

DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2007

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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 2006 Election)			
Ramona Nelson	President	Decorah, Iowa	September 2008
Melanie Tietz	Vice-President	Decorah, Iowa	September 2008
David Ranum	Member	Decorah, Iowa	September 2009
Rachel Sandhorst	Member	Decorah, Iowa	September 2007
Richard Valley	Member	Decorah, Iowa	September 2009

<u>Board of Education</u> (Before September 2006 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

School Officials for 2006-07

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

School Officials for 2007-08

Michael Haluska – Superintendent
Cathy Dietzenbach – Director of Business Services/Treasurer
Darlene Woodhouse – 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

www.hackernelson.com

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, 2007, 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 the 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, 2007, 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 December 13, 2007, on our consideration of Decorah Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 3 and pages 26 through 27, 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
December 13, 2007

DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2007**

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, 2007.

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 2006-07 fiscal year include the following:

In total, net assets increased by \$2,799,195 or 27.4% from fiscal 2005-06. Net assets in governmental activities increased \$2,704,873, which represented a 26.8% increase from fiscal year 2006. Increases in property taxes, student tuition from neighboring school districts, and increases in State of Iowa categorical funding made up the majority of the increase. Net assets in the business-type activity, which represents the District's food service operations, increased \$94,322, which represented a 92.2% increase from fiscal year 2006. Increases in meal rates and equipment transferred in from the physical plant and equipment levy fund are the primary reasons for the increase.

General fund revenues (which include the instructional support fund) accounted for \$13,643,176 in revenue or 76.7% of all revenues. General fund expenses (which include the instructional support fund) accounted for \$13,438,448 in expenditures or 65.6% 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 longer-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 2007 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. This basis of accounting takes 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 a 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 goods or services provided. These types of activities are also known as enterprise funds. The school 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 2007 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 2007 totaled \$13,010,444, up 27.4% from the previous fiscal year.

	Condensed Statement of Net Assets						
	(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
2007	2006	2007	2006	2007	2006		
Current and other assets	\$ 13,591	\$ 15,713	\$ 114	\$ 103	\$ 13,705	\$ 15,816	-13.35%
Capital assets	21,149	17,106	137	69	21,286	17,175	23.94%
Total assets	34,740	32,819	251	172	34,991	32,991	
Long-term debt outstanding	9,566	11,144	-	-	9,566	11,144	-14.16%
Other liabilities	12,360	11,695	54	72	12,414	11,767	5.50%
Total liabilities	21,926	22,839	54	72	21,980	22,911	
Net assets							
Invested in capital assets, net of related debt	10,640	8,106	137	69	10,777	8,175	31.83%
Restricted	1,732	1,520	-	-	1,732	1,520	13.95%
Unrestricted	442	354	60	31	502	385	30.39%
Total net assets	\$ 12,814	\$ 9,980	\$ 197	\$ 100	\$ 13,011	\$ 10,080	

The following analysis shows the change in net assets for the year ending June 30, 2007

	Changes in Net Assets (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2007	2006	2007	2006	2007	2006		
Revenues:								
Program revenue								
Charges for service	\$ 3,257	\$ 3,194	\$ 533	\$ 479	\$ 3,790	\$ 3,673		3.19%
Operating grants	1,362	1,199	232	205	1,594	1,404		-11.92%
General revenue								
Property taxes	6,106	5,737	-	-	6,106	5,737		6.43%
Sales tax and surtax	1,466	1,280	-	-	1,466	1,280		14.53%
Unrestricted state grants	5,034	4,807	-	-	5,034	4,807		4.72%
Unrestricted investment earnings	344	364	2	1	346	365		-5.21%
Other revenue	56	699	89	-	145	699		-79.26%
Total revenues	<u>17,625</u>	<u>17,280</u>	<u>856</u>	<u>685</u>	<u>18,481</u>	<u>17,965</u>		
Program expenses:								
Instruction	9,762	9,921	-	-	9,762	9,921		-1.60%
Student support	294	268	-	-	294	268		9.70%
Instructional Staff Services	675	543	-	-	675	543		24.31%
Administration Services	1,229	1,095	-	-	1,229	1,095		12.24%
Operation & Maintenance Services	1,156	1,163	-	-	1,156	1,163		-0.60%
Transportation Services	519	1,154	-	-	519	1,154		-55.03%
Long Term Debt Interest	361	396	-	-	361	396		-8.84%
AEA Flow Thru	477	453	-	-	477	453		5.30%
Non-instructional programs	38	36	762	724	800	760		5.26%
Depreciation (unallocated)	409	154	-	-	409	154		165.58%
Total expenses	<u>14,920</u>	<u>15,183</u>	<u>762</u>	<u>724</u>	<u>15,682</u>	<u>15,907</u>		
Increase (decrease) in net assets	2,705	2,097	94	(39)	2,799	2,058		36.01%
Net assets Beginning of Year	10,109	7,883	103	139	10,212	8,022		27.30%
Net assets End of Year	<u>\$ 12,814</u>	<u>\$ 9,980</u>	<u>\$ 197</u>	<u>\$ 100</u>	<u>\$ 13,011</u>	<u>\$ 10,080</u>		

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 \$3,018,266, a \$2,849,101 decrease from the 2006 fiscal year end balance of \$5,867,367.

- The general fund received more revenue during fiscal year 2007 through tuition from other districts, property taxes and state revenue. The ending fund balance showed an increase from the prior year of \$204,593.
- The capital projects fund ending fund balance showed a decrease primarily due to the construction costs associated with the renovation of Carrie Lee Elementary School. The ending fund balance showed a decrease from the prior year of \$3,164,028.

