

**DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA**

FINANCIAL REPORT

JUNE 30, 2006

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DECORAH COMMUNITY SCHOOL DISTRICT

BOARD OF EDUCATION AND SCHOOL OFFICIALS

Name	Title	Address	Term Expires
<u>Board of Education</u> (After September 2005 Election)			
Ramona Nelson	President	Decorah, Iowa	September 2008
Melanie Tietz	Vice-President	Decorah, Iowa	September 2008
Mark Donhowe	Member	Decorah, Iowa	September 2006
O. Dean Orwoll	Member	Decorah, Iowa	September 2006
David Ranum	Member	Decorah, Iowa	September 2007

<u>Board of Education</u> (Before September 2005 Election)			
Ramona Nelson	President	Decorah, Iowa	September 2005
Mark Donhowe	Vice-President	Decorah, Iowa	September 2006
Melanie Tietz	Member	Decorah, Iowa	September 2005
O. Dean Orwoll	Member	Decorah, Iowa	September 2006
David Ranum	Member	Decorah, Iowa	September 2007

School Officials

Steven Chambliss – Superintendent
Doug Nefzger – Director of Business Services/Treasurer
Carol Thunberg – Board Secretary

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

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9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

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, 2006, 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 the Decorah Community School District as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows 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 August 31, 2006, 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 4 and pages 31 through 33, 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
August 31, 2006

**DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA**

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2006**

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, 2006.

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 2005-06 fiscal year include the following:

In total, net assets increased by \$2,057,137 or 25.6% from fiscal 2004-05. Net assets in governmental activities increased \$2,096,385, which represented a 26.6% increase from fiscal year 2005. Increases in property taxes, student tuition from neighboring school districts, increases in State of Iowa categorical funding, and donations for the Middle School and Carrie Lee Elementary School construction projects made up the majority of the increase. Net assets in the business-type activity, which represents the District's food service operations, decreased \$39,248, which represented a 28.2% decrease from fiscal year 2005. Increases in operational costs are the primary reasons for the decrease.

General Fund revenues (which include the Instructional Support fund) accounted for \$12,775,491 in revenue or 74.0% of all revenues. General Fund expenses (which include the Instructional Support fund) accounted for \$13,079,649 in expenditures or 62.5% 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 all the funds used by the District to provide programs and activities, the report strives to show how the District performed financially during the 2006 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 expenses 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 2006 are the General Fund and Capital Project 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

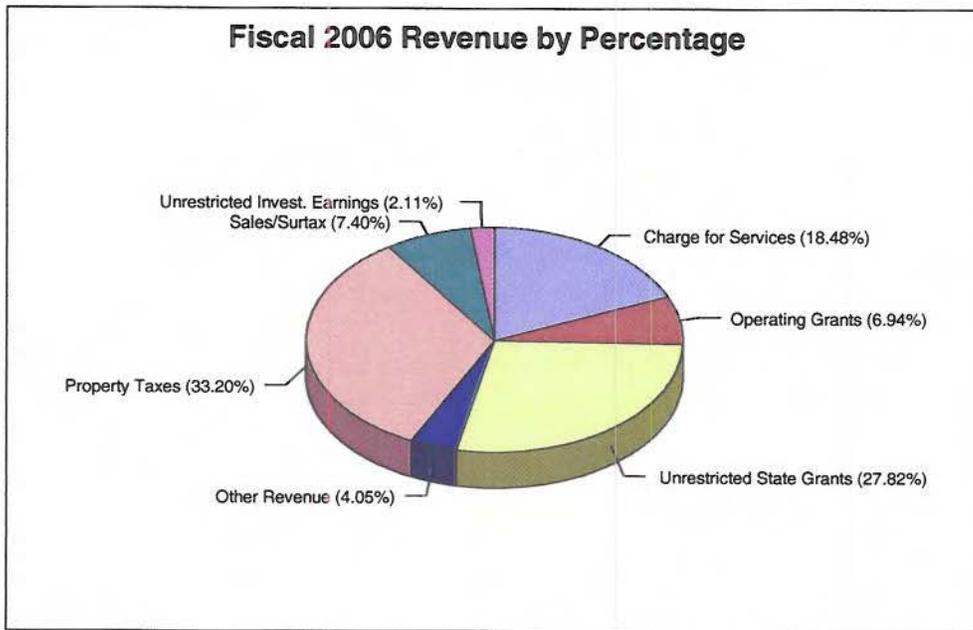
The following is a summary of the statement of net assets of the District as a whole. The Decorah Community School District's net assets at the end of fiscal year 2006 totaled \$10,079,856, up 25.64% from the previous fiscal year.

	Condensed Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2005	2006	2005	2006	2005	2006	
Current & Other Assets	\$ 18,065,112	15,713,362	\$ 111,449	103,069	\$ 18,176,561	15,816,431	-12.98%
Capital Assets	12,871,343	17,105,489	71,378	69,311	12,942,721	17,174,800	32.70%
Total Assets	30,936,455	32,818,851	182,827	172,380	31,119,282	32,991,231	6.02%
Long-term Obligations	12,653,622	11,143,934	---	---	12,653,622	11,143,934	-11.93%
Other Liabilities	10,399,464	11,695,163	43,477	72,278	10,442,941	11,767,441	12.68%
Total Liabilities	23,053,086	22,839,097	43,477	72,278	23,096,563	22,911,375	-0.80%
Net Assets							
Invested in Capital Assets -							
Net of Related Debt	3,401,666	8,106,015	71,378	69,311	3,473,044	8,175,326	135.39%
Restricted	3,078,784	1,520,159	---	---	3,078,784	1,520,159	-50.62%
Unrestricted	1,402,919	353,580	67,972	30,791	1,470,891	384,371	-73.87%
Total Net Assets	\$ 7,883,369	9,979,754	\$ 139,350	100,102	\$ 8,022,719	10,079,856	25.64%

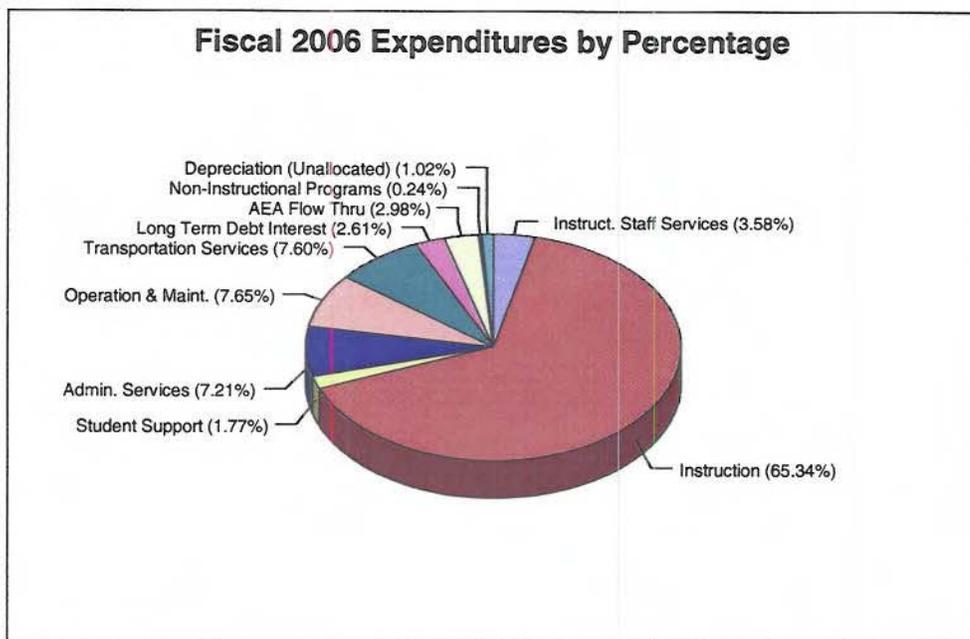
The following analysis shows the change in net assets for the year ending June 30, 2006

