969</u>	<u>2,757,535</u>	<u>-15.4%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Our declining enrollment is always a constant concern in our District. We will try to be very prudent so our School District remains financially healthy. We continue to explore different avenues for revenue, for example, grants. We have an excellent track record of writing grants and getting them approved. We all examine our individual departments yearly to make sure that we are doing the best that we can and are always looking for ways to improve to meet or exceed our expectations.

---

## **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 40<sup>th</sup> Street, Arlington, Iowa, 50606.

BASIC FINANCIAL STATEMENTS

STARMONT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 1,084,501	0	1,084,501
Other	2,368,081	41,017	2,409,098
Receivables:			
Property tax:			
Delinquent	58,957	0	58,957
Succeeding year	2,846,294	0	2,846,294
Accounts	12,577	0	12,577
Accrued ISCAP interest(Note 4)	3,736	0	3,736
Due from other governments	206,551	0	206,551
Inventories	0	13,125	13,125
Capital assets, net of accumulated depreciation(Note 5)	4,668,576	25,304	4,693,880
<b>TOTAL ASSETS</b>	<b>11,249,273</b>	<b>79,446</b>	<b>11,328,719</b>
<b>LIABILITIES</b>			
Accounts payable	135,079	2,523	137,602
ISCAP warrants payable(Note 4)	1,080,000	0	1,080,000
ISCAP accrued interest payable(Note 4)	4,001	0	4,001
ISCAP unamortized premium	1,558	0	1,558
Accrued interest payable	4,757	0	4,757
Deferred revenue:			
Succeeding year property tax	2,846,294	0	2,846,294
Other	131,215	3,379	134,594
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	430,000	0	430,000
Compensated absences	16,213	0	16,213
Early retirement payable	20,367	0	20,367
Portion due after one year:			
General obligation bonds payable	1,840,000	0	1,840,000
Early retirement payable	25,279	0	25,279
<b>TOTAL LIABILITIES</b>	<b>6,534,763</b>	<b>5,902</b>	<b>6,540,665</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	2,793,976	25,304	2,819,280
Restricted for:			
Salary improvement program	105	0	105
Management levy	77,037	0	77,037
Physical plant and equipment levy	172,627	0	172,627
Other special revenue purposes	34,231	0	34,231
Unrestricted	1,636,534	48,240	1,684,774
<b>TOTAL NET ASSETS</b>	<b>\$ 4,714,510</b>	<b>73,544</b>	<b>4,788,054</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,848,834	516,334	593,048
Special instruction	846,947	45,687	40,540
Other instruction	866,635	0	0
	<u>4,562,416</u>	<u>562,021</u>	<u>633,588</u>
Support services:			
Student services	167,912	0	0
Instructional staff services	102,330	0	0
Administration services	716,671	0	0
Operation and maintenance of plant services	845,588	0	0
Transportation services	13,230	2,236	0
	<u>1,845,731</u>	<u>2,236</u>	<u>0</u>
Non-instructional programs:			
Food service operations	(58)	0	0
	<u>(58)</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	150,406	0	0
Long-term debt interest	65,233	0	0
AEA flowthrough	247,899	0	247,899
Depreciation(unallocated)*	651,100	0	0
	<u>1,114,638</u>	<u>0</u>	<u>247,899</u>
Total governmental activities	7,522,727	564,257	881,487
Business-Type activities:			
Non-instructional programs:			
Nutrition services	330,453	161,032	152,987
Total business-type activities	<u>330,453</u>	<u>161,032</u>	<u>152,987</u>
Total	<u>\$ 7,853,180</u>	<u>725,289</u>	<u>1,034,474</u>