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 2007 fiscal year due to increases in categorical funding for teacher salaries, energy costs, increases in business activity operational costs and anticipated acceleration of the Carrie Lee Elementary School remodeling projects.

The following chart shows the original and amended budget for fiscal 2007 as well as the actual revenue and expenditures for the year:

Budgetary Comparison Schedule (Expressed in Thousands)					
	Actual Basis	Budget Amounts		Variance	
		Original	Final		
Revenues					
Local sources	\$ 11,842	\$ 11,111	\$ 11,111	\$ 731	
Intermediate sources	-	-	-	-	
State sources	6,185	6,069	6,069	116	
Federal sources	469	381	381	88	
Total revenues	\$ 18,496	\$ 17,561	\$ 17,561	\$ 935	
Expenditures					
Instruction	\$ 10,041	\$ 9,819	\$ 11,633	\$ 1,592	
Student support	4,085	4,013	4,281	196	
Non-instructional programs	800	639	820	20	
Other expenses	6,326	7,478	6,738	412	
Total expenditures	\$ 21,252	\$ 21,949	\$ 23,472	\$ 2,220	

Capital Assets and Debt Administration

Capital Assets

At the end of the 2007 fiscal year, the District had invested \$21,285,568 (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 \$678,505 for fiscal 2007 and total accumulated depreciation of \$8,704,337 as of June 30, 2007. The following chart shows the comparison in capital assets for 2006 and 2007.

	Capital Assets (net of depreciation)						
	(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2007	2006	2007	2006	2007	2006	
Land	\$ 280	\$ 280	\$ -	\$ -	\$ 280	\$ 280	0.00%
Construction in Progress	5,526	12,102	-	-	5,526	12,102	-54.34%
Land Improvements	482	153	-	-	482	153	215.03%
Buildings	13,922	3,901	-	-	13,922	3,901	256.88%
Furniture & Equipment	939	670	137	69	1,076	739	45.60%
Total	\$ 21,149	\$ 17,106	\$ 137	\$ 69	\$ 21,286	\$ 17,175	

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

Debt

As of June 30, 2007 the District had \$11,312,084 in long-term debt outstanding compared to \$12,949,447 on June 30, 2006. The following chart shows the debt comparison between 2006 and 2007.

	Long-term Debt Obligations			
	Balance		Balance	
	July 1, 2006	Additions	Reductions	June 30, 2007
Bonds/Capital Loan Notes				
General Obligation	\$ 5,850,000		\$ 500,000	\$ 5,350,000
Sales Tax Revenue	2,380,000		470,000	1,910,000
Capital Loan Notes	3,535,000		405,000	3,130,000
Total Bonds/Capital Loan Notes	11,765,000	-	1,375,000	10,390,000
Other Liabilities				
Capital Leases	-	\$ 118,457	-	118,457
Compensated Absences	22,685	11,864	22,685	11,864
Deferred Compensation	28,683	1,468	-	30,151
Early Retirement	1,133,079	872	372,339	761,612
Total Other Liabilities	1,184,447	132,661	395,024	922,084
Total Long-term Debt	\$ 12,949,447	\$ 132,661	\$ 1,770,024	\$ 11,312,084

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 picture in the future.

- Revenue received by the State of Iowa for regular program costs for fiscal year 2007 remained at original budgeted projections. For fiscal year 2008, state aid will be 61.9% of the \$5,347 the District receives per student. This compares to 60.6% of the \$5,142 the District received per student for 2006.
- Enrollment for 2007 increased by 10.8 students from 2006. The number of open enrollment students from neighboring district's increased by 10.6, the number of open enrollment students attending neighboring district's increased by 3 students, and the number of whole grade sharing students from North Winneshiek Community Schools decreased by 19 students from 2006. The District projects that overall enrollment will 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 2008. This increase will slow the anticipated fund balance decline for the General Fund.
- The District has experienced a cumulative increase in taxable assessed valuation of 8.7% in the last four years. The District's assessed valuation decreased by \$1,945,265 this past year, which is the first decrease since the school year 1991-92. The assessed valuation will go up for the following year due to Decorah's growth.
- Revenue received from the one-cent local option sales tax increased by \$301,829 to \$1,320,206 for 2007. 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 2008.
- Construction was close to completion 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.
- The current Instructional Support levy portion of the General Fund, will expire June 30, 2012. This last renewal increased net revenues 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.
- The District's management team will change with the retirement of Superintendent Steve Chambliss and Board Secretary Carol Thunberg, along with the professional advancement of the Director of Business Services Doug Nefzger to a new district.

Contacting the School District's Financial Management

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

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007

ASSETS	Governmental Activities	Business-type Activities	Total
Cash and pooled investments			
Other	\$ 4,611,803	\$ 93,809	\$ 4,705,612
ISCAP	2,588,951		2,588,951
Receivables			
Property tax			
Delinquent	52,309		52,309
Succeeding year	6,028,127		6,028,127
Accounts	16,247	855	17,102
Accrued interest	22,566		22,566
Due from other governments	271,259		271,259
Inventories		19,414	19,414
Capital assets, non-depreciable	5,805,634		5,805,634
Capital assets, net of accumulated depreciation	15,342,903	137,031	15,479,934
Total assets	\$ 34,739,799	\$ 251,109	\$ 34,990,908
LIABILITIES			
Accounts payable	\$ 594,251	\$ 9,950	\$ 604,201
Salaries and benefits payable	1,323,386	44,483	1,367,869
Accrued interest payable	40,951		40,951
ISCAP accrued interest payable	18,101		18,101
ISCAP bond premium	15,131		15,131
Deferred revenue			
Succeeding year property tax	6,028,127		6,028,127
ISCAP warrants payable	2,594,000		2,594,000
Long-term liabilities			
Portion due within one year			
Capital lease payable	40,406		40,406
Bonds payable	1,415,000		1,415,000
Compensated absences	11,864		11,864
Early retirement	248,370		248,370
Deferred compensation	30,151		30,151
Portion due after one year			
Capital lease payable	78,051		78,051
Bonds payable	8,975,000		8,975,000
Early retirement	513,242		513,242
Total liabilities	21,926,031	54,433	21,980,464
NET ASSETS			
Invested in capital assets, net of related debt	10,640,080	137,031	10,777,111
Restricted for			
Debt service	51,383		51,383
Capital projects	1,082,670		1,082,670
Other purposes	598,039		598,039
Unrestricted	441,596	59,645	501,241
Total net assets	12,813,768	196,676	13,010,444
Total liabilities and net assets	\$ 34,739,799	\$ 251,109	\$ 34,990,908