	Change in Net Assets							
	Governmental		Business-type		Total		Percent	
	Activities		Activities					
	2005	2006	2004	2005	2005	2006	Change	
Revenue								
Program Revenue								
Charge for Services	\$ 2,710,498	3,193,605	\$ 414,589	478,586	\$ 3,125,087	3,672,191	17.51%	
Operating Grants	1,249,063	1,199,019	183,435	204,427	1,432,498	1,403,446	-2.03%	
General Revenue								
Property Taxes	5,514,530	5,736,697	---	---	5,514,530	5,736,697	4.03%	
Sales and Income Surtax	1,249,125	1,279,668	---	---	1,249,125	1,279,668	2.45%	
Unrestricted State Grants	4,607,404	4,807,082	---	---	4,607,404	4,807,082	4.33%	
Unrestricted Invest. Earnings	258,877	363,976	2,117	1,520	260,994	365,496	40.04%	
Gain/Loss Sale Cap. Assets	0	0	0	0	0	0	0.00%	
Other Revenue	12,899	699,412	---	---	12,899	699,412	5322.22%	
Total Revenue	15,602,396	17,279,459	600,141	684,533	16,202,537	17,963,992	10.87%	
Program Expense								
Instruction	8,512,228	9,920,551	---	---	8,512,228	9,920,551	16.54%	
Student Support	262,269	268,167	---	---	262,269	268,167	2.25%	
Instructional Staff Services	528,002	543,333	---	---	528,002	543,333	2.90%	
Administration Services	995,812	1,095,183	---	---	995,812	1,095,183	9.98%	
Operation & Maint. Services	1,022,900	1,162,410	---	---	1,022,900	1,162,410	13.64%	
Transportation Services	680,038	1,153,743	---	---	680,038	1,153,743	69.66%	
Long Term Debt Interest	307,844	395,731	---	---	307,844	395,731	28.55%	
Facilities Acquisition	0	0	---	---	0	0	0.00%	
AEA Flow Thru	450,267	453,211	---	---	450,267	453,211	0.65%	
Non-Instructional Programs	1,638	36,350	645,585	723,781	647,223	760,131	17.44%	
Depreciation (unallocated)	118,677	154,395	---	---	118,677	154,395	30.10%	
Total Expenses	12,879,675	15,183,074	645,585	723,781	13,525,260	15,906,855	17.61%	
Increase (decrease) net assets	2,722,721	2,096,385	-45,444	-39,248	2,677,277	2,057,137	23.16%	
Net Assets Beginning of Year	5,160,648	7,883,369	184,794	139,350	5,345,442	8,022,719	50.09%	
Net Assets End of Year	\$ 7,883,369	9,979,754	\$ 139,350	100,102	\$ 8,022,719	10,079,856	25.64%	

The following chart indicates total fiscal 2006 District revenue by percentage:



The following chart indicates total fiscal 2006 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 \$5,867,368, a \$3,601,906 decrease from the 2005 fiscal year end balance of \$9,469,274. The primary reason for the decrease in fund balance are expenses associated with the construction of the new Decorah Middle School and Carrie Lee Elementary School.

The District's General Fund (including the Instructional Support Fund) end of year cash balance decreased \$246,933 to \$878,760 from the 2005 fiscal year end balance of \$1,125,693. The decrease in cash balance is due to increases in operational costs including salaries, employee benefits and energy costs.

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 Instruction, Support, Non-Instructional and Other Expenditures categories for the 2006 fiscal year due to increases in categorical funding for teacher salaries, increases in special education expenses, energy costs, increases in business activity operational costs and anticipated acceleration of the Decorah Middle School construction and Carrie Lee Elementary School remodeling projects.

The following chart shows the original and amended budget for fiscal 2006 as well as the actual revenue and expenditures for the year:

Budgetary Comparison Schedule				
	Original Budget	Final Amended	Actual	Variance
Revenue				
Local Sources	\$ 10,102,411	\$ 10,102,411	\$ 11,104,273	\$ 1,001,862
Intermediate Sources	19,500	19,500	0	-19,500
State Sources	5,693,703	5,693,703	5,781,753	88,050
Federal Sources	373,000	373,000	413,375	40,375
Total Budget Revenue	\$ 16,188,614	\$ 16,188,614	\$ 17,299,401	\$ 1,110,787
Expenditures				
Instruction	\$ 9,578,557	\$ 10,429,939	\$ 9,966,970	\$ -462,969
Support Services	3,832,834	4,017,940	3,735,816	-282,124
Non-Instructional	590,094	699,438	688,566	-10,872
Other Expenditures	9,045,017	9,597,182	6,589,929	-3,007,253
Total Budget Expenses	\$ 23,046,502	\$ 24,744,499	\$ 20,981,281	\$ -3,763,218

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 and Carrie Lee School remodeling projects

Capital Assets and Debt Administration

Capital Assets

At the end of the 2006 fiscal year, the District had invested \$17,174,800 (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 \$389,489 for fiscal 2006 and total accumulated depreciation of \$8,258,275 as of June 30, 2006. The following chart shows the comparison in capital assets for 2005 and 2006.

	Capital Assets (net of depreciation)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2005	2006	2005	2006	2005	2006		
Land	\$ 280,200	280,200	\$ 0	0	\$ 280,200	280,200	0.00%	
Construction in Progress	7,669,667	12,101,756	0	0	7,669,667	12,101,756	57.79%	
Land Improvements	175,735	153,042	0	0	175,735	153,042	-12.91%	
Buildings	4,047,032	3,901,012	0	0	4,047,032	3,901,012	-3.61%	
Furniture & Equipment	698,699	669,479	71,378	69,311	770,077	738,790	-4.06%	
Total	\$ 12,871,333	17,105,489	\$ 71,378	69,311	\$ 12,942,711	17,174,800	32.70%	

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

Debt

As of June 30, 2006 the District had \$12,949,477 in long-term debt outstanding compared to \$14,407,033 on June 30, 2005. The following chart shows the debt comparison between 2005 and 2006.

