DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2004

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DECORAH COMMUNITY SCHOOL DISTRICT

BOARD OF EDUCATION AND SCHOOL OFFICIALS

Name	Title	Address	Term Expires
	Board of Education (After September 2003 Election)		
Ramona Nelson	President	Decorah, Iowa	Sept. 2006
Mark Donhowe	Vice-President	Decorah, Iowa	Sept. 2006
Melanie Tietz	Member	Decorah, Iowa	Sept. 2005
O. Dean Orwoll	Member	Decorah, Iowa	Sept. 2005
James Langholz	Member	Decorah, Iowa	Sept. 2004
	Board of Education (Before September 2003 Election)		
Ramona Nelson	President	Decorah, Iowa	Sept. 2003
Mark Donhowe	Vice-President	Decorah, Iowa	Sept. 2003
Melanie Tietz	Member	Decorah, Iowa	Sept. 2005
O. Dean Orwoll	Member	Decorah, Iowa	Sept. 2005
James Langholz	Member	Decorah, Iowa	Sept. 2004

School Officials

Steven Chambliss - Superintendent
Doug Nefzger - Business Manager/Treasurer
Carol Thunberg - Board Secretary

HACKER, NELSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
and BUSINESS CONSULTANTS

123 WEST WATER STREET
P.O. BOX 507
DECORAH, IOWA 52101
TELEPHONE 563 382-3637
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INDEPENDENT AUDITOR'S REPORT ON THE THE FINANCIAL STATEMENTS

To the Board of Education
Decorah Community School District
Decorah, Iowa

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 Decorah 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 Decorah Community School District's management. 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of Decorah Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2004 on our consideration of Decorah Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 3 and pages 28 through 30, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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. However, we did not audit the information and express no opinion on it.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 2, 2004

DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA

Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2004

This section of the Decorah Community School District's annual financial report presents the District's management discussion and analysis of the District's financial activities during the fiscal year ending June 30, 2004.

The intent of this discussion and analysis is to look at the Decorah Community School District's financial performance as a whole with comparisons to the previous fiscal year activities. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for the 2003-04 fiscal year include the following:

> In total, net assets decreased by $374,006. Net assets in governmental activities decreased $401,106, which represented a 7.2% decrease from fiscal year 2003. The primary reason for the decrease is a loss of $150,143 in State Foundation School aid payments, a loss of $111,184 in revenue due to a one-time increase in income surtax received in 2003, and increases in salary and operational expenses. Net assets in the business-type activity, which represents the Districts food service operations, increased $27,100, which represented a 17.2% increase from fiscal year 2003. Increased student participation in the District's food service a-la-cart program is the primary reason for the increase.
>
> General Fund revenues (which includes the Instructional Support fund) accounted for $11,693,128 in revenue or 81.0% of all revenues. General Fund expenses (which includes the Instructional Support fund) accounted for $12,008,106 in expenditures or 68.8% of all expenses.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Decorah Community School District as a financial whole, or as an entire operating entity.

The statement of net assets and statement of activities provides information about the activities of the whole District, presenting both an aggregate view of the District's finances and a long-term view of those finances. Fund financial statements report individual parts of District operations in more detail than District wide statements. For governmental funds these statements tell how educational and operational services were funded in the short term as well as what remains for future funding. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in a single column.

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this report includes the all the funds used by the District to provide programs and activities, the report strives to show how the District performed financially during the 2004 fiscal year. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies. These bases of accounting take into account all of the current year's revenues and expenditures regardless of when cash was received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it identifies whether the financial picture of the District has improved or diminished for the District as whole. The cause of this change may be the result of many factors, some financial, some not. Non-financial factors include District property tax assessed valuation, facility needs, required educational programs, and other factors.

In the statement of net assets and statement of activities, the District is divided into two distinct kinds of activities:

> **Governmental Activities -** Most of the District's programs and services are reported here, including instruction, co-curricular activities, support services (nursing, guidance, media, administration), custodial, building operations and maintenance, and pupil transportation.
>
> **Business-Type Activity** – This service is provided on a charge for goods or services basis to recover all of the expenses for good or services provided. These types of activities are also known as Enterprise funds. The Nutrition Fund is reported as a business activity.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major fund(s). The District uses different funds in accordance with the Uniform Financial Accounting for Iowa LEA's, as required by the Iowa Department of Education, to record its financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds for fiscal 2004 are the General Fund, Physical Plant and Equipment Fund, Capital Project Fund, and the Debt Service Fund.

Governmental Funds

Most of the District's transactions are reported in governmental funds, which focus on how monies flow into and out of these funds and the balances left at fiscal year end for spending in the future. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations

and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The difference between governmental activities reported in the statement of net assets and the statement of activities is reconciled in the financial statements.

Enterprise Fund

The enterprise fund uses the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

The School District as a Whole

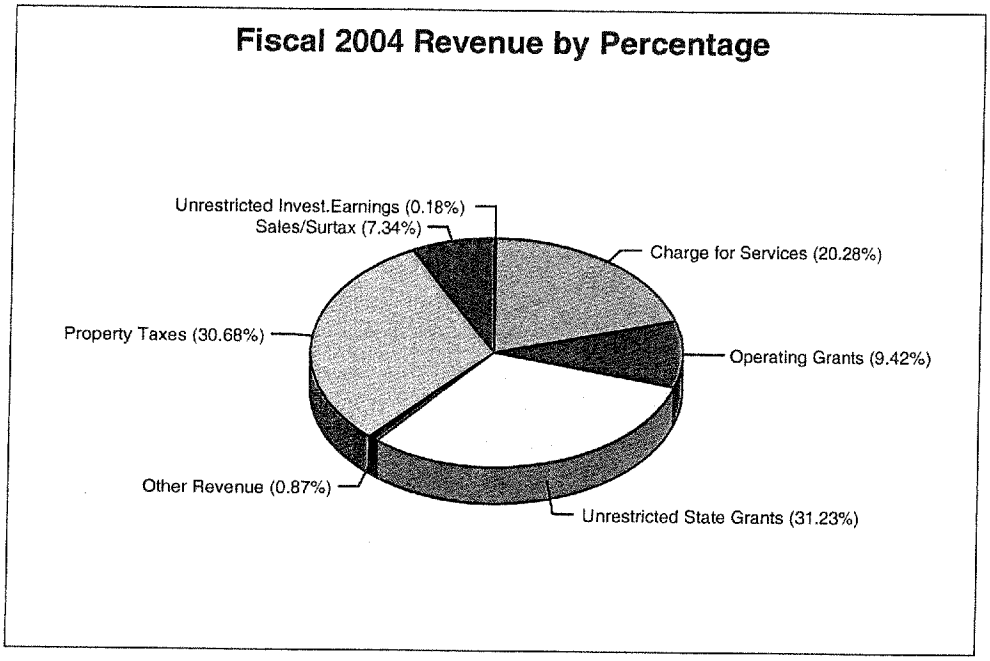
The following is a summary of the statement of net assets of the District as a whole. The Decorah Community School District's net assets at the end of fiscal year 2004 totaled $5,345,442, down 6.54% from the previous fiscal year.

Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total		Percent
	2003	2004	2003	2004	2003	2004	Change
Current & Other Assets	$ 11,031,390	19,045,772	$ 176,399	211,921	$ 11,207,789	19,257,693	71.82%
Capital Assets	5,085,414	5,633,667	14,757	16,282	5,100,171	5,649,949	10.78%
Total Assets	16,116,804	24,679,439	191,156	228,203	16,307,960	24,907,642	52.73%
Long-term Obligations	2,595,586	9,836,318	---	---	2,595,586	9,836,318	278.96%
Other Liabilities	7,959,464	9,682,473	33,462	43,409	7,992,926	9,725,882	21.68%
Total Liabilities	10,555,050	19,518,791	33,462	43,409	10,588,512	19,562,200	84.75%
Net Assets							
Invested in Capital Assets - Net of Related Debt	2,485,414	2,436,682	14,757	16,282	2,500,171	2,452,964	-1.89%
Restricted	2,180,739	2,750,394	---	---	2,180,739	2,750,394	26.12%
Unrestricted	895,601	-26,428	142,937	168,512	1,038,538	142,084	-86.32%
Total Net Assets	$ 5,561,754	5,160,648	$ 157,694	184,794	$ 5,719,448	5,345,442	-6.54%

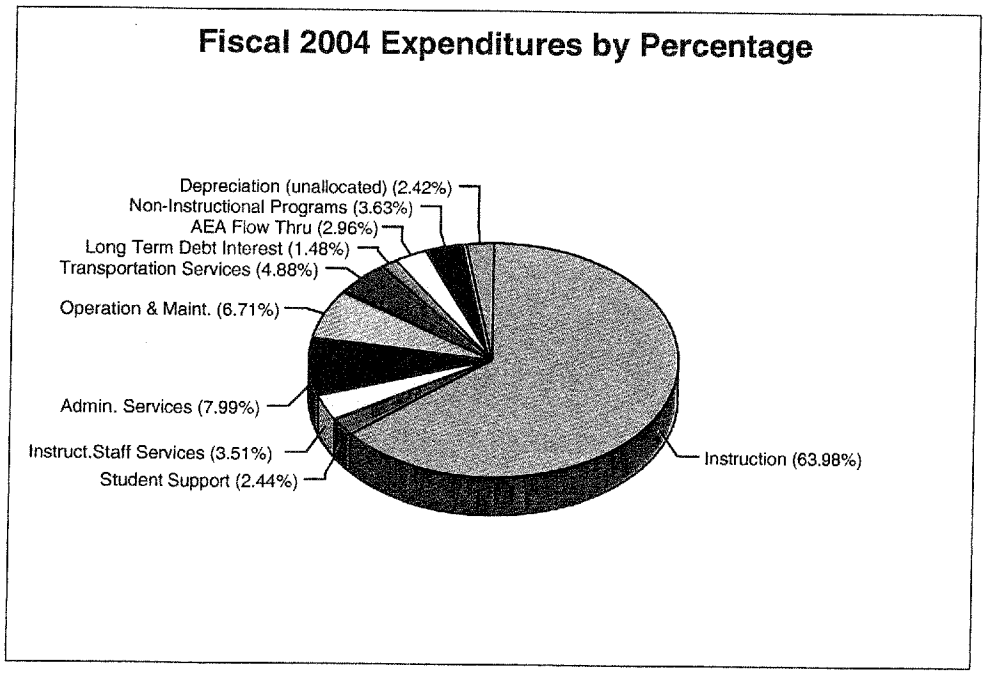
The following analysis shows the change in net assets for the year ending June 30, 2004

	Change in Net Assets						
	Governmental Activities		Business-type Activities		Total		Percent
	2003	2004	2003	2004	2003	2004	Change
Revenue							
Program Revenue							
Charge for Services	$ 2,233,327	2,635,071 $	395,229	410,685 $	2,628,556	3,045,756	15.87%
Operating Grants	1,137,406	1,241,090	166,292	173,299	1,303,698	1,414,389	8.49%
General Revenue							
Property Taxes	4,599,655	4,608,900	---	---	4,599,655	4,608,900	0.20%
Sales and Income Surtax	1,288,218	1,102,101	---	---	1,288,218	1,102,101	-14.45%
Unrestricted State Grants	4,832,299	4,691,783	---	---	4,832,299	4,691,783	-2.91%
Unrestricted Invest. Earnings	116,546	25,215	2,156	2,082	118,702	27,297	-77.00%
Gain/Loss Sale Cap. Assets	0	7,276	0	-2,856	0	4,420	4420.00%
Other Revenue	62,012	131,194	---	---	62,012	131,194	111.56%
Total Revenue	14,269,463	14,442,630	563,677	583,210	14,833,140	15,025,840	1.30%
Program Expense							
Instruction	8,315,347	9,852,945	---	---	8,315,347	9,852,945	18.49%
Student Support	279,068	375,124	---	---	279,068	375,124	34.42%
Instructional Staff Services	506,052	539,766	---	---	506,052	539,766	6.66%
Administration Services	1,066,346	1,229,860	---	---	1,066,346	1,229,860	15.33%
Operation & Maint. Services	993,963	1,034,054	---	---	993,963	1,034,054	4.03%
Transportation Services	571,725	750,854	---	---	571,725	750,854	31.33%
Long Term Debt Interest	150,015	228,571	---	---	150,015	228,571	52.37%
Facilities Acquisition	29,993	0	---	---	29,993	0	-29993.00%
AEA Flow Thru	488,855	456,354	---	---	488,855	456,354	-6.65%
Non-Instructional Programs	13,435	3,276	510,856	556,110	524,291	559,386	6.69%
Depreciation (unallocated)	149,037	372,932	---	---	149,037	372,932	150.23%
Total Expenses	12,563,836	14,843,736	510,856	556,110	13,074,692	15,399,846	17.78%
Increase (decrease) net assets	1,705,627	(401,106)	52,821	27,100	1,758,448	(374,006)	-121.27%
Net Assets Beginning of Year	3,856,127	5,561,754	104,873	157,694	3,961,000	5,719,448	44.39%
Net Assets End of Year	$ 5,561,754	5,160,648 $	157,694	184,794 $	5,719,448	5,345,442	-6.54%

The following chart indicates total fiscal 2004 District revenue by percentage:



The following chart indicates total fiscal District expenses by percentage:



Financial Analysis of the District's Funds

The Decorah Community School District uses fund accounting on the modified accrual basis to ensure and demonstrate compliance with finance-related legal requirements.

The District governmental funds reported combined fund balances of $7,249,141, a $3,514,595 increase from the 2003 fiscal year end balance of $3,734,546. The primary reason for the increase in combined fund balance for fiscal 2004 was the sale of $3,800,000 in one-cent Local Option Sales & Service Tax Revenue Bonds, and the sale of $4,205,000 in 1.34 voted Physical Plant and Equipment Levy Capital Loan Notes. Revenues generated from the sale of these bonds and capital loan notes will be used for the construction of a new Middle School building.

The District's General Fund (including the Instructional Support Fund) end of year cash balance decreased $319,978 to $1,268,020 from the 2003 fiscal year end balance of $1,587,998. This decrease is due to a $150,143 reduction in state foundation aid payments and to the anticipated $111,184 decrease in income surtax dollars. The District levies a 3% income surtax within the Instructional Support fund on a total amount not to exceed $490,000 of combined revenue consisting of property tax, state aid and income surtax. In 2003, the District received an additional $111,184 in income surtax due to a one-time increase in the total income tax paid within the District. For 2004, the District is required to base its revenue budget on previous year revenues. In 2004 the amount of income taxes paid within the District returned to normal levels, thus accounting for the decrease in surtax received.

Budgeting Highlights

The District's Board of Education annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. State statute requires approval of the budget on or before April 15th of each year. The budget document presents functional disbursements by fund and the legal level of control is at the expense level by total Instruction, total Support Services, total Non-Instructional Programs, total Other Expenditures and Total Expenditures. The District amends the budget, as allowed by Iowa law, to reflect the additional revenues and expenditures that may occur during the school year.

The District amended its Support, Non-Instructional and Other Expenditures categories for the 2004 fiscal year due to increases in energy & maintenance costs, food costs, the sale of revenue and capital loan notes, and the refinancing of existing debt service bonds.