See Notes to Financial Statements.

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DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
Governmental activities			
Instruction			
Regular instruction	\$ 5,249,020	\$ 996,840	\$ 742,383
Special instruction	2,770,096	1,617,668	100,349
Other instruction	1,742,967		9,900
	<u>9,762,083</u>	<u>2,614,508</u>	<u>852,632</u>
Support services			
Student services	293,818	621,769	
Instructional staff services	675,376		
Administration services	1,229,356		
Operation and maintenance plant services	1,156,526	10,375	
Transportation services	518,764		33,074
	<u>3,873,840</u>	<u>632,144</u>	<u>33,074</u>
Non-instructional	<u>37,663</u>	<u>10,242</u>	
Other			
Long-term debt	360,940		
Facilities acquisition			
AEA flowthrough	476,764		476,764
Depreciation (unallocated)	408,944		
	<u>1,246,648</u>		<u>476,764</u>
Total governmental activities	14,920,234	3,256,894	1,362,470
Business-type activities			
Non-instructional programs			
Nutrition services	761,799	533,340	231,875
Total	<u>\$ 15,682,033</u>	<u>\$ 3,790,234</u>	<u>\$ 1,594,345</u>
General revenues			
Property taxes levied for			
General purposes			
Management			
PPEL			
Debt service			
Local option sales tax and surtax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Transfers			
Total general revenues			
Change in net assets			
Net assets, beginning of year restated			
Net assets, end of year			

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (3,509,797)		\$ (3,509,797)
(1,052,079)		(1,052,079)
(1,733,067)		(1,733,067)
(6,294,943)		(6,294,943)
327,951		327,951
(675,376)		(675,376)
(1,229,356)		(1,229,356)
(1,146,151)		(1,146,151)
(485,690)		(485,690)
(3,208,622)		(3,208,622)
(27,421)		(27,421)
(360,940)		(360,940)
-		-
-		-
(408,944)		(408,944)
(769,884)		(769,884)
(10,300,870)		(10,300,870)
	\$ 3,416	3,416
(10,300,870)	3,416	(10,297,454)
4,173,329		4,173,329
592,792		592,792
655,488		655,488
684,713		684,713
1,465,801		1,465,801
5,034,049		5,034,049
344,154	2,229	346,383
144,094		144,094
(88,677)	88,677	-
13,005,743	90,906	13,096,649
2,704,873	94,322	2,799,195
10,108,895	102,354	10,211,249
\$ 12,813,768	\$ 196,676	\$ 13,010,444

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and pooled investments				
Other	\$ 2,328,954	\$ 1,431,628	\$ 851,221	\$ 4,611,803
ISCAP	2,588,951			2,588,951
Receivables				
Property tax				
Delinquent	35,794		16,515	52,309
Succeeding year	4,202,520		1,825,607	6,028,127
Accounts	14,436		1,811	16,247
Accrued interest	22,566			22,566
Due from other governments	91,861	179,398		271,259
Total assets	\$ 9,285,082	\$ 1,611,026	\$ 2,695,154	\$ 13,591,262
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 50,131	\$ 528,356	\$ 15,764	\$ 594,251
Salaries and benefits payable	1,321,847		1,539	1,323,386
ISCAP warrants payable	2,594,000			2,594,000
Accrued interest payable	18,101			18,101
Bond premium	15,131			15,131
Deferred revenue				
Succeeding year property tax	4,202,520		1,825,607	6,028,127
Total liabilities	8,201,730	528,356	1,842,910	10,572,996
Fund balances				
Reserved for				
Debt service			92,334	92,334
Unreserved, reported in				
General fund	1,083,352			1,083,352
Special revenue funds			759,910	759,910
Capital projects fund		1,082,670		1,082,670
Total fund balances	1,083,352	1,082,670	852,244	3,018,266
Total liabilities and fund balances	\$ 9,285,082	\$ 1,611,026	\$ 2,695,154	\$ 13,591,262

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS	
Total governmental fund balances	\$ 3,018,266
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 \$ 8,528,367	21,148,537
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	
Capital lease payable	(118,457)
Bonds payable	(10,390,000)
Compensated absences	(11,864)
Accrued interest	(40,951)
Early retirement	(761,612)
Deferred compensation	(30,151)
Net assets of governmental activities per Exhibit A	<u>\$ 12,813,768</u>