	Long-term Debt Obligations			
	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Bonds/Capital Loan Notes				
General Obligation	6,300,000	0	450,000	5,850,000
Sales Tax Revenue	2,850,000	0	470,000	2,380,000
Capital Loan Notes	3,930,000	0	395,000	3,535,000
Total Bonds/Capital Loan Notes	\$ 13,080,000	\$ 0	\$ 1,315,000	\$ 11,765,000
Other Liabilities				
Compensated Absences	16,968	22,685	16,968	22,685
Deferred compensation	27,287	1,396	0	28,683
Early Retirement	1,282,778	228,012	377,711	1,133,079
Total Other Liabilities	\$ 1,327,033	\$ 252,093	\$ 394,679	\$ 1,184,447
Total Long-term Debt	\$ 14,407,033	\$ 252,093	\$ 1,709,679	\$ 12,949,447

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 for regular program costs for fiscal year 2006 remained at original budgeted projections. For fiscal year 2007, state aid will be 60.6% of the \$5,142 the District receives per student. This compares to 60.5% of the \$4,945 the District received per student for 2005.
- Enrollment for 2006 decreased by 27.8 students from 2005. The District originally projected stable enrollment in October 2005. The number of open enrollment students from neighboring district's increased by 10.8, the number of open enrollment students attending neighboring district's increased by 0.1 students, and the number of whole grade sharing students from North Winneshiek Community Schools decreased by 14 students from 2005. The District projects that overall enrollment will drop significantly for 2008 and then remain relatively stable for 2009 and 2010.
- The Iowa Legislature has approved a 4% allowable growth increase in state aid to school districts for fiscal 2007 and fiscal 2008. These increases, if implemented, will slow the anticipated fund balance decline for the General Fund. However, these increases will be less than originally projected 12 month ago due to the drop in student enrollment for 2006. The District is currently using reserves to handle the current short-term dip in fund balances. However, a continued decline in fund balance will force the administration and Board of Education to face the challenge of reducing staff and/or programs in order to maintain a positive solvent position.
- The District has experienced a cumulative increase in taxable assessed valuation of 11.59% in the last four years, including a 3.91% increase in 2006. Strong demand for homes and continued growth in new construction, including new retail business 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 \$113,684 to \$1,090,919 for 2006. Retail sales in Winneshiek County remain strong. The City of Decorah is currently experiencing nearly 100% occupancy downtown and anticipates steady to increased retail sales for 2007.
- On February 20, 2006, students and staff held classes for the first day in the new Decorah Middle School. Final inspection and acceptance of the new school will be completed during the 2007 fiscal year.

- Construction began on the remodeling of the old Decorah Middle School into Carrie Lee Elementary for students in grades three and four. Revenue from a 4.5 million-dollar bond issue, in combination with a \$500,000 gift from Carrie Lee, a former teacher for the District, and \$900,000 from Local Option Sales & Service taxes will fund the renovation. It is anticipated that the remodeled school will be finished in time for the beginning of the 2007-08 school year.
- The current Instructional Support levy portion of the General Fund, which expires June 30, 2007, was extended by the Board of Education until June 30, 2012. This five year renewal will increase net revenue from \$420,000 to \$549,566 per year. This increase will allow the District to continue purchasing equipment budgeted in the current levy and renew technology equipment purchases that were discontinued when State Technology Funding was dropped by the Iowa Legislature in fiscal 2003.

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.

DECORAH COMMUNITY SCHOOL DISTRICT

EXHIBIT A

STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	\$ 8,098,620	\$ 77,492	\$ 8,176,112
ISCAP	1,127,431		1,127,431
Receivables			
Property tax			
Delinquent	51,742		51,742
Succeeding year	5,946,033		5,946,033
Accounts	115,127	315	115,442
Accrued interest	351		351
Due from other governments	374,058		374,058
Inventories		25,262	25,262
Capital assets, non-depreciable	12,381,956		12,381,956
Capital assets, net of accumulated depreciation	4,723,533	69,311	4,792,844
Total assets	\$ 32,818,851	\$ 172,380	\$ 32,991,231
LIABILITIES			
Accounts payable	\$ 1,441,893	\$ 30,913	\$ 1,472,806
Salaries and benefits payable	1,320,198	41,365	1,361,563
Accrued interest payable	43,656		43,656
ISCAP accrued interest payable	278		278
ISCAP bond premium	8,592		8,592
Deferred revenue			
Succeeding year property tax	5,946,033		5,946,033
Other	-		-
ISCAP warrants payable	1,129,000		1,129,000
Long-term liabilities			
Portion due within one year			
Bonds payable	1,375,000		1,375,000
Compensated absences	22,685		22,685
Early retirement	379,145		379,145
Deferred compensation	28,683		28,683
Portion due after one year			
Bonds payable	10,390,000		10,390,000
Early retirement	753,934		753,934
Total liabilities	22,839,097	72,278	22,911,375
NET ASSETS			
Invested in capital assets, net of related debt	8,106,015	69,311	8,175,326
Restricted for			
Debt service	38,987		38,987
Capital projects	1,481,172		1,481,172
Other purposes	-		-
Unrestricted	353,580	30,791	384,371
Total net assets	9,979,754	100,102	10,079,856
Total liabilities and net assets	\$ 32,818,851	\$ 172,380	\$ 32,991,231

See Notes to Financial Statements.

EXHIBIT B

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions and Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
Governmental activities						
Instruction						
Regular instruction	\$ 5,378,848	\$ 985,146	\$ 591,708	\$ (3,801,994)	\$ (3,801,994)	
Special instruction	2,841,924	1,541,510	107,899	(1,192,515)	(1,192,515)	
Other instruction	1,699,779		10,470	(1,689,309)	(1,689,309)	
	<u>9,920,551</u>	<u>2,526,656</u>	<u>710,077</u>	<u>(6,683,818)</u>	<u>(6,683,818)</u>	
Support services						
Student services	268,167	647,734		379,567	379,567	
Instructional staff services	543,333			(543,333)	(543,333)	
Administration services	1,095,183			(1,095,183)	(1,095,183)	
Operation and maintenance plant services	1,162,410	12,402	35,731	(1,150,008)	(1,150,008)	
Transportation services	1,153,743			(1,118,012)	(1,118,012)	
	<u>4,222,836</u>	<u>660,136</u>	<u>35,731</u>	<u>(3,526,969)</u>	<u>(3,526,969)</u>	
Non-instructional	<u>36,350</u>	<u>6,813</u>		<u>(29,537)</u>	<u>(29,537)</u>	
Other						
Long-term debt	395,731			(395,731)	(395,731)	
Facilities acquisition				-	-	
AEA flowthrough	453,211		453,211	-	-	
Depreciation (unallocated)	154,395			(154,395)	(154,395)	
	<u>1,003,337</u>		<u>453,211</u>	<u>(550,126)</u>	<u>(550,126)</u>	
Total governmental activities	<u>15,183,074</u>	<u>3,193,605</u>	<u>1,199,019</u>	<u>(10,790,450)</u>	<u>(10,790,450)</u>	
Business-type activities						
Non-instructional programs						
Nutrition services	723,781	478,586	204,427	\$ (40,768)	(40,768)	
	<u>\$ 15,906,855</u>	<u>\$ 3,672,191</u>	<u>\$ 1,403,446</u>	<u>(10,790,450)</u>	<u>(10,831,218)</u>	
Total						
General revenues						
Property taxes levied for						
General purposes				3,837,950	3,837,950	
Management				605,161	605,161	
PFEL				635,065	635,065	
Debt service				658,521	658,521	
Local option sales tax and surtax				1,279,668	1,279,668	
Unrestricted state grants				4,807,082	4,807,082	
Unrestricted investment earnings				363,976	363,976	
Other				699,412	699,412	
				<u>12,886,835</u>	<u>12,886,835</u>	
Total general revenues				<u>12,886,835</u>	<u>12,886,835</u>	
Change in net assets						
Net assets, beginning of year				2,096,385	2,057,137	
Net assets, end of year				7,883,369	8,022,719	
				<u>\$ 9,979,754</u>	<u>\$ 10,079,856</u>	