**General Revenues:**

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

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,739,452)	0	(1,739,452)
(760,720)	0	(760,720)
(866,635)	0	(866,635)
<u>(3,366,807)</u>	<u>0</u>	<u>(3,366,807)</u>
(167,912)	0	(167,912)
(102,330)	0	(102,330)
(716,671)	0	(716,671)
(845,588)	0	(845,588)
(10,994)	0	(10,994)
<u>(1,843,495)</u>	<u>0</u>	<u>(1,843,495)</u>
58	0	58
<u>58</u>	<u>0</u>	<u>58</u>
(150,406)	0	(150,406)
(65,233)	0	(65,233)
0	0	0
(651,100)	0	(651,100)
<u>(866,739)</u>	<u>0</u>	<u>(866,739)</u>
(6,076,983)	0	(6,076,983)
0	(16,434)	(16,434)
<u>0</u>	<u>(16,434)</u>	<u>(16,434)</u>
<u>(6,076,983)</u>	<u>(16,434)</u>	<u>(6,093,417)</u>
\$ 2,373,714	0	2,373,714
423,398	0	423,398
58,396	0	58,396
368,007	0	368,007
2,835,530	0	2,835,530
41,970	267	42,237
<u>6,101,015</u>	<u>267</u>	<u>6,101,282</u>
24,032	(16,167)	7,865
<u>4,690,478</u>	<u>89,711</u>	<u>4,780,189</u>
<u>\$ 4,714,510</u>	<u>73,544</u>	<u>4,788,054</u>

STARMONT COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP (Note 4)	\$ 1,084,501	0	1,084,501
Other	1,707,687	660,394	2,368,081
Receivables:			
Property tax:			
Delinquent	47,970	10,987	58,957
Succeeding year	2,209,503	636,791	2,846,294
Accounts	11,509	1,068	12,577
Accrued ISCAP interest (Note 4)	3,736	0	3,736
Due from other governments	116,488	90,063	206,551
<b>TOTAL ASSETS</b>	<b>\$ 5,181,394</b>	<b>1,399,303</b>	<b>6,580,697</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 102,265	32,814	135,079
ISCAP warrants payable (Note 4)	1,080,000	0	1,080,000
ISCAP accrued interest payable (Note 4)	4,001	0	4,001
ISCAP unamortized premium	1,558	0	1,558
Deferred revenue:			
Succeeding year property tax	2,209,503	636,791	2,846,294
Other	131,215	0	0
Total liabilities	<u>3,528,542</u>	<u>669,605</u>	<u>4,066,932</u>
Fund balances:			
Reserved for:			
Salary improvement program	105	0	105
Debt service	0	100,938	100,938
Unreserved:			
General	1,652,747	0	1,652,747
Management	0	122,683	122,683
Capital projects	0	299,219	299,219
Physical plant and equipment levy	0	172,627	172,627
Other special revenue purposes	0	34,231	34,231
Total fund balances	<u>1,652,852</u>	<u>729,698</u>	<u>2,382,550</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,181,394</b>	<b>1,399,303</b>	<b>6,449,482</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2005

<b>Total fund balances of governmental funds (page 17)</b>	\$ 2,382,550
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	4,668,576
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.	(4,757)
Long-term liabilities, including bonds payable, compensated absences and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,331,859)</u>
<b>Net assets of governmental activites (page 14)</b>	<u>\$ 4,714,510</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 2,323,776	899,739	3,223,515
Tuition	267,575	0	267,575
Other	76,360	229,084	305,444
Intermediate sources	33,208	0	33,208
State sources	3,303,898	338	3,304,236
Federal sources	412,781	0	412,781
Total revenues	<u>6,417,598</u>	<u>1,129,161</u>	<u>7,546,759</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	2,830,286	18,481	2,848,767
Special instruction	846,947	0	846,947
Other instruction	641,752	222,492	864,244
	<u>4,318,985</u>	<u>240,973</u>	<u>4,559,958</u>
Support services:			
Student services	167,889	0	167,889
Instructional staff services	102,330	0	102,330
Administration services	691,674	24,979	716,653
Operation and maintenance of plant services	812,715	26,891	839,606
Transportation services	0	25,189	25,189
	<u>1,774,608</u>	<u>77,059</u>	<u>1,851,667</u>
Other expenditures:			
Facilities acquisitions	0	150,406	150,406
Principal	0	425,000	425,000
Interest and fiscal charges	0	65,945	65,945
AEA flowthrough	247,899	0	247,899
	<u>247,899</u>	<u>641,351</u>	<u>889,250</u>
Total expenditures	<u>6,341,492</u>	<u>959,383</u>	<u>7,300,875</u>
Excess of revenues over expenditures	76,106	169,778	245,884
Other financing sources(uses):			
Transfers in	0	67,625	67,625
Transfers out	0	(67,625)	(67,625)
Total other financing sources(uses)	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances	76,106	169,778	245,884
Fund balance beginning of year	1,576,746	559,920	2,136,666
Fund balance end of year	<u>\$ 1,652,852</u>	<u>729,698</u>	<u>2,382,550</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2005