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	General	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES				
Local sources				
Local property tax	\$ 4,408,803		\$ 1,932,993	\$ 6,341,796
Tuition	2,624,750			2,624,750
Other	210,262	\$ 1,494,611	635,022	2,339,895
State sources	6,153,398		22,670	6,176,068
Federal sources	245,963			245,963
Total revenues	13,643,176	1,494,611	2,590,685	17,728,472
EXPENDITURES				
Current				
Instruction				
Regular instruction	5,237,778		957,994	6,195,772
Special instruction	2,782,024			2,782,024
Other instruction	1,063,206		-	1,063,206
	9,083,008		957,994	10,041,002
Support services				
Student services	311,136		-	311,136
Instructional staff services	673,653			673,653
Administration services	1,215,065		39,726	1,254,791
Operation and maintenance plant services	1,023,916		119,246	1,143,162
Transportation services	654,906		47,650	702,556
	3,878,676		206,622	4,085,298
Non-instructional			37,663	37,663
Other				
Long-term debt				
Principal			1,375,000	1,375,000
Interest and fiscal charges			363,645	363,645
Facilities acquisition		4,110,541		4,110,541
AEA flowthrough	476,764			476,764
	476,764	4,110,541	1,738,645	6,325,950
Total expenditures	13,438,448	4,110,541	2,940,924	20,489,913
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	204,728	(2,615,930)	(350,239)	(2,761,441)
OTHER FINANCING SOURCES (USES)				
Transfers in	3,848		1,055,463	1,059,311
Transfers (out)	(5,000)	(548,098)	(594,890)	(1,147,988)
Sale of capital assets	1,017			1,017
	(135)	(548,098)	460,573	(87,660)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	204,593	(3,164,028)	110,334	(2,849,101)
FUND BALANCE, beginning of year	878,759	4,246,698	741,910	5,867,367
FUND BALANCE, end of year	\$ 1,083,352	\$ 1,082,670	\$ 852,244	\$ 3,018,266

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, 2007

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		\$ (2,849,101)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Depreciation	\$ (651,447)	
Capital outlays	4,462,600	3,811,153
<p>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.</p>		
		1,375,000
<p>The net effect of disposal of capital assets</p>		
		(15,705)
<p>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.</p>		
		2,705
<p>Some payments reported as expenditures in the governmental funds are reported as changes in liabilities in the statement of net assets.</p>		
Compensated absences	10,822	
Early retirement	371,467	
Deferred compensation	(1,468)	380,821
Change in net assets of governmental activities per Exhibit B		\$ 2,704,873

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2007

	School Nutrition Fund
ASSETS	
CURRENT ASSETS	
Cash	\$ 93,809
Accounts receivable	855
Due from other governments	-
Inventories	19,414
Total current assets	114,078
NONCURRENT ASSETS	
Furniture and equipment	313,001
Less accumulated depreciation	(175,970)
Total noncurrent assets	137,031
Total assets	\$ 251,109
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 9,950
Salaries and benefits payable	44,483
Total liabilities	54,433
NET ASSETS	
Invested in capital assets, net of related debt	137,031
Unrestricted	59,645
Total net assets	196,676
Total liabilities and net assets	\$ 251,109

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, 2007

	<u>School Nutrition Fund</u>
OPERATING REVENUES	
Local sources	
Charges for services	\$ 533,340
Total operating income	<u>533,340</u>
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	306,424
Purchased services	11,119
Supplies	417,198
Depreciation	27,058
Total operating expenses	<u>761,799</u>
Operating (loss)	<u>(228,459)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest on investments	2,229
State sources	8,583
Federal sources	223,292
Total nonoperating revenues (expenses)	<u>234,104</u>
EXCESS OF OPERATING REVENUES OVER OPERATING EXPENSES	<u>5,645</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	(3,848)
Transfers in	92,525
	<u>88,677</u>
EXCESS OF OPERATING REVENUES AND OTHER FINANCING SOURCES OVER OPERATING EXPENSES AND FINANCING USES	94,322
Net assets, beginning of year restated	<u>102,354</u>
Net assets, end of year	<u>\$ 196,676</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2007

	School Nutrition Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	\$ 524,753
Cash received from miscellaneous operating activities	8,587
Cash payments to employees for services	(214,741)
Cash payments to suppliers for goods and services	(443,973)
Other payments	(88,565)
Net cash used in operating activities	(213,939)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	(3,848)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State grants and federal grants received	231,875
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	2,229
Net increase in cash and cash equivalents	16,317
CASH, beginning of year	77,492
CASH, end of year	\$ 93,809
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (228,459)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	27,058
Increase in accounts receivable	(540)
Decrease in inventories	5,847
Decrease in accounts payable	(20,963)
Increase in salaries and benefits payable	3,118
Net cash used in operating activities	\$ (213,939)

Non-cash, noncapital financing activities:

During the year ended June 30, 2007, the District received commodities valued at \$40,681.

During the year ended June 30, 2007, the proprietary fund received capital assets with net value of \$92,525 transferred from the physical plant and equipment levy fund.

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.

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.

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

b. Significant Accounting Policies (Continued)

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.

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.

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

b. Significant Accounting Policies (Continued)

Basis of Accounting

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

The District-wide and proprietary fund 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's 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 nonoperating revenues and expenses.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

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

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

Assets, Liabilities and Equity

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

Cash and Investments

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

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Property Tax Receivable

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

Property tax receivable is recognized in these funds on the levy date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Due from Other Governments

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

Inventories

Inventories are stated at cost using the first-in, first-out method for purchased items and contributed value for governmental commodities. The costs of inventory items are expenses in the proprietary fund type when used.

Capital Assets

Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary fund are capitalized in the fund in which they are utilized. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of \$2,000 for governmental funds and \$500 for the school nutrition-proprietary fund.

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

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

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, 2007 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.