EXHIBIT C

DECORAH COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and pooled investments				
Other	\$ 2,074,377	\$ 5,294,115	\$ 730,128	\$ 8,098,620
ISCAP	1,127,431			1,127,431
Receivables				
Property tax	34,644		17,098	51,742
Delinquent	4,059,964		1,886,069	5,946,033
Succeeding year	844	109,916	4,367	115,127
Accounts	351			351
Accrued interest				
Due from other funds				
Due from other governments	168,342	205,716		374,058
Total assets	\$ 7,465,953	\$ 5,609,747	\$ 2,637,662	\$ 15,713,362

LIABILITIES AND FUND BALANCES

Liabilities				
Accounts payable	\$ 69,562	\$ 1,363,049	\$ 9,282	\$ 1,441,893
Salaries and benefits payable	1,319,797		401	1,320,198
Due to other funds				
ISCAP warrants payable	1,129,000			1,129,000
Accrued interest payable	278			278
Bond premium	8,592			8,592
Deferred revenue				
Succeeding year property tax	4,059,964		1,886,069	5,946,033
Other				
Total liabilities	6,587,193	1,363,049	1,895,752	9,845,994
Fund balances				
Reserved for				
Debt service			82,643	82,643
Other purposes				
Unreserved, reported in				
General fund	878,760		659,267	878,760
Special revenue funds				659,267
Capital projects fund		4,246,698		4,246,698
Total fund balances	878,760	4,246,698	741,910	5,867,368
Total liabilities and fund balances	\$ 7,465,953	\$ 5,609,747	\$ 2,637,662	\$ 15,713,362

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$ 5,867,368
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 \$ 8,107,884	17,105,489
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	(11,765,000)
Compensated absences	(22,685)
Accrued interest	(43,656)
Early retirement	(1,133,079)
Deferred compensation	(28,683)
Net assets of governmental activities per Exhibit A	<u>\$ 9,979,754</u>

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, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES				
Local sources				
Local property tax	\$ 4,099,421		\$ 1,898,747	\$ 5,998,168
Tuition	2,533,470			2,533,470
Other	133,757	\$ 1,923,564	645,960	2,703,281
Intermediate sources				
State sources	5,768,202		15,046	5,783,248
Federal sources	240,641			240,641
Total revenues	12,775,491	1,923,564	2,559,753	17,258,808
EXPENDITURES				
Current				
Instruction			976,909	
Regular instruction	5,155,014			6,131,923
Special instruction	2,841,924			2,841,924
Other instruction	1,067,063			1,067,063
Support services	9,064,001		976,909	10,040,910
Student services	288,598			288,598
Instructional staff services	540,396			540,396
Administration services	1,066,354		27,321	1,093,675
Operation and maintenance plant services	1,042,019		119,479	1,161,498
Transportation services	625,070		35,721	660,791
Non-instructional	3,562,437		182,521	3,744,958
Long-term debt			36,350	36,350
Principal				
Interest and fiscal charges				
Facilities acquisition		4,805,247		4,805,247
AEA flowthrough				
Total expenditures	453,211	4,805,247	1,842,263	7,100,721
EXCESS OF REVENUES OVER EXPENDITURES	13,079,649	4,805,247	3,038,043	20,922,939
OTHER FINANCING SOURCES (USES)	(304,158)	(2,881,683)	(478,290)	(3,664,131)
Transfers in				
Transfers (out)	1,020,135		1,064,455	2,084,590
Sale of capital assets	(5,000)	(558,202)	(1,521,388)	(2,084,590)
General obligation bonds issued	62,225			62,225
Bond discount or premium				
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	(246,933)	(2,419,750)	(935,223)	(3,601,906)
FUND BALANCE, beginning of year	1,125,693	6,666,448	1,677,133	9,469,274
FUND BALANCE, end of year	\$ 878,760	\$ 4,246,698	\$ 741,910	\$ 5,867,368

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, 2006

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		\$ (3,601,906)
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 capital outlays exceeds depreciation in the period.		
Depreciation	\$ (382,336)	
Capital outlays	4,658,057	4,275,721
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.		1,315,000
The net effect of disposal of capital assets		(41,574)
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.		6,559
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	(5,718)	
Early retirement	149,699	
Deferred compensation	(1,396)	142,585
Change in net assets of governmental activities per Exhibit B		<u>\$ 2,096,385</u>

DECORAH COMMUNITY SCHOOL DISTRICT

EXHIBIT E

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 June 30, 2006

	School Nutrition Fund
ASSETS	
CURRENT ASSETS	
Cash	\$ 77,492
Accounts receivable	315
Due from other governments	-
Inventories	<u>25,262</u>
Total current assets	<u>103,069</u>
NONCURRENT ASSETS	
Furniture and equipment	219,702
Less accumulated depreciation	<u>(150,391)</u>
Total noncurrent assets	<u>69,311</u>
Total assets	<u>\$ 172,380</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 30,913
Salaries and benefits payable	<u>41,365</u>
Total liabilities	<u>72,278</u>
NET ASSETS	
Invested in capital assets, net of related debt	69,311
Unrestricted	<u>30,791</u>
Total net assets	<u>100,102</u>
Total liabilities and net assets	<u>\$ 172,380</u>

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, 2006

	School Nutrition Fund
OPERATING REVENUES	
Local sources	
Charges for services	\$ 478,586
Total operating income	<u>478,586</u>
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	298,015
Purchased services	12,532
Supplies	406,081
Depreciation	7,153
Total operating expenses	<u>723,781</u>
Operating (loss)	<u>(245,195)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest on investments	1,520
State sources	8,094
Federal sources	196,333
Total nonoperating revenues (expenses)	<u>205,947</u>
Change in net assets	(39,248)
Net assets, beginning of year	<u>139,350</u>
Net assets, end of year	<u>\$ 100,102</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

EXHIBIT G

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2006**

	<u>School Nutrition Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	\$ 469,229
Cash received from miscellaneous operating activities	9,354
Cash payments to employees for services	(207,809)
Cash payments to suppliers for goods and services	(389,716)
Other payments	(85,099)
Net cash used in operating activities	<u>(204,041)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(5,086)
State grants and federal grants received	204,427
Net cash provided by investing activities	<u>199,341</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	1,520
Net decrease in cash and cash equivalents	(3,180)
CASH, beginning of year	<u>80,672</u>
CASH, end of year	<u>\$ 77,492</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (245,195)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	7,153
Decrease in accounts receivable	769
Decrease in inventories	4,432
Increase in accounts payable	23,693
Increase in salaries and benefits payable	5,107
Net cash used in operating activities	<u>\$ (204,041)</u>
Non-cash, non-capital financing activities:	
During the year ended June 30, 2006, the District received commodities valued at \$43,281.	