The following chart shows the original and amended budget for fiscal 2004 as well as the actual revenue and expenditures for the year:

	Budgetary Comparison Schedule			
	Original Budget	Final Amended	Actual	Variance
Revenue				
Local Sources	$ 8,527,606	$ 8,527,606	$ 9,002,460	$ 474,854
Intermediate Sources	24,100	24,100	14,141	-9,959
State Sources	5,731,061	5,731,061	5,572,025	-159,036
Federal Sources	290,000	290,000	391,439	101,439
Total Budget Revenue	$ 14,572,767	$ 14,572,767	$ 14,980,065	$ 407,298
Expenditures				
Instruction	$ 8,884,886	$ 8,884,886	$ 8,882,208	$ -2,678
Support Services	3,495,300	3,728,775	3,583,372	-145,403
Non-Instructional	523,665	530,604	516,546	-14,058
Other Expenditures	1,013,433	6,396,624	2,406,260	-3,990,364
Total Budget Expenses	$ 13,917,284	$ 19,540,889	$ 15,388,386	$ -4,152,503

The reader should note that the variance in Other Expenditures resulted from a conservative approach in budgeting the percentage of construction completed for the new Middle School on June 30, 2004, and a conservative approach to the amount of fund transfers required for payment of debt service and refinancing of existing debt.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2004 fiscal year, the District had invested $5,649,949 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, vehicles, technology (including computer equipment), media/audio visual equipment, and classroom equipment. The District had depreciation expense of $527,621 for fiscal 2004 and total accumulated depreciation of $7,769,243 as of June 30, 2004. The following chart shows the comparison in capital assets for 2003 and 2004.

	Capital Assets (net of depreciation)						
	Governmental Activities		Business-type Activities		Total		Percent
	2003	2004	2003	2004	2003	2004	Change
Land	$ 250,000	252,000	$ 0	0	$ 250,000	252,000	0.80%
Construction in Progress	93,746	961,985	0	0	93,746	961,985	926.16%
Land Improvements	189,821	173,455	0	0	189,821	173,455	-8.62%
Buildings	3,974,277	3,851,388	0	0	3,974,277	3,851,388	-3.09%
Furniture & Equipment	580,570	394,839	14,756	16,282	595,326	411,121	-30.94%
Total	$ 5,088,414	5,633,667	$ 14,756	16,282	$ 5,103,170	5,649,949	10.71%

More detailed information about capital assets is available in Note 4 to the financial statements.

Debt

As of June 30, 2004, the District had $11,414,809 in long-term debt outstanding compared to $3,747,040 on June 30, 2003. This increase is due to the sale of revenue bonds, capital loan notes, the refinancing of the District's existing general obligation bonds, and an exceptionally large number of employees enrolling in the District's early retirement program before reduced benefits within the program are implemented 2005. The following chart shows the debt comparison between 2003 and 2004.

	Long-term Debt Obligations			
	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Bonds/Capital Loan Notes				
General Obligation	2,600,000	2,235,000	2,600,000	2,235,000
Sales Tax Revenue	0	3,800,000	480,000	3,320,000
Capital Loan Notes	0	4,205,000	0	4,205,000
Total Bonds/Capital Loan Notes	$ 2,600,000	$ 10,240,000	$ 3,080,000	$ 9,760,000
Other Liabilities				
Compensated Absences	23,580	20,372	23,580	20,372
Deferred compensation	0	12,000	0	12,000
Early Retirement	623,460	1,236,851	237,874	1,622,437
Total Other Liabilities	$ 647,040	$ 1,269,223	$ 261,454	$ 1,654,809
Total Long-term Debt	$ 3,247,040	$ 11,509,223	$ 3,341,454	$ 11,414,809

More detailed information about the District's long-term debt can be found in Note 5 to the financial statements.

Current Issues

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:

- Revenue received by the State of Iowa continues to be less than original projections. For fiscal year 2005, state aid will be 59.1% of the $4,755 the District receives per student. This compares to 60.8% of the $4,662 the District received per student for 2004. Any further reduction in state aid would adversely impact the District's ability to fund program and services at current levels.

- Enrollment for 2005 decreased by 21 students from 2004. However, this is less than the anticipated decline of 48 students projected in October 2003. The number of open enrollment students from neighboring district's increased slightly, while the number of whole grade sharing students from North Winneshiek Community Schools decreased slightly from 2003. The District projects that overall enrollment will continue to decline over the next two to three years and then remain stable.

- The Iowa Legislature has approved a 4% allowable growth increase in state aid to school districts for fiscal 2006. This increase, if implemented, will slow the anticipated decline of the fund balance for the General Fund. The District has reserves to handle a short-term dip in fund balance. However, once the decline reaches a certain level the Board of Education will be faced with the challenge of reducing staff and/or programs to maintain a positive solvent position.

- The District has experienced a cumulative increase in property values of 15.14% in the last four years, including a 2.14% increase in 2004. Decorah was one of only a few districts in the state to experience an increase in assessed value due to a state mandated property tax rollback for 2004. Strong demand for homes and continued growth in new construction will increase the District's assessed valuation growth for the foreseeable future.

- Revenue received from the one-cent local option sales tax increased by $85,121 to $1,097,886 for 2004. Retail sales in Winneshiek County remain strong. The City of Decorah is currently experiencing nearly 100% occupancy downtown. This activity, coupled with the opening of a new Wal-Mart Supercenter, should increase revenue reported in 2005.

- Construction began in May of 2004 for a new Middle School. This school, for students in grades five through eight, will be a state of the art, energy and environmentally friendly facility. Completion of the school is scheduled for March 2006. Revenue bonds and capital loan notes sold in 2004, along with sales tax revenue on hand, donations from local businesses and $110,000 from the schools business activity (Nutrition Fund) will finance the construction of the new school building.

- With the completion of the new middle school the District is anticipating the need to remodel the current middle school to serve as an elementary school for third and fourth grade students. If approved by the Board of Education and citizens, the remodeled elementary school would relieve the overcrowded conditions at John Cline and West Side Elementary schools. Adequate, permanent, handicapped-accessible classroom space would then be available across the District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. If you have any questions about this report, or need additional financial information, please contact Mr. Doug Nefzger, Director of Business Services/Treasurer, Decorah Community School District, 510 Winnebago St., Decorah, Iowa 52101.

EXHIBIT A

DECORAH COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	$ 12,383,851	$ 194,983	$ 12,578,834
ISCAP	877,522		877,522
Receivables			
Property tax			
Delinquent	63,821		63,821
Succeeding year	5,522,526		5,522,526
Accounts	3,177	300	3,477
Due from other governments	194,875		194,875
Inventories		16,638	16,638
Capital assets, non-depreciable	1,213,985		1,213,985
Capital assets, net of accumulated depreciation	4,419,682	16,282	4,435,964
Total assets	$ 24,679,439	$ 228,203	$ 24,907,642
LIABILITIES			
Accounts payable	$ 421,351	$ 7,619	$ 428,970
Salaries and benefits payable	1,233,208	35,790	1,268,998
Accrued interest payable	41,897		41,897
Deferred revenue			
Succeeding year property tax	5,522,526		5,522,526
Other	-		-
ISCAP warrants payable	885,000		885,000
Long-term liabilities			
Portion due within one year			
Bonds payable	1,180,000		1,180,000
Compensated absences	20,372		20,372
Early retirement	366,119		366,119
Deferred compensation	12,000		12,000
Portion due after one year			
Bonds payable	8,580,000		8,580,000
Early retirement	1,256,318		1,256,318
Total liabilities	19,518,791	43,409	19,562,200
NET ASSETS			
Invested in capital assets, net of related debt	2,436,682	16,282	2,452,964
Restricted for			
Debt service	41,577		41,577
Capital projects	2,691,451		2,691,451
Other purposes	17,366		17,366
Unrestricted	(26,428)	168,512	142,084
Total net assets	5,160,648	184,794	5,345,442
Total liabilities and net assets	$ 24,679,439	$ 228,203	$ 24,907,642

See Notes to Financial Statements.