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 nonmajor 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 an 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, 2007 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.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	Amortized Cost
Diversified portfolio	\$ 67,371
Direct Government Obligations Portfolio	3,267,814
 Total	 \$ 3,335,185

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, 2007:

Governmental	
General fund	
Non-public transportation	\$ 41,321
Title I	22,864
Other	27,676
	91,861
Capital projects	
Local option sales tax	179,398
	\$ 271,259

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Governmental activities				
Land	\$ 280,200			\$ 280,200
Construction in progress	12,101,756	\$ 5,525,434	\$ 12,101,756	5,525,434
Total capital assets not being depreciated	12,381,956	5,525,434	12,101,756	5,805,634
Capital assets being depreciated				
Land improvements	484,079	362,483		846,562
Buildings	9,317,343	10,430,380		19,747,723
Furniture and equipment	3,029,996	364,516	117,527	3,276,985
Total capital assets being depreciated	12,831,418	11,157,379	117,527	23,871,270
Less accumulated depreciation for				
Land improvements	330,372	34,156		364,528
Buildings	5,415,324	411,017		5,826,341
Furniture and equipment	2,233,046	206,274	101,822	2,337,498
Total accumulated depreciation	7,978,742	651,447	101,822	8,528,367
Total capital assets being depreciated, net	4,852,676	10,505,932	15,705	15,342,903
Governmental activities				
Capital assets, net	\$ 17,234,632	\$ 16,031,366	\$ 12,117,461	\$ 21,148,537
Business-type activities				
Furniture and equipment	\$ 217,606	\$ 95,395		\$ 313,001
Less accumulated depreciation	148,912	27,058	\$ None	175,970
Business-type activities				
Capital assets, net	\$ 68,694	\$ 68,337	\$ None	\$ 137,031

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets (Continued)

Depreciation expense for the year ended June 30, 2007 was charged to the governmental functions of the District as follows:

Governmental activities	
Instruction	
Regular	\$ 29,401
Special	
Other	48,407
Support services	
Instructional staff	1,723
Administration	15,895
Operation and maintenance of plant	12,913
Transportation	134,164
Unallocated depreciation	408,944
	\$ 651,447
Business-type activities	
Food services	\$ 27,058

5. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 5,850,000	\$ None	\$ 500,000	\$ 5,350,000	\$ 530,000
Tax revenue bonds	2,380,000	None	470,000	1,910,000	470,000
Capital loan notes	3,535,000	None	405,000	3,130,000	415,000
Total bonds	11,765,000	None	1,375,000	10,390,000	1,415,000
Other liabilities					
Capital leases		118,457	None	118,457	40,406
Compensated absences	22,685	11,864	22,685	11,864	11,864
Deferred compensation	28,683	1,468	None	30,151	30,151
Early retirement	1,133,079	872	372,339	761,612	248,370
Total other liabilities	1,184,447	132,661	395,024	922,084	330,791
Governmental activities					
Long-term liabilities	\$ 12,949,447	\$ 132,661	\$ 1,770,024	\$ 11,312,084	\$ 1,745,791

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, 2007. 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. 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.

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, 2007, the District has obligations to 22 participants with a total liability of \$761,612. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$372,339.

b. Bonded Indebtedness

\$4,455,000 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 3.10% 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.

\$895,000 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 1.80% to 2.4%.

\$1,910,000 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 2.65% 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.

\$3,130,000 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 \$360,940 for the year ended June 30, 2007. A summary of the bond principal and interest maturities is as follows:

Year Ending June 30,	Governmental Activities					
	Tax Revenue Bonds		General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 470,000	\$ 65,243	\$ 530,000	\$ 179,443	\$ 1,000,000	\$ 244,686
2009	475,000	51,143	565,000	167,153	1,040,000	218,296
2010	480,000	35,468	600,000	152,618	1,080,000	188,086
2011	485,000	18,188	645,000	132,818	1,130,000	151,006
2012			685,000	110,888	685,000	110,888
2013-2015			2,325,000	179,116	2,325,000	179,116
Total	\$ 1,910,000	\$ 170,042	\$ 5,350,000	\$ 922,036	\$ 7,260,000	\$ 1,092,078

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

b. Bonded Indebtedness (Continued)

Year Ending June 30,	Governmental Activities	
	Capital Notes	
	Principal	Interest
2008	\$ 415,000	\$ 87,853
2009	425,000	77,478
2010	435,000	66,853
2011	445,000	55,978
2012	455,000	43,740
2013-2016	955,000	45,610
Total	\$ 3,130,000	\$ 377,512

At June 30, 2007, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 392,579,794
Debt limit – 5% of total assessed valuation	\$ 19,628,990
Debt applicable to debt limit	
Capital loan notes	(5,350,000)
General obligation bonded debt outstanding	(5,040,000)
Legal debt margin	\$ 9,238,990

c. Capital Leases

The District is obligated under certain leases accounted for as capital leases. The leased assets are accounted for in the general fund. Capital assets under capital leases totaled \$118,457 at June 30, 2007. The following is a schedule of future minimum lease payments under capital leases as of June 30, 2007:

Year ending June 30,	
2008	\$ 40,406
2009	37,852
2010	40,199
	118,457
Imputed interest	9,615
Minimum lease payments for all capital leases	\$ 128,072

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.