Net change in fund balances - total governmental funds (page 19) \$ 245,884

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

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

Capital outlays	\$ 60,894	
Depreciation expense	(709,134)	(648,240)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 425,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 712

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.

Early retirement	\$ 722	
Compensated absences	(46)	676

Changes in net assets of governmental activities (page 16) \$ 24,032

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 41,017
Inventories	13,125
Capital assets, net of accumulated depreciation(Note 5)	25,304
TOTAL ASSETS	79,446
LIABILITIES	
Accounts payable	2,523
Deferred revenue: Other	3,379
TOTAL LIABILITIES	5,902
NET ASSETS	
Investment in capital assets	25,304
Unrestricted	48,240
TOTAL NET ASSETS	\$ 73,544

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 161,032
TOTAL OPERATING REVENUES	161,032
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	112,020
Benefits	24,012
Services	9,777
Supplies	166,176
Other	16
Depreciation	18,452
TOTAL OPERATING EXPENSES	330,453
OPERATING LOSS	(169,421)
NON-OPERATING REVENUES:	
State sources	4,409
Federal sources	148,578
Interest on investments	267
TOTAL NON-OPERATING REVENUES	153,254
Change in net assets	(16,167)
Net assets beginning of year	89,711
Net assets end of year	\$ 73,544

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 159,528
Cash received from miscellaneous	1,570
Cash payments to employees for services	(136,032)
Cash payments to suppliers for goods or services	(144,037)
Net cash used in operating activities	(118,971)
Cash flows from non-capital financing activities:	
State grants received	4,409
Federal grants received	124,074
Net cash provided by non-capital financing activities	128,483
Cash flows from investing activities:	
Interest on investments	267
Net cash provided by investing activities	267
Net increase in cash and cash equivalents	9,779
Cash and cash equivalents at beginning of year	31,238
Cash and cash equivalents at end of year	\$ 41,017
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (169,421)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	24,504
Depreciation	18,452
Decrease in inventories	4,905
Increase in accounts payable	2,523
Increase in deferred revenue	66
Net cash used in operating activities	\$ (118,971)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 41,017

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$24,504.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 JUNE 30, 2005

	Private Purpose Trust
	<u>Scholarship</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 73,100
Accrued interest receivable	<u>2,766</u>
Total assets	<u>75,866</u>
<b>LIABILITIES</b>	
Total liabilities	<u>0</u>
<b>NET ASSETS</b>	
Reserved for scholarships	<u><u>\$ 75,866</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2005

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 3,170
Interest on investment	2,767
Total additions	<u>5,937</u>
Deductions:	
Instruction:	
Scholarships awarded	<u>3,104</u>
Change in net assets	2,833
Net assets beginning of year	<u>73,033</u>
Net assets end of year	<u>\$ 75,866</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

**(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, 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, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

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

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

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

scholarship awards.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery 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
Land improvements	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 or earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A

liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. 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, 2005, disbursements in the instruction and other expenditures functional program areas exceeded the amounts budgeted.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments at June 30, 2005.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 67,625</u>

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

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

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, 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. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final	Investments	Accrued	Warrants Payable	Accrued
		Warrant Maturity		Interest Receivable		Interest Payable
2004-05A	6/30/04	6/30/05	\$ 120	0	0	0
2004-05B	1/28/05	1/27/06	262,757	3,560	262,000	3,844
2005-06A	6/30/05	6/30/06	821,624	176	818,000	157
Total			\$ 1,084,501	3,736	1,080,000	4,001

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 25<sup>th</sup> 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 for the year ended June 30, 2005.