EXHIBIT B

DECORAH COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Functions and Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities						
Instruction						
Regular instruction	$ 5,924,422	$ 976,471	$ 432,479	$ (4,515,472)		$ (4,515,472)
Special instruction	2,664,668	1,071,219	188,731	(1,404,718)		(1,404,718)
Other instruction	1,263,855		26,789	(1,237,066)		(1,237,066)
	9,852,945	2,047,690	647,999	(7,157,256)		(7,157,256)
Support services						
Student services	375,124	571,606		196,482		196,482
Instructional staff services	539,766			(539,766)		(539,766)
Administration services	1,229,860			(1,229,860)		(1,229,860)
Operation and maintenance plant services	1,034,054	12,279		(1,021,775)		(1,021,775)
Transportation services	750,854		31,737	(719,117)		(719,117)
	3,929,658	583,885	31,737	(3,314,036)		(3,314,036)
Non-instructional	3,276	3,496		220		220
Other						
Long-term debt interest	228,571			(228,571)		(228,571)
Facilities acquisition	-		105,000	105,000		105,000
AEA flowthrough	456,354		456,354	-		-
Depreciation (unallocated)	372,932			(372,932)		(372,932)
	1,057,857		561,354	(496,503)		(496,503)
Total governmental activities	14,843,736	2,635,071	1,241,090	(10,967,575)		(10,967,575)
Business-type activities						
Non-instructional programs						
Nutrition services	556,110	410,685	173,299		$ 27,874	27,874
Total	$ 15,399,846	$ 3,045,756	$ 1,414,389	(10,967,575)	27,874	(10,939,701)
General revenues						
Property taxes levied for						
General purposes				3,567,287		3,567,287
Management				411,035		411,035
PPEL				119,703		119,703
Debt service				510,875		510,875
Local option sales tax and surtax				1,102,101		1,102,101
Unrestricted state grants				4,691,783		4,691,783
Unrestricted investment earnings				25,215	2,082	27,297
Gain or loss on the sale of capital assets				7,276	(2,856)	4,420
Other				131,194		131,194
Total general revenues				10,566,469	(774)	10,565,695
Change in net assets				(401,106)	27,100	(374,006)
Net assets, beginning of year				5,561,754	157,694	5,719,448
Net assets, end of year				$ 5,160,648	$ 184,794	$ 5,345,442

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and pooled investments						
Other	$ 2,473,793	$ 4,287,194	$ 5,249,037	$ 76,816	$ 297,011	$ 12,383,851
ISCAP	877,522					877,522
Receivables						
Property tax						
Delinquent	46,099	1,560		6,658	5,319	59,636
Succeeding year	3,858,046	627,704		467,535	569,241	5,522,526
Accounts	134	4,185			3,043	7,362
Due from other funds					575	575
Due from other governments	61,844		133,031			194,875
Total assets	$ 7,317,438	$ 4,920,643	$ 5,382,068	$ 551,009	$ 875,189	$ 19,046,347
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	$ 72,589	$ 4,000	$ 332,602		$ 12,160	$ 421,351
Salaries and benefits payable	1,233,208					1,233,208
Due to other funds	575					575
ISCAP warrants payable	885,000					885,000
Deferred revenue						
Succeeding year property tax	3,858,046	627,704		$ 467,535	569,241	5,522,526
Other	-					-
Total liabilities	6,049,418	631,704	332,602	467,535	581,401	8,062,660
Fund balances						
Reserved for						
Debt service				83,474		83,474
Other purposes	17,366					17,366
Unreserved, reported in						
General fund	1,250,654					1,250,654
Special revenue funds		4,288,939			293,788	4,582,727
Capital projects fund			5,049,466			5,049,466
Total fund balances	1,268,020	4,288,939	5,049,466	83,474	293,788	10,983,687
Total liabilities and fund balances	$ 7,317,438	$ 4,920,643	$ 5,382,068	$ 551,009	$ 875,189	$ 19,046,347

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS	
Total governmental fund balances	$ 10,983,687
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds, net of accumulated depreciation of $ 7,632,275	5,633,667
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Bonds payable	(9,760,000)
Compensated absences	(20,372)
Accrued interest	(41,897)
Early retirement	(1,622,437)
Deferred compensation	(12,000)
Net assets of governmental activities per Exhibit A	$ 5,160,648

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES						
Local sources						
Local property tax	$ 3,746,976	$ 119,703		$ 510,875	$ 411,035	$ 4,788,589
Tuition	2,051,186					2,051,186
Other	54,703	17,155	$ 1,097,886	6,344	575,169	1,751,257
Intermediate sources	12,751					12,751
State sources	5,556,980	6,341		2,737	2,256	5,568,314
Federal sources	270,532					270,532
Total revenues	11,693,128	143,199	1,097,886	519,956	988,460	14,442,629
EXPENDITURES						
Current						
Instruction						
Regular instruction	4,756,776				248,683	5,005,459
Special instruction	2,663,282					2,663,282
Other instruction	671,881				559,543	1,231,424
	8,091,939				808,226	8,900,165
Support services						
Student services	279,440				819	280,259
Instructional staff services	535,201					535,201
Administration services	1,106,146			20,821	16,603	1,143,570
Operation and maintenance plant services	935,462				91,931	1,027,393
Transportation services	603,565				33,998	637,563
	3,459,814			20,821	143,351	3,623,986
Non-instructional					3,276	3,276
Other						
Long-term debt						
Principal				3,080,000		3,080,000
Interest and fiscal charges				215,231		215,231
Facilities acquisition		177,314	993,833			1,171,147
AEA flowthrough	456,353					456,353
	456,353	177,314	993,833	3,295,231	-	4,922,731
Total expenditures	12,008,106	177,314	993,833	3,316,052	954,853	17,450,158
EXCESS OF REVENUES OVER EXPENDITURES	(314,978)	(34,115)	104,053	(2,796,096)	33,607	(3,007,529)
OTHER FINANCING SOURCES (USES)						
Transfers in				556,771	5,000	561,771
Transfers (out)	(5,000)		(556,771)			(561,771)
General obligation bonds issued		4,205,000	3,800,000	2,235,000		10,240,000
Bond discount or premium		23,803	(7,133)			16,670
	(5,000)	4,228,803	3,236,096	2,791,771	5,000	10,256,670
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	(319,978)	4,194,688	3,340,149	(4,325)	38,607	7,249,141
FUND BALANCE, beginning of year	1,587,998	94,251	1,709,317	87,799	255,181	3,734,546
FUND BALANCE, end of year	$ 1,268,020	$ 4,288,939	$ 5,049,466	$ 83,474	$ 293,788	$ 10,983,687

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES		
Net change in fund balances - total governmental funds		$ 7,249,141
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, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation	$ (623,615)	
Capital outlays	1,171,868	548,253
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 and does not affect the statement of activities.		3,080,000
Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of activities.		(10,240,000)
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, however, interest expense is recognized as the interest accrues, regardless of when it is due.		(30,731)
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 governmental funds.		
Compensated absences	3,208	
Early retirement	(998,977)	
Deferred compensation	(12,000)	(1,007,769)
Change in net assets of governmental activities per Exhibit B		$ (401,106)

See Notes to Financial Statements.

EXHIBIT E

DECORAH COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2004

	School Nutrition Fund
ASSETS	
CURRENT ASSETS	
Cash	$ 194,983
Accounts receivable	300
Due from other governments	-
Inventories	16,638
Total current assets	211,921
NONCURRENT ASSETS	
Furniture and equipment	153,250
Less accumulated depreciation	(136,968)
Total noncurrent assets	16,282
Total assets	$ 228,203
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 7,619
Salaries and benefits payable	35,790
Total liabilities	43,409
NET ASSETS	
Invested in capital assets, net of related debt	16,282
Unrestricted	168,512
Total net assets	184,794
Total liabilities and net assets	$ 228,203

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2004

	School Nutrition Fund
OPERATING REVENUES	
Local sources	
Charges for services	$ 410,685
State sources	7,126
Federal sources	166,173
Total operating income	583,984
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	252,992
Purchased services	4,247
Supplies	293,958
Depreciation	4,913
Total operating expenses	556,110
Operating income	27,874
NONOPERATING REVENUES (EXPENSES)	
Interest on investments	2,082
Loss on sale of capital assets	(2,856)
Total nonoperating revenues (expenses)	(774)
Change in net assets	27,100
Net assets beginning of year	157,694
Net assets end of year	$ 184,794

See Notes to Financial Statements.