NOTES TO FINANCIAL STATEMENTS

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

A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07B	1/26/06	1/25/08	\$ 978,498	\$ 22,085	\$ 981,000	\$ 17,704
2007-08A	6/27/07	6/27/08	1,610,453	481	1,613,000	397
Total			\$ 2,588,951	\$ 22,566	\$ 2,594,000	\$ 18,101

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

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07B	4.25%	5.315%
2007-08A	4.50%	5.455%

7. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

	Transfers In	Transfers Out
General fund	\$ 3,848	\$ 5,000
Capital projects fund		548,098
Nonmajor governmental	1,055,463	594,890
Enterprise fund	92,525	3,848
	\$ 1,151,836	\$ 1,151,836

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 general fund to student activity fund was to help pay for expenses incurred during the year. Transfer from the nutrition fund to the general fund was to cover employee benefits that were paid out of the general fund. Transfer from the physical plant and equipment levy fund to the nutrition fund was to pay for capital assets.

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 \$2,995 until June 2008.

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

Year ended June 30, 2008	\$ 35,940
--------------------------	-----------

Total lease expense for the year ended June 30, 2007 was \$71,631.

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, 2007, 2006, and 2005 were \$497,808, \$481,677, and \$455,324, respectively, equal to the required contributions for each year.

10. 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, 2007, 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, 2007 was unavailable as of December 13, 2007. The District contributed \$1,507,470 for the year ended June 30, 2007.

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, 2007, no liability has been recorded in the District's financial statements. As of June 30, 2007, 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.

11. Net Assets

The government-wide statement of net assets reports \$1,732,092 of restricted net assets, of which \$649,422 is restricted by enabling legislation.

12. Restatement

Beginning net assets were restated due to correction of decreasing accumulated depreciation of \$129,141 in the governmental funds. Beginning net assets were restated due to correction of recording a loss on the sale of capital assets of \$617 and recording capital assets of \$2,868 in the current fiscal year in the school nutrition fund that were expensed in the prior fiscal year.

13. Risk Management

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

NOTES TO FINANCIAL STATEMENTS

14. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$476,764 for the year ended June 30, 2007 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

15. Flexible Fringe Benefit Plan

The District sponsors a flexible fringe benefit plan as a part of its contractual obligation with its employees. The benefit available under the plan is insurance. Each participating employee can choose among medical, life, and dental insurance. The District contributes \$498 per month for full time staff and \$1,278 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 223 participants in the plan for the year ended June 30, 2007.

16. Contingencies

a. Grant Funding

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2007, 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 10, the District is contingently liable for any unreported claim or assessment in excess of their balance in the insurance pool.

17. Commitments

The total outstanding construction of the District at June 30, 2007 amount to \$597,421.

18. Related Party Transaction

During the year ended June 30, 2007, 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 \$175,785. Mr. Donhowe is a principal of A & J Petersburg Insurance Agency.

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DECORAH COMMUNITY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 OF REVENUES, EXPENDITURES, AND CHANGES IN BALANCE -
 BUDGET AND ACTUAL- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
 For the Year Ended June 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
RECEIPTS			
Local sources	\$ 11,306,441	\$ 535,569	\$ 11,842,010
Intermediate sources	-		-
State sources	6,176,068	8,583	6,184,651
Federal sources	245,963	223,292	469,255
Total receipts	17,728,472	767,444	18,495,916
DISBURSEMENTS			
Instruction	10,041,002		10,041,002
Support services	4,085,298		4,085,298
Non-instructional	37,663	761,799	799,462
Other	6,325,950		6,325,950
Total disbursements	20,489,913	761,799	21,251,712
EXCESS OF RECEIPTS OVER DISBURSEMENTS	(2,761,441)	5,645	(2,755,796)
OTHER FINANCING SOURCES, NET	(87,660)	88,677	1,017
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	(2,849,101)	94,322	(2,754,779)
FUND BALANCE, beginning of year	5,867,367	102,354	5,969,721
FUND BALANCE, end of year	\$ 3,018,266	\$ 196,676	\$ 3,214,942

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Final	
\$ 11,111,044	\$ 11,111,044	\$ 730,966
-	-	-
6,068,928	6,068,928	115,723
380,960	380,960	88,295
17,560,932	17,560,932	934,984
9,818,902	11,632,648	1,591,646
4,012,789	4,280,642	195,344
639,097	820,289	20,827
7,478,336	6,738,358	412,408
21,949,124	23,471,937	2,220,225
(4,388,192)	(5,911,005)	3,155,209
(5,000)	(5,000)	6,017
(4,393,192)	(5,916,005)	3,161,226
7,833,647	7,833,647	(1,863,926)
\$ 3,440,455	\$ 1,917,642	\$ 1,297,300

DECORAH COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2007

This budgetary comparison is presented 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 modified accrual basis. The budget was amended on May 7, 2007. Encumbrances are not recognized on the 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 \$1,528,813.

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

www.huckernelson.com

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
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 combining and individual nonmajor fund financial statements 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, 2006, 2005, and 2004, (none of which is presented herein). We expressed unqualified opinions on the 2006, 2005, and 2004 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, 2007, appearing on page 35, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 13, 2007

DECORAH COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

	Special Revenue	Debt Service	Total Nonmajor Funds
ASSETS			
Cash and pooled investments	\$ 764,727	\$ 86,494	\$ 851,221
Receivables			
Property tax			
Delinquent	10,675	5,840	16,515
Succeeding year	1,135,365	690,242	1,825,607
Accounts	1,811		1,811
Due from other funds			-
Total assets	<u>\$ 1,912,578</u>	<u>\$ 782,576</u>	<u>\$ 2,695,154</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 15,764		\$ 15,764
Salaries and benefits payable	1,539		1,539
Deferred revenue			
Succeeding year property tax	1,135,365	\$ 690,242	1,825,607
Total liabilities	<u>1,152,668</u>	<u>690,242</u>	<u>1,842,910</u>
Fund balances			
Reserved	-	92,334	92,334
Unreserved	759,910		759,910
Total fund balances	<u>759,910</u>	<u>92,334</u>	<u>852,244</u>
Total liabilities and fund balances	<u>\$ 1,912,578</u>	<u>\$ 782,576</u>	<u>\$ 2,695,154</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 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007