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
2004-05A	3.000%	2.463%
2004-05B	3.500%	2.280%
2005-06A	3.500%	3.903%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	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	<u>26,300</u>	<u>0</u>	<u>0</u>	<u>26,300</u>
Capital assets being depreciated:				
Buildings	6,886,000	0	0	6,886,000
Land improvements	80,000	0	0	80,000
Machinery and equipment	1,124,371	60,894	0	1,185,265
Total capital assets being depreciated	<u>8,090,371</u>	<u>60,894</u>	<u>0</u>	<u>8,151,265</u>
Less accumulated depreciation for:				
Buildings	1,790,360	651,100	0	2,441,460
Land improvements	80,000	0	0	80,000
Machinery and equipment	929,495	58,034	0	987,529
Total accumulated depreciation	<u>2,799,855</u>	<u>709,134</u>	<u>0</u>	<u>3,508,989</u>
Total capital assets being depreciated, net	<u>5,290,516</u>	<u>(648,240)</u>	<u>0</u>	<u>4,642,276</u>
Governmental activities capital assets, net	<u>\$ 5,316,816</u>	<u>(648,240)</u>	<u>0</u>	<u>4,668,576</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 130,132	0	10,362	119,770
Less accumulated depreciation	86,376	18,452	10,362	94,466
Business-type activities capital assets, net	<u>\$ 43,756</u>	<u>(18,452)</u>	<u>0</u>	<u>25,304</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 4,259
Other		4,173
Support services:		
Operation and maintenance of plant		7,767
Transportation		41,835
		<u>58,034</u>
Unallocated depreciation		<u>651,100</u>
Total governmental activities depreciation expense		<u>\$ 709,134</u>
Business-type activities:		
Food service operations		\$ 18,452
Total business-type activities depreciation expense		<u>\$ 18,452</u>

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,695,000	0	425,000	2,270,000	430,000
Compensated absences	16,167	16,213	16,167	16,213	16,213
Early retirement	46,368	14,734	15,346	45,756	20,367
Total	\$ 2,757,535	30,947	456,513	2,331,969	466,580

General Obligation Bonds Payable

Details of the Districts June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue dated March 1, 2003		
		Principal	Interest	Total
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		\$ 2,270,000	342,728	2,612,728

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval 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, 2005, totaled \$15,346.

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the

years ended June 30, 2005, 2004 and 2003 were \$206,656, \$205,058 and \$198,350 respectively, equal to the required contributions for each year.

**(8) 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, 2005 were \$754,229.

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, 2005, no liability has been recorded in the District's financial statements. As of June 30, 2005, 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.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational

services provided through the area education agency. The District's actual amount for this purpose totaled \$247,899 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(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, 2005, disbursements in the instruction and other expenditures functional program areas exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

STARMONT COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON 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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 3,691,584	161,365
Intermediate sources	82,582	0
State sources	3,305,379	4,409
Federal sources	511,544	148,578
Total revenues	<u>7,591,089</u>	<u>314,352</u>
Disbursements:		
Instruction	4,571,143	0
Support services	1,805,456	0
Non-instructional programs	0	304,573
Other expenditures	874,955	0
Total expenditures	<u>7,251,554</u>	<u>304,573</u>
Excess(deficiency) of receipts over(under) disbursements	339,535	9,779
Other financing sources, net	<u>0</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements and other financing uses	339,535	9,779
Balance beginning of year	<u>2,028,546</u>	<u>31,238</u>
Balance end of year	<u>\$ 2,368,081</u>	<u>41,017</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,852,949	4,014,297	4,014,297	(161,348)
82,582	5,100	5,100	77,482
3,309,788	3,361,462	3,361,462	(51,674)
660,122	515,000	515,000	145,122
<u>7,905,441</u>	<u>7,895,859</u>	<u>7,895,859</u>	<u>9,582</u>
4,571,143	4,519,313	4,519,313	(51,830)
1,805,456	2,600,329	2,600,329	794,873
304,573	330,000	330,000	25,427
874,955	693,071	693,071	(181,884)
<u>7,556,127</u>	<u>8,142,713</u>	<u>8,142,713</u>	<u>586,586</u>
349,314	(246,854)	(246,854)	(596,168)
0	(67,625)	(67,625)	(67,625)
349,314	(314,479)	(314,479)	(663,793)
2,059,784	1,549,952	1,549,952	509,832
<u>2,409,098</u>	<u>1,235,473</u>	<u>1,235,473</u>	<u>1,173,625</u>