EXHIBIT G

DECORAH COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2004

	School Nutrition Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	$ 403,920
Cash received from miscellaneous operating activities	7,961
State grants and federal grants received	134,359
Cash payments to employees for services	(175,537)
Cash payments to suppliers for goods and services	(260,989)
Other payments	(67,450)
Net cash provided by operating activities	42,264
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(6,438)
Loss on sale of capital assets	(2,856)
Net cash used in capital and related financing activities	(9,294)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	2,082
Net increase in cash and cash equivalents	35,052
CASH, beginning of year	159,931
CASH, end of year	$ 194,983
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 27,874
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	4,913
Decrease in accounts receivable	1,196
(Increase) in inventories	(1,666)
(Decrease) in accounts payable	(58)
Increase in salaries and benefits payable	10,005
Net cash provided by operating activities	$ 42,264

Non-cash, non-capital financing activities:
During the year ended June 30, 2004, the District received commodities valued at $38,940.

See Notes to Financial Statements.

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The Decorah Community School District is a political subdivision of the State of Iowa. The District's primary purpose is to provide education from grades kindergarten through twelve, including special education and pre-kindergarten. It is supported financially by local property taxes, state aid and state and federal grants for special projects. The District is governed by a five-member Board of Education whose members are elected on a non-partisan basis. The District has taxing authority and fund raising capabilities of its own. Final approval of the District's annual program and budget plans rests with the local Board of Education.

b. Significant Accounting Policies

Scope of Reporting Entity

For financial reporting purposes, Decorah 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; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature or significance of their relationship with the District should be included in the financial statements as component units. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Venture

The District participates in a jointly governed organization that provides services to the District and meets the criteria of a joint venture since there is ongoing financial interest or responsibility by the participating governments. The District is a member of the Northeast Iowa Conference Schools 28E Retention Pool Trust.

Jointly Governed Organizations

The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Winneshiek County Assessor's Conference Board.

District-wide Financial Statements

The statement of net assets and the statement of activities report information on all non-fiduciary activities of the District. 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. For the most part, the effect of interfund activity has been removed from these statements.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

District-wide Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are 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. Major individual governmental funds are reported as separate columns in the fund financial statements. The general fund, the physical plant and equipment levy special revenue fund, the capital projects fund, and the debt service fund are the major governmental funds for the District. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The funds of the financial reporting entity are described below:

Governmental

General Fund

The general fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Physical Plant and Equipment Levy Special Revenue Fund

The physical plant and equipment levy special revenue fund is used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Capital Projects Fund

The capital projects fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Debt Service Fund

The debt service fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

Proprietary Fund

Enterprise Fund

The District's proprietary fund is the enterprise, school nutrition fund. This fund is used to account for the food service operations of the District.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

On the District-wide statement of net assets and the statement of activities, both governmental and business-type activities are presented using the "economic resources" measurement focus as defined below in item b.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available spendable resources." Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

b. The proprietary funds are accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their balance sheets. In reporting the financial activity on the proprietary fund statements, the District applies all applicable GASB pronouncements. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District-wide and proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred. Property tax is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the District-wide statements and the statements for governmental funds.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's school nutrition fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used 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. Expenditures are recorded when the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

Revenues susceptible to accrual under the modified accrual basis of accounting are property tax, intergovernmental revenue (shared revenues, grants and reimbursements from other governments) and interest revenue. Revenues from miscellaneous sources are generally recognized when they are received in cash as they are generally not measurable until actually received (tuition, fees and sale of services).

The District maintains its financial records on the modified cash basis (also referred to as cash basis or cash transactions). The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

Assets, Liabilities and Equity

The following accounting policies are followed in preparing the combined balance sheet:

Cash and Investments

The District maintains one primary demand deposit account for each fund through which the cash resources are processed. All investment activity is carried on by the District in each individual fund. Investments are stated at fair value, except for non-negotiable certificates of deposits, which are stated at cost.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Property Tax Receivable

Property taxes in the governmental fund are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be 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 1 1/2% 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 stated at cost using the first-in, first-out method for purchased items and contributed value for governmental commodities. The costs of inventory items are expenses in the proprietary fund type when used.

Capital Assets

Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary fund are capitalized in the fund in which they are utilized. 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 $2,000 for governmental funds and $500 for the school nutrition-proprietary fund.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Capital Assets (Continued)

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

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable

Payroll and related expenditures or expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Also, wages for hourly employees earned in June and paid in July have been accrued as liabilities. The rate in effect at June 30, 2004 was used to calculate the salaries payable.

Deferred Revenue

In the fund financial statements certain revenues are measurable, they are not available. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable, as well as delinquent property tax receivable 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 and unspent grant proceeds.

Long-term Obligation

In the District-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. Early retirement liability has been paid primarily by the non-major governmental management fund.

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. In addition, employees are allowed to take early retirement if they meet certain qualifications set by the Board of Education. In accordance with Interpretation No. 6 of the GASB-Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, a liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities has been paid primarily by the general fund.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Encumbrances

The District does not utilize the encumbrance system but uses purchase orders to keep record of obligations. The District has not summarized its outstanding purchase orders and, accordingly, that portion of the fund balance representing outstanding encumbrances has not been restricted.

Fund Balance

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. Reserved fund balances are used first when expenditure is incurred for purposes for both reserved and unreserved fund balances.

Net Assets

Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consists of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets are used first when an expense is incurred for purposes for both restricted and unrestricted net assets.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. Deposits and Investments

The District's deposits in banks at June 30, 2004 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 not currently needed for operating expenses 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; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

2. Deposits and Investments (Continued)

The District had securities in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of $19,442 pursuant to Rule 2a-7 under the Investment Company Act of 1940. GASB Statement Number 3 requires securities to be categorized to give an indication of the level of risk assumed by the District at year end. The District's securities, in the Iowa Schools Joint Investment Trust are not subject to risk categorization.

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2004:

Governmental	
General fund	
Non-public transportation	$ 16,533
Title I	27,044
State of Iowa - JCS	4,669
Other	13,598
	61,844
Capital projects	
Local option sales tax	133,031
	$ 194,875

4. Capital Assets

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

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities				
Land	$ 250,000	$ 2,000		$ 252,000
Construction in progress	93,746	961,985	$ 93,746	961,985
Total capital assets not being depreciated	343,746	963,985	93,746	1,213,985
Capital assets being depreciated				
Land improvements	472,095			472,095
Buildings	8,971,724	98,680	75,421	8,994,983
Furniture and equipment	2,386,652	202,949	4,722	2,584,879
Total capital assets being depreciated	11,830,471	301,629	80,143	12,051,957
Less accumulated depreciation for				
Land improvements	282,274	16,366		298,640
Buildings	5,000,447	218,569	75,421	5,143,595
Furniture and equipment	1,806,082	388,680	4,722	2,190,040
Total accumulated depreciation	7,088,803	623,615	80,143	7,632,275
Governmental activities Capital assets, net	$5,085,414	$ 641,999	$ (93,746)	$5,633,667
Business-type activities				
Furniture and equipment	$ 167,575	$ 10,307	$ 24,632	$ 153,250
Less accumulated depreciation	152,819	4,913	20,764	136,968
Business-type activities Capital assets, net	$ 14,756	$ 5,394	$ 3,868	$ 16,282

4. Capital Assets (Continued)

Depreciation expense was charged to the governmental functions of the District as follows:

Governmental activities	
Instruction	
Regular	$ 82,356
Special	1,386
Other	32,431
Support services	
Instructional staff	4,565
Administration	3,861
Operation and maintenance of plant	10,303
Transportation	115,781
Unallocated depreciation	372,932
	$ 623,615
Business-type activities	
Food services	$ 4,913

5. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	$2,600,000		$2,600,000	$ None	$ None
General obligation	None	$ 2,235,000	None	2,235,000	435,000
Tax revenue bonds	None	3,800,000	480,000	3,320,000	470,000
Capital loan notes	None	4,205,000	None	4,205,000	275,000
Total bonds	2,600,000	10,240,000	3,080,000	9,760,000	1,180,000
Other liabilities					
Compensated absences	23,580	20,372	23,580	20,372	20,372
Deferred compensation	None	12,000	None	12,000	12,000
Early retirement	623,460	1,236,851	237,874	1,622,437	366,119
Total other liabilities	647,040	1,269,223	261,454	1,654,809	398,491
Governmental activities Long-term liabilities	$3,247,040	$11,509,223	$3,341,454	$11,414,809	$1,578,491

a. Early Retirement

The District offers a voluntary early retirement plan to its staff and certified employees. Eligible employees must be of least age fifty-five, employees must have completed fifteen years of cumulative service to the District, and the sum of the person's age and the total number of years of public school employment must equal at least 80 years. Employees must complete an application, which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee ages 55 through 62 is 70% of the employee's current regular salary schedule. The District is obligated to pay a portion of health insurance until the employee reaches the age 65. Early retirement benefits paid during the year ended June 30, 2004 totaled $237,874.