	Special Revenue	Debt Service	Total Nonmajor Funds
REVENUES			
Local sources			
Local property tax	\$ 1,248,280	\$ 684,713	\$ 1,932,993
Other	620,262	14,760	635,022
State sources	22,670		22,670
Total revenues	1,891,212	699,473	2,590,685
EXPENDITURES			
Current			
Instruction			
Regular instruction	957,994		957,994
Support services			
Administration services	38,126	1,600	39,726
Operation and maintenance plant services	119,246		119,246
Transportation services	47,650		47,650
Non-instructional	37,663		37,663
Other			
Long-term debt			
Principal	-	1,375,000	1,375,000
Interest and fiscal charges	-	363,645	363,645
Total expenditures	1,200,679	1,740,245	2,940,924
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	690,533	(1,040,772)	(350,239)
OTHER FINANCING SOURCES			
Transfers in	5,000	1,050,463	1,055,463
Transfers out	(594,890)		(594,890)
	(589,890)	1,050,463	460,573
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	100,643	9,691	110,334
FUND BALANCE, beginning of year	659,267	82,643	741,910
FUND BALANCE, end of year	\$ 759,910	\$ 92,334	\$ 852,244

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2007

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 262,040	\$ 336,355	\$ 166,332	\$ 764,727
Receivables				
Property tax				
Delinquent	5,085	5,590		10,675
Succeeding year	467,653	667,712		1,135,365
Accounts			1,811	1,811
Due from other funds	-			-
Total assets	\$ 734,778	\$ 1,009,657	\$ 168,143	\$ 1,912,578
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ 9,492	\$ 6,272	\$ 15,764
Salaries and benefits payable	1,539			1,539
Deferred revenue				
Succeeding year property tax	467,653	667,712		1,135,365
Total liabilities	469,192	677,204	6,272	1,152,668
Fund balances				
Reserved				-
Unreserved	265,586	332,453	161,871	759,910
Total fund balances	265,586	332,453	161,871	759,910
Total liabilities and fund balances	\$ 734,778	\$ 1,009,657	\$ 168,143	\$ 1,912,578

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, 2007

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES				
Local sources				
Local property tax	\$ 592,792	\$ 655,488		\$ 1,248,280
Other	6,504	22,621	\$ 591,137	620,262
State sources	18,442	4,228		22,670
Total revenues	617,738	682,337	591,137	1,891,212
EXPENDITURES				
Current				
Instruction				
Regular instruction	322,550		635,444	957,994
Other instruction				-
Support services				
Student services	-			-
Administration services	38,126	-		38,126
Operation and maintenance plant services	119,246	-		119,246
Transportation services	33,777	13,873		47,650
Non-instructional	37,663			37,663
Other				
Long-term debt				
Principal				-
Interest and fiscal charges				-
Facilities acquisition	-	-	-	-
Total expenditures	551,362	13,873	635,444	1,200,679
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	66,376	668,464	(44,307)	690,533
OTHER FINANCING SOURCES				
Transfers in	-		5,000	5,000
Transfers out		(594,890)		(594,890)
General obligation bonds issued				-
	-	(594,890)	5,000	(589,890)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	66,376	73,574	(39,307)	100,643
FUND BALANCE, beginning of year	199,210	258,879	201,178	659,267
FUND BALANCE, end of year	\$ 265,586	\$ 332,453	\$ 161,871	\$ 759,910

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, 2007

	Balance June 30, 2006	Revenues and Transfer In	Expenditures	Balance June 30, 2007
Permanent Transfer - General Fund	\$ 15,000	\$ 5,000		\$ 20,000
High School Student Council	2,994			2,994
High School Athletic General	(10,807)	14,685	\$ 28,364	(24,486)
High School Football	29,385	27,051	21,734	34,702
High School Basketball	37,965	37,652	35,882	39,735
High School Wrestling	1,710	16,417	10,827	7,300
High School Baseball	(12,418)	12,355	19,445	(19,508)
High School Golf	(7,111)	2,738	5,616	(9,989)
High School Track	(11,635)	9,987	13,780	(15,428)
High School Softball	(9,498)	7,089	9,781	(12,190)
High School Volleyball	1,963	10,111	9,817	2,257
High School Tennis	(2,727)	14,043	8,405	2,911
High School Cross Country	(1,115)	6,581	8,268	(2,802)
High School St. Planner	(11,982)	15	3,735	(15,702)
High School Community Club	187	611	674	124
High School Swimming	166	3,959	8,591	(4,466)
High School Choir	55		393	(338)
SADD Chapter	200			200
"D" Club	3,410	2,770	3,925	2,255
Art Club	1,636	6,665	6,056	2,245
Culture Club	398	482	869	11
Science Club	1,489	661	356	1,794
Future Farmers of America	18,288	49,382	50,632	17,038
Horticulture Club	80	158		238
Office Education	441			441
DECA	11,445	16,820	18,303	9,962
IMC Club	620	-		620
Student Assistance	1,052	583	71	1,564
High School Music	(19,832)	1,447	4,659	(23,044)
High School Instrumental Music	613	2,518	2,578	553
High School Talent Showcase	1,568			1,568
High School Yearbook	19,755	13,172	38,114	(5,187)
High School Speech	8,550	20,948	22,791	6,707
High School Dramatics	6,372	8,121	3,705	10,788
High School Orchestra	(1,788)		636	(2,424)
High School Madrigal	4,684	4,809	6,682	2,811
High School Fire Squad	(2,156)	10,540	10,748	(2,364)
High School Cheerleading	(402)	13,081	12,560	119
High School Newspaper	(392)		-	(392)
Class 2002	151		-	151
Class 2003	1	-	-	1
Class 2004	(776)	-	-	(776)
Class 2005	(1,317)	-	-	(1,317)
Class 2006	(1,297)	370	(18)	(909)
Class 2007	(536)	3,874	3,217	121
Class 2008	(4)	1,515	4,452	(2,941)
Class 2009	(4)	4	81	(81)
Class 2010	-	15	41	(26)
High School General	83,675	148,499	111,042	121,132
Sub-totals	158,056	474,728	486,812	145,972