STARMONT COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 7,591,089	(44,330)	7,546,759
Expenditures	7,251,554	49,321	7,300,875
Net	339,535	(93,651)	245,884
Beginning fund balances	2,028,546	108,120	2,136,666
Ending fund balances	\$ 2,368,081	14,469	2,382,550

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 314,352	(66)	314,286
Expenses	304,573	25,880	330,453
Net	9,779	(25,946)	(16,167)
Beginning net assets	31,238	58,473	89,711
Ending net assets	\$ 41,017	32,527	73,544

STARMONT COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the Cash basis.

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, 2005, disbursements in the instruction and other expenditures functional program areas exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

STAR MONT COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2005

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	Debt Service	
<b>ASSETS</b>								
Cash and pooled investments	\$ 121,651	28,281	171,420	23,401	344,753	223,451	92,190	660,394
Receivables:								
Property tax:								
Current year delinquent	1,032	0	1,207	0	2,239	0	8,748	10,987
Succeeding year	175,000	0	58,988	0	233,988	0	402,803	636,791
Accounts	0	1,017	0	51	1,068	0	0	1,068
Due from other governments	0	0	0	0	0	90,063	0	90,063
<b>TOTAL ASSETS</b>	<b>\$ 297,683</b>	<b>29,298</b>	<b>231,615</b>	<b>23,452</b>	<b>582,048</b>	<b>313,514</b>	<b>503,741</b>	<b>1,399,303</b>
<b>LIABILITIES AND FUND EQUITY</b>								
Liabilities:								
Accounts payable	\$ 0	18,519	0	0	18,519	14,295	0	32,814
Deferred revenue:								
Succeeding year property tax	175,000	0	58,988	0	233,988	0	402,803	636,791
	175,000	18,519	58,988	0	252,507	14,295	402,803	669,605
Fund equity:								
Fund balances:								
Reserved for:								
Debt service	0	0	0	0	0	0	100,938	100,938
Unreserved:								
Undesignated	122,683	10,779	172,627	23,452	329,541	299,219	0	628,760
Total fund balances	122,683	10,779	172,627	23,452	329,541	299,219	100,938	729,698
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 297,683</b>	<b>29,298</b>	<b>231,615</b>	<b>23,452</b>	<b>582,048</b>	<b>313,514</b>	<b>503,741</b>	<b>1,399,303</b>

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, 2005

	Special Revenue Funds						Total Nonmajor Governmental Funds	
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects		Debt Service
REVENUES:								
Local sources:								
Local tax	\$ 49,938	0	58,396	0	108,334	368,007	423,398	899,739
Other	667	219,686	2,409	3,717	226,479	472	2,133	229,084
State sources	32	0	37	0	69	0	269	338
TOTAL REVENUES	50,637	219,686	60,842	3,717	334,882	368,479	425,800	1,129,161
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	18,481	0	0	0	18,481	0	0	18,481
Other instruction	0	222,435	0	57	222,492	0	0	222,492
Support services:								
Administration services	24,979	0	0	0	24,979	0	0	24,979
Operation and maintenance of plant services	26,891	0	0	0	26,891	0	0	26,891
Student transportation	25,189	0	0	0	25,189	0	0	25,189
Other expenditures:								
Facilities acquisitions	0	0	12,240	0	12,240	138,166	0	150,406
Long-term debt:								
Principal	0	0	0	0	0	0	425,000	425,000
Interest and fiscal charges	0	0	0	0	0	0	65,945	65,945
TOTAL EXPENDITURES	95,540	222,435	12,240	57	330,272	138,166	490,945	959,383
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(44,903)	(2,749)	48,602	3,660	4,610	230,313	(65,145)	169,778
OTHER FINANCING SOURCES (USES):								
Transfers in	0	0	0	0	0	0	67,625	67,625
Transfers out	0	0	0	0	0	(67,625)	0	(67,625)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	0	0	0	(67,625)	67,625	0
NET CHANGE IN FUND BALANCES	(44,903)	(2,749)	48,602	3,660	4,610	162,688	2,480	169,778
FUND BALANCE BEGINNING OF YEAR	167,586	13,528	124,025	19,792	324,931	136,531	98,458	559,920
FUND BALANCE END OF YEAR	\$ 122,683	10,779	172,627	23,452	329,541	299,219	100,938	729,698