5. Long-term Debt Obligations (Continued)

b. Bonded Indebtedness

$2,235,000 2004 General Obligation School Refunding Serial Bonds, due annually in varying installments June 1, 2005 through June 1, 2009 plus interest semi-annually with interest rates of the bonds varying from 1.25% to 2.4%.

$3,320,000 2004 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due annually beginning on June 1, 2005 through June 1, 2011 plus interest semi-annually with interest rates of the bonds varying from 1.75% to 3.75%.

$4,205,000 2004B General Obligation School Capital Loan Notes, due annually in varying installments June 1, 2005 through June 1, 2014 plus interest semi-annually with interest rates of the bonds varying from 2.25% to 3.2%. Bonds maturing after June 1, 2009 are callable June 1, 2009 or at any date thereafter upon terms of par plus accrued interest to date of call.

On February 26, 2004, the District approved the issuance and sale of $2,235,000 General Obligation School Refunding Bonds to mature June 1, 2005 through 2009. The net proceeds of these bonds will be utilized to retire $2,210,000 of existing debt. The bonds affected are as follows:

$2,210,000 1994 General Obligation Bonds
due June 1, 2005 through June 1, 2009.

As a result of the refinancing, the District reduced its total debt service requirements by $190,605 (present value $180,046). The bonds which will be called are listed as maturing at the call date.

Interest costs incurred and charged to expenses was $228,571 for the year ended June 30, 2004.

A summary of the bond principal and interest maturities is as follows:

	Governmental Activities			
Year ending	Tax Revenue Bonds		General Obligation Bonds	
June 30,	Principal	Interest	Principal	Interest
2005	$ 470,000	$ 96,028	$ 435,000	$ 47,235
2006	470,000	87,802	450,000	35,050
2007	470,000	77,698	455,000	28,750
2008	470,000	65,242	460,000	20,560
2009	475,000	51,142	435,000	10,440
2010-2014	965,000	53,655		
Total	$3,320,000	$ 431,567	$ 2,235,000	$ 142,035

5. Long-term Debt Obligations (Continued)

b. Bonded Indebtedness (Continued)

Year ending June 30,	Governmental Activities Capital Notes Principal	Interest
2005	$ 275,000	$ 130,713
2006	395,000	105,853
2007	405,000	96,965
2008	415,000	87,852
2009	425,000	77,478
2010-2014	2,290,000	212,180
Total	$4,205,000	$ 711,041

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. These bonds are not a general obligation of the District.

At June 30, 2004, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	$365,158,552
Debt limit - 5% of total assessed valuation	$ 18,257,928
Debt applicable to debt limit	
Capital loan notes	(4,205,000)
General obligation bonded debt outstanding	(2,235,000)
Legal debt margin	$ 11,817,928

6. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools 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 semi-annual 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 semi-annual 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. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Warrants Payable
2004-05A	6/30/04	6/30/05	$ 877,522	$ 885,000

6. Iowa School Cash Anticipation Program (ISCAP) (Continued)

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.

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.00%	2.603%

7. Due to/from Other Funds

As of June 30, 2004, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General fund		$ 575
Nonmajor governmental	$ 575	

The general fund is repaying the management levy fund for health insurance premiums that were recorded incorrectly in the prior year. The balance will be repaid by June 30, 2005.

8. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

	Transfers In	Transfers Out
General fund		$ 5,000
Capital projects fund		556,771
Debt service fund	$ 556,771	
Nonmajor governmental	5,000	
	$ 561,771	$ 561,771

Transfer from the capital projects fund to the debt service fund was to move resources from bond issuance to help pay bond expenses. Transfer from the general fund to student activity fund was to help pay for expenses incurred during the year.

9. Net Assets

The amounts restricted for other purposes at June 30, 2004 are as follows:

General fund	
School improvement technology	$ 13,025
Iowa early intervention block grant	4,341
	$ 17,366

10. Leases

The District has entered into a rental agreement with Bruening Rock Products, Inc. for the present bus garage facility. The agreement is for three years and requires monthly payments until June 2007.

Also, the District has extended their lease agreement with Design Homes, Inc. for six portable classrooms, for two more years at the amount of $72,462 annually. If needed, each portable can subsequently be rented for $12,077 per building per year.

Future minimum lease payments under the lease agreements are as follows:

Year ended June 30,	2005	$ 104,022
	2006	104,802
	2007	35,400
		$ 244,224

Total lease expense for the year ended June 30, 2004 was $102,462.

11. 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. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were $455,313, $432,091, and $428,618, respectively, equal to the required contributions for each year.

12. Employee Insurance Plan

The District participates in the Northeast Iowa Conference Schools 28E Retention Pool Trust to provide a medical, dental, life, disability, and welfare plan for its employees and their families. The Trust was formed by the District and eight other districts to create a pool to pay insurance costs. The agreement was effective September 1, 1988 and will continue in force until terminated by mutual agreement of the governing board. The Trust is administered by Group Benefits Consultants, Inc.

Monthly payments of service fees and plan contributions are recorded as expenditures in the general fund at the time of payment to the trust account maintained by Group Benefits Consultants, Inc. The Trust liability is limited to $80,000 per individual annually with a $2,000,000 per individual maximum. Payments from participating members are the sole source for paying claims and establishing reserves for the Trust self-funded programs. Stop loss insurance is purchased by the Trust to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. The District may be contingently liable for any claims in excess of funds available at June 30, 2004, since the pool arrangement allows the Trust to make additional assessments to members. The District's share of the Trust's liability for any unreported claim or assessment at June 30, 2004 was unavailable as of September 2, 2004. The District contributed $1,060,758 for the year ended June 30, 2004.

12. Employee Insurance Plan (Continued)

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 reasonably 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. Audited financial statements of Northeast Iowa Conference Schools 28E Retention Pool Trust are available at the Decorah Community School District's office located at 510 Winnebago Street, Decorah, IA 52101.

13. Risk Management

Decorah 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.

14. 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 $456,354 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.

15. Flexible Fringe Benefit Plan

The District sponsors a flexible fringe benefit plan as a part of its contractual obligation with its employees. The benefit available under the plan is insurance. Each participating employee can choose among medical, life and dental insurance. The District contributes per month $441 for full time teachers, $417 other full time staff, and $1,045 for administration staff. The difference between the District's contribution and the amount of programs selected by the employee is added or subtracted from the employee's salary. There were 201 participants in the plan for the year ended June 30, 2004.

16. Contingencies

a. Grant Funding

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2004 significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

b. Insurance Plan

As discussed in Note 12, the District is contingently liable for any unreported claim or assessment in excess of their balance in the insurance pool.

16. Contingencies (Continued)

c. East Side School

The District has been contacted by the State Fire Marshal regarding the East Side School. The Fire Marshal has determined that the structure does not meet fire code regulations. The District is using portable classrooms until the construction of a new middle school is completed (see Note 10).

17. Commitments

The District has entered into a service contract agreement with ComNet Internet Technology for internet and technology services. The agreement is for five years and requires a monthly payment of $3,825, totaling $45,900 annually. The contract terminates in the year 2005.

At June 30, 2004, the District has committed to the purchase of land totaling $45,100.

At June 30, 2004, the District has committed to the purchase of equipment totaling $48,833.