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

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 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.

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

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.

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 and the capital projects 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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

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 statement of net assets. 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.

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The District-wide and proprietary fund financial statements are 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.

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.

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

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.

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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

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.

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

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.

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, 2006 was used to calculate the salaries payable.

Deferred Revenue

In the fund financial statements certain revenues are measurable that 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 the succeeding year property tax receivable. 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.

NOTES TO FINANCIAL STATEMENTS

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

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 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.

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, 2006 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.

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments (Continued)

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.

	<u>Amortized Cost</u>
Diversified portfolio	\$ 167,352
Direct Government Obligations Portfolio	2,621,853
 Total	 \$ 2,789,205

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. Investments in the Iowa School Joint Investments Trust were rated Aaa by Moody's Investors Service.

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2006:

Governmental	
General fund	
Non-public transportation	\$ 18,136
Title I	48,928
State of Iowa – JCS	4,637
Other	96,641
	168,342
 Capital projects	
Local option sales tax	205,716
	 \$ 374,058

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Governmental activities				
Land	\$ 280,200			\$ 280,200
Construction in progress	<u>7,669,677</u>	<u>\$ 4,432,079</u>		<u>12,101,756</u>
Total capital assets not being depreciated	<u>7,949,877</u>	<u>4,432,079</u>		<u>12,381,956</u>
Capital assets being depreciated				
Land improvements	490,740		\$ 6,661	484,079
Buildings	9,316,838	2,520	2,015	9,317,343
Furniture and equipment	<u>2,983,866</u>	<u>223,458</u>	<u>177,329</u>	<u>3,029,995</u>
Total capital assets being depreciated	<u>12,791,444</u>	<u>225,978</u>	<u>186,005</u>	<u>12,831,417</u>
Less accumulated depreciation for				
Land improvements	315,005	16,032		331,037
Buildings	5,269,806	146,525		5,416,331
Furniture and equipment	<u>2,285,167</u>	<u>219,779</u>	<u>144,430</u>	<u>2,360,516</u>
Total accumulated depreciation	<u>7,869,978</u>	<u>382,336</u>	<u>144,430</u>	<u>8,107,884</u>
Total capital assets being depreciated, net	<u>4,921,466</u>	<u>(156,358)</u>	<u>41,575</u>	<u>4,723,533</u>
Governmental activities				
Capital assets, net	<u>\$12,871,343</u>	<u>\$ 4,275,721</u>	<u>\$ 41,575</u>	<u>\$17,105,489</u>
Business-type activities				
Furniture and equipment	\$ 214,616	\$ 5,086		\$ 219,702
Less accumulated depreciation	<u>143,238</u>	<u>7,153</u>	<u>\$ None</u>	<u>150,391</u>
Business-type activities				
Capital assets, net	<u>\$ 71,378</u>	<u>\$ (2,067)</u>	<u>\$ None</u>	<u>\$ 69,311</u>

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets (Continued)

Depreciation expense for the year ended June 30, 2006 was charged to the governmental functions of the District as follows:

Governmental activities		
Instruction		
Regular	\$ 50,175	
Special		
Other	29,875	
Support services		
Instructional staff	2,937	
Administration	15,895	
Operation and maintenance of plant	14,368	
Transportation	114,691	
Unallocated depreciation	<u>154,395</u>	
		<u>\$ 382,336</u>
 Business-type activities		
Food services		<u>\$ 7,153</u>

5. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 6,300,000	\$ None	\$ 450,000	\$ 5,850,000	\$ 500,000
Tax revenue bonds	2,850,000	None	470,000	2,380,000	470,000
Capital loan notes	<u>3,930,000</u>	<u>None</u>	<u>395,000</u>	<u>3,535,000</u>	<u>405,000</u>
Total bonds	<u>13,080,000</u>	<u>None</u>	<u>1,315,000</u>	<u>11,765,000</u>	<u>1,375,000</u>
 Other liabilities					
Compensated absences	16,968	22,685	16,968	22,685	22,685
Deferred compensation	27,287	1,396	None	28,683	28,683
Early retirement	<u>1,282,778</u>	<u>228,012</u>	<u>377,711</u>	<u>1,133,079</u>	<u>379,145</u>
Total other liabilities	<u>1,327,033</u>	<u>252,093</u>	<u>394,679</u>	<u>1,184,447</u>	<u>430,513</u>
 Governmental activities					
Long-term liabilities	<u>\$14,407,033</u>	<u>\$ 252,093</u>	<u>\$ 1,709,679</u>	<u>\$12,949,447</u>	<u>\$ 1,805,513</u>

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

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 on August 15, 2006. 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 50% of the employee's current regular salary schedule. The District is obligated to pay \$439 a month of health insurance for five years or until the employee reaches the age 65, whichever comes first. Early retirement benefits paid during the year ended June 30, 2006 totaled \$377,711. The early retirement plan was eliminated as of July 1, 2006. Currently enrolled participants will continue to receive their benefits; however, additional employees will not be able to enroll.

b. Bonded Indebtedness

\$4,500,000 2004B General Obligation School Serial Bonds, due annually in varying installments July 1, 2007 through June 1, 2015 plus interest semi-annually with interest rates of the bonds varying from 3.00% to 3.85%. 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.

\$1,350,000 2004 General Obligation School Refunding Serial Bonds, due annually in varying installments July 1, 2006 through June 1, 2009 plus interest semi-annually with interest rates of the bonds varying from 1.40% to 2.4%.

\$2,380,000 2004 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due annually beginning on July 1, 2006 through June 1, 2011 plus interest semi-annually with interest rates of the bonds varying from 2.15% to 3.75%. The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure.

\$3,535,000 2004B General Obligation School Capital Loan Notes, due annually in varying installments July 1, 2006 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.

Interest costs incurred and charged to expenses was \$395,731 for the year ended June 30, 2006.