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ (57,303)	86,654	86,468	(57,117)
Clubs/Organizations	(12,872)	47,000	51,978	(17,850)
General Activity	2,683	10,137	7,041	5,779
Classes	11,034	11,422	11,111	11,345
Elementary	21,958	6,330	7,977	20,311
Middle School	48,028	58,143	57,860	48,311
 Total	 \$ 13,528	 219,686	 222,435	 10,779

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,			
	2005	2004	2003	2002
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 3,223,515	3,112,323	2,931,187	2,541,792
Tuition	267,575	281,318	223,834	186,819
Other	305,444	305,555	337,010	327,116
Intermediate sources	33,208	81,332	25,819	33,214
State sources	3,304,236	3,318,245	3,412,668	3,542,485
Federal sources	412,781	624,760	398,888	307,170
<b>Total</b>	<b>\$ 7,546,759</b>	<b>7,723,533</b>	<b>7,329,406</b>	<b>6,938,596</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 2,848,767	2,929,285	2,484,402	2,587,181
Special instruction	846,947	1,092,102	914,090	930,376
Other instruction	864,244	731,187	720,548	706,491
Support services:				
Student services	167,889	140,093	150,921	149,180
Instructional staff services	102,330	98,399	120,061	125,619
Administration services	716,653	623,621	772,822	772,331
Operation and maintenance of plant services	839,606	513,752	467,143	432,808
Transportation services	25,189	363,704	309,831	273,384
Other expenditures:				
Facilities acquisitions	150,406	29,386	10,756	84,700
Long-term debt:				
Principal	425,000	400,000	365,000	345,000
Interest	65,945	93,401	180,804	181,340
AEA flow-through	247,899	252,357	270,780	274,219
<b>Total</b>	<b>\$ 7,300,875</b>	<b>7,267,287</b>	<b>6,767,158</b>	<b>6,862,629</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

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

### Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Starmont Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 11, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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 an opinion 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 I of the accompanying Schedule of Findings.

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 caused by error or fraud 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 I-A-05 is a material weakness.

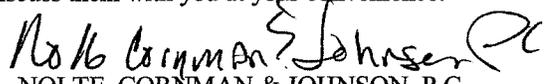
#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

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 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 11, 2005

STARMONT COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

I-A-05 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.

I-B-05 Authorized Check Signatures - Checks written from the PPEL bank account only have one signature. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks written by the District. The Board President can designate an individual other than himself/herself, however the Board Secretary may not designate an alternative authorized signer.

Recommendation - The District should require all checks to be signed by both the Board Secretary and the Board President or his/her designated individual.

Response - The Board Secretary will be more careful and make sure that two signatures are present on all checks written.

Conclusion - Response accepted.

I-C-05 Financial Condition - We noted during our audit that the Student Activity Fund has a few accounts with deficit balances at June 30, 2005.

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

Response - The Board Secretary will monitor these accounts that are in a deficit balance and take measures for improvements of said accounts.

Conclusion - Response accepted.

STARMONT COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

- II-A-05 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the certified budget amounts 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 - The Board Secretary will try and amend said budgets before the end of the fiscal year if warranted.
- Conclusion - Response accepted.
- II-C-05 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.
- II-D-05 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.
- II-E-05 Business Transactions - No business transactions between the District and District Officials or employees were noted.
- II-F-05 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.
- II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-05 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.
- II-J-05 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.