At June 30, 2004, the District has entered into a contract with Hacker, Nelson, & Co. P.C. for the 2004 audit totaling $18,400.

The District has entered into contracts for the construction of a new middle school with a remaining commitment of $9,377,351. Of these commitments, $None will be funded by state and federal grants.

The District has entered into deferred compensation package with Superintendent Steve Chambliss in which the Superintendent has an approximate $12,000 incentive to stay with the District until June 30, 2005.

The District has $172,354 in outstanding purchase orders as of June 30, 2004 for various supplies.

18. Related Party Transaction

During the year ended June 30, 2004, the District entered into a business transaction with a District official, Board member Mark Donhowe. The transaction consisted of insurance policies with total payments to A & J Petersburg Insurance Agency of $153,694. Mr. Donhowe is a principal of A & J Petersburg Insurance Agency.

19. Subsequent Event

The District entered into a contract with Bruening Rock Products for additional fill in the amount of $175,290 for the new middle school construction.

DECORAH COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
For the Year Ended June 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budget Amounts Original	Budget Amounts Final	Final to Actual Variance-Positive (Negative)
RECEIPTS						
Local sources	$ 8,588,497	$ 413,963	$ 9,002,460	$ 8,527,606	$ 8,527,606	$ 474,854
Intermediate sources	14,141		14,141	24,100	24,100	(9,959)
State sources	5,564,899	7,126	5,572,025	5,731,061	5,731,061	(159,036)
Federal sources	264,206	127,233	391,439	290,000	290,000	101,439
Total receipts	14,431,743	548,322	14,980,065	14,572,767	14,572,767	407,298
DISBURSEMENTS						
Instruction	8,882,208		8,882,208	8,884,886	8,884,886	(2,678)
Support services	3,583,372		3,583,372	3,495,300	3,728,775	(145,403)
Non-instructional	3,276	513,270	516,546	523,665	530,604	(14,058)
Other	2,406,260		2,406,260	1,013,433	6,396,624	(3,990,364)
Total disbursements	14,875,116	513,270	15,388,386	13,917,284	19,540,889	(4,152,503)
EXCESS OF RECEIPTS OVER DISBURSEMENTS	(443,373)	35,052	(408,321)	655,483	(4,968,122)	4,559,801
OTHER FINANCING SOURCES, NET	8,071,770	-	8,071,770	-	-	8,071,770
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	7,628,397	35,052	7,663,449	655,483	(4,968,122)	12,631,571
FUND BALANCE, beginning of year	4,755,454	159,931	4,915,385	4,712,531	4,712,531	202,854
FUND BALANCE, end of year	$ 12,383,851	$ 194,983	$ 12,578,834	$ 5,368,014	$ (255,591)	$ 12,834,425

See Notes to Required Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

For the Year Ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	$ 14,431,743	$ 10,886	$ 14,442,629
Expenditures	14,875,116	2,575,042	17,450,158
Net	(443,373)	(2,564,156)	(3,007,529)
Other financing sources, net	8,071,770	2,184,900	10,256,670
Beginning fund balance	4,755,454	(1,020,908)	3,734,546
Ending fund balances	$ 12,383,851	$ (1,400,164)	$ 10,983,687

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	$ 548,322	$ 37,744	$ 586,066
Expenses	513,270	45,696	558,966
Net	35,052	(7,952)	27,100
Beginning net assets	159,931	(2,237)	157,694
Ending net assets	$ 194,983	$ (10,189)	$ 184,794

See Notes to Required Supplementary Information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
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. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. The budget was amended on May 10, 2004 and June 12, 2004. The amendment on June 12, 2004 was without any appeals. 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 functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the general fund may not exceed the amount authorized by the school finance formula.

HACKER, NELSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
and BUSINESS CONSULTANTS

123 WEST WATER STREET
P.O. BOX 507
DECORAH, IOWA 52101
TELEPHONE 563 382-3637
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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Education
Decorah Community School District
Decorah, Iowa

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Decorah Community School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements of Decorah Community School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we express no opinion on them.

We have previously audited, in accordance with U.S. generally accepted auditing standards, the basic financial statements of Decorah Community School District as of and for the year ending June 30, 2003, (none of which is presented herein). We expressed an unqualified opinion on the 2003 basic financial statements. We have previously audited, in accordance with U.S. generally accepted auditing standards, the general purpose financial statements of Decorah Community School District as of and for the years ending June 30, 2002 and 2001, (none of which is presented herein). We expressed unqualified opinions on the 2002 and 2001, general purpose financial statements. In our opinion, the information set forth in the required supplementary information for each of the four years in the period ended June 30, 2004, appearing on page 36, is fairly stated, in all material respects in relation to the basic and general purpose financial statements from which it has been derived.

Hacker, Nelson + Co., P.C.

Decorah, Iowa
September 2, 2004

SCHEDULE 1

DECORAH COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	Management Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS			
Cash and pooled investments	$ 126,550	$ 170,461	$ 297,011
Receivables			
Property tax			
Delinquent	5,319		5,319
Succeeding year	569,241		569,241
Accounts		3,043	3,043
Due from other funds	575		575
Total assets	$ 701,685	$ 173,504	$ 875,189
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 4,816	$ 7,344	$ 12,160
Deferred revenue			
Succeeding year property tax	569,241		569,241
Total liabilities	574,057	7,344	581,401
Fund balances			
Unreserved	127,628	166,160	293,788
Total liabilities and fund balances	$ 701,685	$ 173,504	$ 875,189

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2004

	Management Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES			
Local sources			
Local property tax	$ 411,035		$ 411,035
Other	799	$ 574,370	575,169
State sources	2,256		2,256
Total revenues	414,090	574,370	988,460
EXPENDITURES			
Current			
Instruction			
Regular instruction	248,683		248,683
Other instruction		559,543	559,543
Support services			
Student services	819		819
Administration services	16,603		16,603
Operation and maintenance plant services	91,931		91,931
Transportation services	33,998		33,998
Non-instructional	3,276		3,276
Other			
Facilities acquisition	-	-	-
Total expenditures	395,310	559,543	954,853
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18,780	14,827	33,607
OTHER FINANCING SOURCES			
Transfers in	-	5,000	5,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	18,780	19,827	38,607
FUND BALANCE, beginning of year	108,848	146,333	255,181
FUND BALANCE, end of year	$ 127,628	$ 166,160	$ 293,788

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2004

	Balance June 30, 2003	Revenues and Transfer In	Expenditures	Balance June 30, 2004
Permanent Transfer - General Fund		$ 5,000		$ 5,000
High School Student Council	$ 3,534		$ 540	2,994
High School Athletic General	4,445	11,480	14,624	1,301
High School Football	10,097	24,095	19,738	14,454
High School Basketball	7,271	20,759	6,593	21,437
High School Wrestling	5,471	11,202	13,599	3,074
High School Baseball	(5,124)	14,431	16,384	(7,077)
High School Golf	-	4,046	4,778	(732)
High School Track	286	12,011	14,172	(1,875)
High School Softball	(3,409)	11,442	10,370	(2,337)
High School Volleyball	2,040	10,567	9,923	2,684
High School Tennis	(34)	3,887	4,840	(987)
High School Cross Country	-	1,363	1,506	(143)
High School St. Planner	1,609	-	5,850	(4,241)
High School Community Club	49	839	838	50
High School Swimming	-	9,740	8,041	1,699
High School Choir	-	100		100
SADD Chapter	200			200
"D" Club	2,523	690	58	3,155
Art Club	2,176	2,397	2,198	2,375
Culture Club	167	603	667	103
Science Club	1,556	1,773	1,452	1,877
Future Farmers of America	5,678	43,255	40,261	8,672
Horticulture Club	137			137
Office Education	423			423
DECA	3,967	28,221	28,709	3,479
IMC Club	980	306	552	734
Student Assistance	-	500	-	500
High School Music	(11,592)	6,903	7,729	(12,418)
High School Instrumental Music	(80)	41,906	41,886	(60)
High School Talent Showcase	1,568			1,568
High School Yearbook	9,923	10,920	4,740	16,103
High School Speech	(4,121)	6,634	7,429	(4,916)
High School Dramatics	9,714	11,652	12,688	8,678
High School Orchestra	(208)		202	(410)
High School Madrigal	3,409	2,271	1,232	4,448
Sub-totals	52,655	298,993	281,599	70,049