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

b. Bonded Indebtedness (Continued)

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

Year Ending June 30,	Governmental Activities			
	<u>Tax Revenue Bonds</u>		<u>General Obligation Bonds</u>	
	Principal	Interest	Principal	Interest
2007	\$ 470,000	\$ 77,698	\$ 500,000	\$ 188,983
2008	470,000	65,243	530,000	179,443
2009	475,000	51,143	565,000	167,153
2010	480,000	35,468	600,000	152,618
2011	485,000	18,188	645,000	132,818
2012-2016	<u>0</u>	<u>0</u>	<u>3,010,000</u>	<u>290,004</u>
Total	<u>\$ 2,380,000</u>	<u>\$ 247,740</u>	<u>\$ 5,850,000</u>	<u>\$ 1,111,019</u>

Year Ending June 30,	Governmental Activities	
	<u>Capital Notes</u>	
	Principal	Interest
2007	\$ 405,000	\$ 96,965
2008	415,000	87,853
2009	425,000	77,478
2010	435,000	66,853
2011	445,000	55,978
2012-2016	<u>1,410,000</u>	<u>89,350</u>
Total	<u>\$ 3,535,000</u>	<u>\$ 474,477</u>

At June 30, 2006, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	<u>\$380,810,592</u>
Debt limit – 5% of total assessed valuation	\$ 19,040,530
Debt applicable to debt limit	
Capital loan notes	(5,915,000)
General obligation bonded debt outstanding	<u>(5,850,000)</u>
Legal debt margin	<u>\$ 7,275,530</u>

NOTES TO FINANCIAL STATEMENTS

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. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Warrants Payable</u>
2006-07A	6/30/06	6/30/07	<u>\$ 1,127,431</u>	<u>\$ 1,129,000</u>

The District pledges its state foundation aid payments and general fund receipts as security for warrants issued. Repayments must be made when general fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its general fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount.

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

<u>Series</u>	<u>Interest Rates On Warrants</u>	<u>Interest Rates On Investments</u>
2006-07A	4.500	5.676

7. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund		\$ 5,000
Capital projects fund	\$ 1,020,135	558,202
Nonmajor governmental	<u>1,064,455</u>	<u>1,521,388</u>
	<u>\$ 2,084,590</u>	<u>\$ 2,084,590</u>

NOTES TO FINANCIAL STATEMENTS

7. Interfund Transfers (Continued)

Transfers from the physical plant and equipment levy fund and the capital projects fund to the debt service fund were to move resources from bond issuance to help pay bond expenses. Transfer from the physical plant and equipment levy fund to the capital projects fund was to pay for new middle school expenses. Transfer from the general fund to student activity fund was to help pay for expenses incurred during the year.

8. Leases

The District has entered into a rental agreement with Bruening Rock Products, Inc. for the present bus garage facility. The agreement is for one more year and requires monthly payments of \$2,950 until June 2007.

Also, the District has extended their lease agreement with Design Homes, Inc. for three portable classrooms, for one more year at the amount of \$36,231 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,	Amount
2007	\$ <u>71,631</u>

Total lease expense for the year ended June 30, 2006 was \$104,802.

9. 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, 2006, 2005, and 2004 were \$481,677, \$455,324, and \$455,313, respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

10. Termination Benefits

The District offered a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement was subject to approval by the Board of Education and no more than five employees per year were granted benefits under the policy (see Note 5a). The plan was closed to new participants on July 1, 2006.

Early retirement benefits are equal to 70% of the employee's last year of employment, without a maximum retirement benefit.

Early retirement benefits will be paid in three equal installments beginning in January following the start of retirement. The second payment will be paid the following July, and the third and final payment shall be paid during July of the next year.

At June 30, 2006, the District has obligations to 29 participants with a total liability of \$1,133,079. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$377,711.

11. 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 ten 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, 2006, 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, 2006 was unavailable as of August 31, 2006. The District contributed \$1,457,920 for the year ended June 30, 2006.

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, 2006, no liability has been recorded in the District's financial statements. As of June 30, 2006, 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.

NOTES TO FINANCIAL STATEMENTS

12. 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.

13. 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 \$453,211 for the year ended June 30, 2006 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

14. 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 \$453 per month for full time staff and \$1,162 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 206 participants in the plan for the year ended June 30, 2006.

15. 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, 2006, 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 11, the District is contingently liable for any unreported claim or assessment in excess of their balance in the insurance pool.

NOTES TO FINANCIAL STATEMENTS

16. Commitments

The District has entered into contracts for the construction of a new middle school and remodeling of the Carrie Lee Elementary with a remaining commitment of \$3,922,600. Of these commitments, \$None will be funded by state and federal grants, but rather from bonds sold in the previous year.

The District has entered into deferred compensation package with Superintendent Steve Chambliss in which the Superintendent has an approximate \$28,683 incentive to stay with the District until June 30, 2007.

The District has \$365,759 in outstanding purchase orders as of June 30, 2006 for various supplies.

17. Related Party Transaction

During the year ended June 30, 2006, 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 \$179,002. Mr. Donhowe is a principal of A & J Petersburg Insurance Agency.

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, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budget Amounts		Final to Actual Variance- Positive (Negative)
				Original	Final	
RECEIPTS						
Local sources	\$ 10,623,314	\$ 480,959	\$ 11,104,273	\$ 10,102,411	\$ 10,102,411	\$ 1,001,862
Intermediate sources	-	-	-	19,500	19,500	(19,500)
State sources	5,773,659	8,094	5,781,753	5,693,703	5,693,703	88,050
Federal sources	217,042	196,333	413,375	373,000	373,000	40,375
Total receipts	16,614,015	685,386	17,299,401	16,188,614	16,188,614	1,110,787
DISBURSEMENTS						
Instruction	9,966,970		9,966,970	9,578,557	10,429,939	462,969
Support services	3,735,816		3,735,816	3,832,834	4,017,940	282,124
Non-instructional	-	688,566	688,566	590,094	699,438	10,872
Other	6,589,929		6,589,929	9,045,017	9,597,182	3,007,253
Total disbursements	20,292,715	688,566	20,981,281	23,046,502	24,744,499	3,763,218
EXCESS OF RECEIPTS OVER DISBURSEMENTS	(3,678,700)	(3,180)	(3,681,880)	(6,857,888)	(8,555,885)	4,874,005
OTHER FINANCING SOURCES, NET	492,452	-	492,452	-	-	492,452
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	(3,186,248)	(3,180)	(3,189,428)	(6,857,888)	(8,555,885)	5,366,457
FUND BALANCE, beginning of year	11,284,868	80,672	11,365,540	10,869,988	10,869,988	495,552
FUND BALANCE, end of year	\$ 8,098,620	\$ 77,492	\$ 8,176,112	\$ 4,012,100	\$ 2,314,103	\$ 5,862,009

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, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 16,614,015	\$ 644,793	\$ 17,258,808
Expenditures	20,292,715	630,224	20,922,939
Net	(3,678,700)	14,569	(3,664,131)
Other financing sources, net	492,452	(430,227)	62,225
Beginning fund balance	11,284,868	(1,815,594)	9,469,274
Ending fund balances	\$ 8,098,620	\$ (2,231,252)	\$ 5,867,368

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 685,386	\$ (853)	\$ 684,533
Expenses	688,566	35,215	723,781
Net	(3,180)	(36,068)	(39,248)
Beginning net assets	80,672	58,678	139,350
Ending net assets	\$ 77,492	\$ 22,610	\$ 100,102

See Notes to Required Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

This budgetary comparison as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the general fund and each major special revenue fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. 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 8, 2006. 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. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$1,697,997.

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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 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.

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 years ending June 30, 2005, 2004, and 2003, (none of which is presented herein). We expressed unqualified opinions on the 2005, 2004, and 2003 basic 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, 2006, appearing on page 41, 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
August 31, 2006

DECORAH COMMUNITY SCHOOL DISTRICT

SCHEDULE 1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue	Debt Service	Total Nonmajor Funds
ASSETS			
Cash and pooled investments	\$ 653,408	\$ 76,720	\$ 730,128
Receivables			
Property tax			
Delinquent	11,175	5,923	17,098
Succeeding year	1,217,103	668,966	1,886,069
Accounts	4,367		4,367
Due from other funds			-
Total assets	\$ 1,886,053	\$ 751,609	\$ 2,637,662
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 9,282		\$ 9,282
Salaries and benefits payable	401		401
Deferred revenue			
Succeeding year property tax	1,217,103	\$ 668,966	1,886,069
Total liabilities	1,226,786	668,966	1,895,752
Fund balances			
Reserved	-	82,643	82,643
Unreserved	659,267		659,267
Total fund balances	659,267	82,643	741,910
Total liabilities and fund balances	\$ 1,886,053	\$ 751,609	\$ 2,637,662

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 2

DECORAH COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	Special Revenue	Debt Service	Total Nonmajor Funds
REVENUES			
Local sources			
Local property tax	\$ 1,240,226	\$ 658,521	\$ 1,898,747
Other	635,277	10,683	645,960
State sources	15,046		15,046
Total revenues	1,890,549	669,204	2,559,753
EXPENDITURES			
Current			
Instruction	976,909		976,909
Regular instruction	-		-
Other instruction	-		-
Support services			
Student services	25,721	1,600	27,321
Administration services	119,479		119,479
Operation and maintenance plant services	35,721		35,721
Transportation services	36,350		36,350
Non-instructional			
Other			
Long-term debt			
Principal	-	1,319,958	1,319,958
Interest and fiscal charges	-	397,332	397,332
Facilities acquisition	124,973		124,973
Total expenditures	1,319,153	1,718,890	3,038,043
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	571,396	(1,049,686)	(478,290)
OTHER FINANCING SOURCES			
Transfers in	5,000	1,059,455	1,064,455
Transfers out	(1,521,388)		(1,521,388)
General obligation bonds issued			
	(1,516,388)	1,059,455	(456,933)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	(944,992)	9,769	(935,223)
FUND BALANCE, beginning of year	1,604,259	72,874	1,677,133
FUND BALANCE, end of year	\$ 659,267	\$ 82,643	\$ 741,910

DECORAH COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2006

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 194,724	\$ 253,167	\$ 205,517	\$ 653,408
Receivables				
Property tax				
Delinquent	5,463	5,712		11,175
Succeeding year	576,692	640,411		1,217,103
Accounts			4,367	4,367
Due from other funds	-			-
Total assets	<u>\$ 776,879</u>	<u>\$ 899,290</u>	<u>\$ 209,884</u>	<u>\$ 1,886,053</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 576	\$ -	\$ 8,706	\$ 9,282
Salaries and benefits payable	401			401
Deferred revenue				
Succeeding year property tax	576,692	640,411		1,217,103
Total liabilities	<u>577,669</u>	<u>640,411</u>	<u>8,706</u>	<u>1,226,786</u>
Fund balances				
Reserved				-
Unreserved	199,210	258,879	201,178	659,267
Total fund balances	<u>199,210</u>	<u>258,879</u>	<u>201,178</u>	<u>659,267</u>
Total liabilities and fund balances	<u>\$ 776,879</u>	<u>\$ 899,290</u>	<u>\$ 209,884</u>	<u>\$ 1,886,053</u>

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, 2006

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES				
Local sources				
Local property tax	\$ 605,161	\$ 635,065		\$ 1,240,226
Other	3,504	19,523	\$ 612,250	635,277
State sources	12,282	2,764		15,046
Total revenues	620,947	657,352	612,250	1,890,549
EXPENDITURES				
Current				
Instruction				
Regular instruction	362,237		614,672	976,909
Other instruction				
Support services				
Student services				
Administration services	25,693	28		25,721
Operation and maintenance plant services	115,027	4,452		119,479
Transportation services	35,721			35,721
Non-instructional	36,350			36,350
Other				
Long-term debt				
Principal				
Interest and fiscal charges				
Facilities acquisition		124,973		124,973
Total expenditures	575,028	129,453	614,672	1,319,153
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	45,919	527,899	(2,422)	571,396
OTHER FINANCING SOURCES				
Transfers in				
Transfers out		(1,521,388)	5,000	5,000
General obligation bonds issued				(1,521,388)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	45,919	(993,489)	2,578	(944,992)
FUND BALANCE, beginning of year	153,291	1,252,368	198,600	1,604,259
FUND BALANCE, end of year	\$ 199,210	\$ 258,879	\$ 201,178	\$ 659,267

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, 2006

	Balance June 30, 2005	Revenues and Transfer In	Expenditures	Balance June 30, 2006
Permanent Transfer - General Fund	\$ 10,000	\$ 5,000		\$ 15,000
High School Student Council	2,994			2,994
High School Athletic General	(4,743)	25,332	31,396	(10,807)
High School Football	25,241	49,571	45,427	29,385
High School Basketball	31,123	29,107	22,265	37,965
High School Wrestling	3,388	6,219	7,897	1,710
High School Baseball	(12,636)	11,031	10,813	(12,418)
High School Golf	(3,624)	4,065	7,552	(7,111)
High School Track	(7,904)	8,753	12,484	(11,635)
High School Softball	(6,139)	7,101	10,460	(9,498)
High School Volleyball	2,136	6,048	6,221	1,963
High School Tennis	(1,171)	2,942	4,498	(2,727)
High School Cross Country	(642)	6,509	6,982	(1,115)
High School St. Planner	(8,241)	-	3,741	(11,982)
High School Community Club	168	982	963	187
High School Swimming	974	3,646	4,454	166
High School Choir	1,091		1,036	55
SADD Chapter	200			200
"D" Club	3,390	3,521	3,501	3,410
Art Club	2,588	4,620	5,572	1,636
Culture Club	153	245	-	398
Science Club	1,492	1,700	1,703	1,489
Future Farmers of America	11,429	62,825	55,966	18,288
Horticulture Club	80			80
Office Education	441			441
DECA	7,060	18,975	14,590	11,445
IMC Club	623	-	3	620
Student Assistance	995	100	43	1,052
High School Music	(16,112)	2,215	5,935	(19,832)
High School Instrumental Music	(60)	1,531	858	613
High School Talent Showcase	1,568			1,568
High School Yearbook	20,120	17,183	17,548	19,755
High School Speech	4,522	19,081	15,053	8,550
High School Dramatics	8,237	8,400	10,265	6,372
High School Orchestra	(425)		1,363	(1,788)
High School Madrigal	5,129	3,700	4,145	4,684
Sub-totals	83,445	310,402	312,734	81,113

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 5
(Continued)