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2004

	Balance June 30, 2003	Revenues and Transfer In	Expenditures	Balance June 30, 2004
Sub-totals	$ 52,655	$ 298,993	$ 281,599	$ 70,049
High School Fire Squad	6,686	9,521	12,053	4,154
High School Cheerleading	300	11,843	12,949	(806)
High School Newspaper	227		-	227
Class 2002	151		-	151
Class 2003	1	-	-	1
Class 2004	3,196	3,454	7,642	(992)
Class 2005	1,275	3,217	3,096	1,396
Class 2006	712	11	53	670
Class 2007		10	14	(4)
High School General	1,689	137,408	116,362	22,735
Middle School Athletic General	-	165	-	165
Middle School Football	(947)	3,662	3,557	(842)
Middle School Basketball	5,490	10,339	15,345	484
Middle School Wrestling	-	195	420	(225)
Middle School Track	-	217	1,455	(1,238)
Middle School Volleyball	-	804	1,676	(872)
Middle School Music	(280)	2,447	2,642	(475)
Middle School Soccer	4,948	12,122	20,166	(3,096)
Middle School Library Club	837			837
Middle School Outdoor Ed	-	4,015	4,830	(815)
Middle School East Side Use	125			125
Middle School Yearbook	2,467	513	3,506	(526)
Scholarships	4,025	4,500	4,020	4,505
Middle School General	846	297	1,742	(599)
Middle School Fund Raising	47,207	41,859	30,122	58,944
Middle School Student Council	218	1,271	1,283	206
Middle School Cheerleading	713	224	186	751
Sesquicentennial	40			40
Elementary Fund Raising	12,038	22,363	29,827	4,574
Investments	1	2,765		2,766
Vocational Ag	418			418
Vocational	967	654		1,621
A/P Exam Testing	227	4,257	3,917	567
DHS Wall Of Fame	-	2,244	1,081	1,163
W/S Elementary General	101			101
	$ 146,333	$ 579,370	$ 559,543	$ 166,160

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
For the Years Ended June 30,

	Modified Accrual			
	2004	2003	2002	2001
REVENUES				
Local sources				
Local tax	$ 4,788,589	$ 4,900,023	$ 4,432,154	$ 4,258,134
Tuition	2,051,186	1,687,516	1,245,782	1,132,002
Other	1,751,257	1,610,618	1,506,452	939,193
Intermediate sources	12,751	21,228	33,456	24,720
State sources	5,568,314	5,846,787	5,952,955	6,166,160
Federal sources	270,532	203,291	197,484	226,482
Total revenues	$ 14,442,629	$ 14,269,463	$ 13,368,283	$ 12,746,691
EXPENDITURES				
Current				
Instruction				
Regular instruction	$ 5,005,459	$ 4,803,271	$ 4,986,481	$ 4,743,346
Special instruction	2,663,282	2,434,213	2,192,148	1,963,032
Other instruction	1,231,424	1,163,182	1,114,324	1,196,057
Support services				
Student services	280,259	283,963	293,855	382,416
Instructional staff services	535,201	504,252	514,771	394,479
Administration services	1,143,570	1,085,423	1,155,573	1,108,851
Operation and maintenance plant services	1,027,393	994,361	939,685	1,062,549
Transportation services	637,563	575,931	540,571	533,614
Central support			10,597	37,752
Non-instructional	3,276	13,435		
Other				
Facilities acquisition	1,171,147	66,739	106,864	111,114
Long-term debt				
Principal	3,080,000	365,000	325,000	300,000
Interest and fiscal charges	215,231	151,444	166,558	180,356
AEA flowthrough	456,353	488,855	492,118	509,981
Total expenditures	$ 17,450,158	$ 12,930,069	$ 12,838,545	$ 12,523,547

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
Indirect			
Department of Agriculture			
Passed Through Iowa Department of Education			
School Breakfast Program	10.553	FY04	$ 13,092
National School Lunch Program	10.555	FY04	114,141
Food Distribution Program (non-cash)	10.550	FY04	44,150
Total Department of Agriculture			171,383
Department of Education			
Passed Through Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	1638-G-04	108,175
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY04	5,775
Eisenhower Regional Mathematics and Science Education Consortia	84.319	FY04	481
Tech-Prep Education	84.243A	FY04	14,565
Innovative Education Program Strategies (Title V Program)	84.298	FY04	18,342
Innovative Education Program Strategies (Title V Program)	84.298	FY04	18,766
Title IIA - Federal Teacher Quality Program	84.367	FY04	50,791
Special Education - Grants to States	84.027	FY04	56,478
Total Department of Education			273,373
			$ 444,756

See Independent Auditor's Report on the Schedule of Federal Awards.

HACKER, NELSON & CO., P.C.
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Decorah Community School District
Decorah, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Decorah Community School District as of and for the year ended June 30, 2004, which collectively comprise Decorah Community School District's basic financial statements and have issued our report thereon dated September 2, 2004. 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 Decorah Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Decorah 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to management of Decorah Community School District in a separate letter dated September 2, 2004.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 2, 2004

HACKER, NELSON & CO., P.C.
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and BUSINESS CONSULTANTS

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MANAGEMENT LETTER

To the Board of Education
Decorah Community School District
Decorah, Iowa

In planning and performing our audit of the financial statements of the Decorah Community School District for the year ended June 30, 2004, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 - 10 below are compliance comments required by the Iowa Auditor of State. A separate report dated September 2, 2004 contains our report on reportable conditions in the District's internal control. This letter does not affect our report dated September 2, 2004, on the financial statements of the Decorah Community School District. Comment numbers 5 and 11 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions.

1. Official Depositories

   A resolution naming official depository banks has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

2. Certified Budget

   We noted that the budget was exceeded for the capital projects fund prior to being amended.

   Recommendation

   The certified 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 and Corrective Action

   The District will amend the budget prior to disbursements exceeding the budget.

   Conclusion

   Response accepted.

3. Questionable Disbursements

   We noted no disbursements that may not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

4. Travel Expense

No expenditures of District money for travel expenses of spouses of District officials and/or employees were noted. No travel advances to District officials or employees were noted.

5. Business Transactions

During the year ended June 30, 2004, the District entered into a business transaction with a District official. Details are as follows:

Name, Title and Business Connection: Mark Donhowe, Board Member, Principal of A & J Petersburg Insurance Agency.

Transaction Description: Insurance policies.

Amount: $153,694

The School District participates in the Iowa Association of School Boards Safety Group Insurance Program. This is a state wide group in which substantially all school districts participate. The advantage of this group is that the insurance cost and the coverage is negotiated by the group's managing agent. The commission received by the local insurance agency who services the account is set by the safety group. Chapter 279.7A of the Code of Iowa states that a transaction with a board member needs to meet certain requirements. The School District's legal counsel advises the above participation falls within the exception requirements of Chapter 279.7A of the Code of Iowa.

6. 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.

7. Board Minutes

We noted no transactions requiring Board approval, which had not been, approved by the Board. We also noted no minutes and bills that had not been published as required.

8. Certified Enrollment

We noted no variances in the basic enrollment data certified to the Department of Education.

9. Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

10. Certified Annual Report

The Certified Annual Report (CAR) was timely filed with the Department of Education and we noted no material deficiencies in the amounts reported effecting spending authority.

11. Student Activity Funds

As of June 30, 2004, several individual student activity accounts have negative account balances. Some of these accounts historically have had operating deficits.

Recommendation

We recommend that a plan be established to eliminate the deficit accounts including but not limited to the reallocation of funds among the accounts.

11. Student Activity Funds (Continued)

Response and Corrective Action Planned

We are in the process of developing plans to eliminate the student activity account deficits.

Conclusion

Response accepted.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
September 2, 2004