DECORAH COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2006

	Balance June 30, 2005	Revenues and Transfer In	Expenditures	Balance June 30, 2006
Sub-totals	\$ 83,445	\$ 310,402	\$ 312,734	\$ 81,113
High School Fire Squad	3,297	6,528	11,981	(2,156)
High School Cheerleading	2,142	7,126	9,670	(402)
High School Newspaper	(38)		354	(392)
Class 2002	151			151
Class 2003	1			1
Class 2004	(776)			(776)
Class 2005	(1,322)	5		(1,317)
Class 2006	1,908	3,197	6,402	(1,297)
Class 2007	(32)	2,181	2,685	(536)
Class 2008	6	6	16	(4)
Class 2009	-	28	32	(4)
High School General	46,984	150,868	114,177	83,675
Middle School Athletic General	165			165
Middle School Football	(1,966)	2,961	4,690	(3,695)
Middle School Basketball	(5,958)	7,346	9,495	(8,107)
Middle School Wrestling	(475)	182	490	(783)
Middle School Track	(1,822)	497	2,165	(3,490)
Middle School Volleyball	(1,662)	1,727	3,052	(2,987)
Middle School Music	126	600	1,152	(426)
Middle School Soccer	(7,934)	7,118	7,043	(7,859)
Middle School Library Club	837			837
Middle School Outdoor Ed	(1,163)	4,272	5,693	(2,584)
Middle School East Side Use	125	40		165
Middle School Yearbook	(5,922)	375	5,714	(11,261)
Scholarships	4,505			4,505
Middle School General	(678)	598	754	(834)
Middle School Fund Raising	62,095	31,978	37,045	57,028
Middle School Student Council	147	247	393	1
Middle School Cheerleading	257	158	185	230
Sesquicentennial	40			40
Elementary Fund Raising	7,661	7,105	11,181	3,585
Investments	6,463	6,311	1,880	10,894
Vocational Ag	418			418
Vocational	940	1,340	1,903	377
A/P Exam Testing	630	7,862	7,214	1,278
DHS Wall Of Fame	904		690	214
DV/ABC	-	51,775	51,775	-
Decorah Cares	-	4,107	4,107	-
W/S Elementary General	5,101	310		5,411
	\$ 198,600	\$ 617,250	\$ 614,672	\$ 201,178

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			
	2006	2005	2004	2003
REVENUES				
Local sources				
Local tax	\$ 5,998,168	\$ 5,715,624	\$ 4,788,589	\$ 4,900,023
Tuition	2,533,470	2,114,518	2,051,186	1,687,516
Other	2,703,281	2,009,289	1,751,257	1,610,618
Intermediate sources	-	21,485	12,751	21,228
State sources	5,783,248	5,488,689	5,568,314	5,846,787
Federal sources	240,641	252,791	270,532	203,291
Total revenues	\$ 17,258,808	\$ 15,602,396	\$ 14,442,629	\$ 14,269,463
EXPENDITURES				
Current				
Instruction				
Regular instruction	\$ 6,131,923	\$ 5,883,790	\$ 5,005,459	\$ 4,803,271
Special instruction	2,841,924	2,389,212	2,663,282	2,434,213
Other instruction	1,067,063	1,050,483	1,231,424	1,163,182
Support services				
Student services	288,598	308,740	280,259	283,963
Instructional staff services	540,396	525,972	535,201	504,252
Administration services	1,093,675	976,645	1,143,570	1,085,423
Operation and maintenance plant services	1,161,498	1,018,698	1,027,393	994,361
Transportation services	660,791	634,698	637,563	575,931
Central support				
Non-instructional	36,350	1,638	3,276	13,435
Other				
Facilities acquisition	4,930,220	6,897,137	1,171,147	66,739
Long-term debt				
Principal	1,319,958	1,180,800	3,080,000	365,000
Interest and fiscal charges	397,332	273,976	215,231	151,444
AEA flowthrough	453,211	450,267	456,353	488,855
Total expenditures	\$ 20,922,939	\$ 21,592,056	\$ 17,450,158	\$ 12,930,069

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, 2006

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
Indirect			
Department of Agriculture			
Passed Through Iowa Department of Education			
School Breakfast Program	10.553	FY05	\$ 17,656
National School Lunch Program	10.555	FY05	135,396
Food Distribution Program (non-cash)	10.550	FY05	40,855
Total Department of Agriculture			<u>193,907</u>
Department of Education			
Passed Through Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	1638-G-05	97,857
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY05	5,485
State Grants for Innovative Programs	84.298	FY05	9,924
State Grants for Innovative Programs	84.298	FY05	4,263
Vocational Education - Basic Grants to States	84.048	FY05	909
Improving Teacher Quality State Grants	84.367	FY05	45,531
Special Education - Grants to States	84.027	FY05	76,672
Total Department of Education			<u>240,641</u>
			<u>\$ 434,548</u>

See Independent Auditor's Report on the Supplementary Information.

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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 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, 2006, which collectively comprise Decorah Community School District's basic financial statements and have issued our report thereon dated August 31, 2006. 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*.

We noted certain matters that we reported to management of Decorah Community School District in a separate letter dated August 31, 2006.

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.

Decorah, Nelson + Co., P.C.

Decorah, Iowa
August 31, 2006

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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, 2006, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions 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 thru 9 below are compliance comments required by the Iowa Auditor of State. A separate report dated August 31, 2006 contains our report on reportable conditions in the District's internal control. This letter does not affect our report dated August 31, 2006, on the financial statements of the Decorah Community School District. Comment number 4 is a repeat comment 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. Certified Budget

Disbursements for the year ended June 30, 2006 did not exceed the amounts budgeted.

2. Questionable Disbursements

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

3. Travel Expense

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

4. **Business Transactions**

During the year ended June 30, 2006, 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: \$179,002

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.

5. **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.

6. **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.

7. **Certified Enrollment**

No variances in the basic enrollment data certified to the Department of Education were noted.

8. **Deposits and Investments**

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 were noted.

9. **Certified Annual Report**

The Certified Annual Report (CAR) was certified to the Iowa Department of Education timely.

10. Operating Deficit

During our audit, we noticed that the School's hot lunch fund had a net loss of \$39,248.

Recommendation

We recommend that the School District review the operations of the hot lunch fund to attempt to return it to profitability.

Response

The School will look at profit margins to see if pricing increases are necessary. We will analyze revenues to see if the decline is a trend or due to some other factors.

Conclusion

Response accepted.

11. Hot Lunch Claims

While performing the ticket test for hot lunch, it was noted that for the months of October, November, and December there were less meals submitted to the State for reimbursement than recorded.

Recommendation

We recommend that the corrected claim be filed in an attempt to receive the rest of the reimbursement.

Response

We have reviewed our documents and it appears that we had transmitted the proper numbers to the State. However, according to the State they do not have the correct numbers. We believe it was a transmittal error. We are working with the State to resolve this issue.

Conclusion

Response accepted.

Other procedural matters were discussed with management and documented in a letter to them.

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.

Nachter, Nelson + Co., P.C.