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, 2007

	Balance June 30, 2006	Revenues and Transfer In	Expenditures	Balance June 30, 2007
Sub-totals	\$ 158,056	\$ 474,728	\$ 486,812	\$ 145,972
Middle School Athletic General	165		-	165
Middle School Football	(3,695)	1,446	2,914	(5,163)
Middle School Cross Country	-	16	1,470	(1,454)
Middle School Basketball	(8,107)	2,055	4,411	(10,463)
Middle School Wrestling	(783)	277	872	(1,378)
Middle School Track	(3,490)	673	2,093	(4,910)
Middle School Volleyball	(2,987)	1,133	1,240	(3,094)
Middle School Music	(426)		129	(555)
Middle School Soccer	(7,859)	8,861	12,226	(11,224)
Middle School Library Club	837			837
Middle School Outdoor Ed	(2,584)	5,651	7,473	(4,406)
Middle School East Side Use	165			165
Middle School Yearbook	(11,261)	780	5,707	(16,188)
Scholarships	4,505			4,505
Middle School General	(834)	677	1,477	(1,634)
Middle School Fund Raising	57,028	42,887	71,336	28,579
Middle School Student Council	1	789	745	45
Middle School Cheerleading	230		20	210
Sesquicentennial	40			40
Elementary Fund Raising	3,585	10,976	9,353	5,208
Investments	10,894	7,449	93	18,250
Vocational Ag	418			418
Vocational	377	2,113	2,366	124
A/P Exam Testing	1,278	6,753	5,709	2,322
DHS Wall Of Fame	214		125	89
DVABC	-	18,873	18,873	-
Decorah Cares	-			-
W/S Elementary General	5,411	10,000		15,411
	<u>\$ 201,178</u>	<u>\$ 596,137</u>	<u>\$ 635,444</u>	<u>\$ 161,871</u>

DECORAH COMMUNITY SCHOOL DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
For the Years Ended June 30,

	Modified Accrual			
	2007	2006	2005	2004
REVENUES				
Local sources				
Local tax	\$ 6,341,796	\$ 5,998,168	\$ 5,715,624	\$ 4,788,589
Tuition	2,624,750	2,533,470	2,114,518	2,051,186
Other	2,339,895	2,703,281	2,009,289	1,751,257
Intermediate sources	-	-	21,485	12,751
State sources	6,176,068	5,783,248	5,488,689	5,568,314
Federal sources	245,963	240,641	252,791	270,532
Total revenues	\$ 17,728,472	\$ 17,258,808	\$ 15,602,396	\$ 14,442,629
EXPENDITURES				
Current				
Instruction				
Regular instruction	\$ 6,195,772	\$ 6,131,923	\$ 5,883,790	\$ 5,005,459
Special instruction	2,782,024	2,841,924	2,389,212	2,663,282
Other instruction	1,063,206	1,067,063	1,050,483	1,231,424
Support services				
Student services	311,136	288,598	308,740	280,259
Instructional staff services	673,653	540,396	525,972	535,201
Administration services	1,254,791	1,093,675	976,645	1,143,570
Operation and maintenance plant services	1,143,162	1,161,498	1,018,698	1,027,393
Transportation services	702,556	660,791	634,698	637,563
Central support	-	-	-	-
Non-instructional	37,663	36,350	1,638	3,276
Other				
Facilities acquisition	4,110,541	4,930,220	6,897,137	1,171,147
Long-term debt				
Principal	1,375,000	1,319,958	1,180,800	3,080,000
Interest and fiscal charges	363,645	397,332	273,976	215,231
AEA flowthrough	476,764	453,211	450,267	456,353
Total expenditures	\$ 20,489,913	\$ 20,922,939	\$ 21,592,056	\$ 17,450,158

See Independent Auditor's Report on the Supplementary Information.

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

www.hackernelson.com

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 INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Decorah Community School District as of and for the year ended June 30, 2007, which collectively comprise Decorah Community School District's basic financial statements and have issued our report thereon dated December 13, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Decorah Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Decorah Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Decorah Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Decorah Community School District's financial statements that is more than inconsequential will not be prevented or detected by the Decorah Community School District's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

1. Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Obtaining additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

2. Overlapping Duties

The District's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the District is not large enough to permit a segregation of duties for effective internal controls, we believe that it is important that the Board be aware that this condition does exist.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Decorah Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

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 December 13, 2007.

Decorah Community School District's response to the findings identified in our audit is described above. We did not audit Decorah Community School District's response and, accordingly, we express no opinion on it.

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.

Hasher, Nelson + Co., P.C.

Decorah, Iowa
December 13, 2007

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
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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 Decorah Community School District for the year ended June 30, 2007, 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 control or state statutory compliance matters, accordingly, we provide no such assurance.

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 December 13, 2007 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated December 13, 2007, on the financial statements of the Decorah Community School District. Comment numbers 4 and 10 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the District's responses and, accordingly, we express no opinion on them.

1. Certified Budget
Disbursements for the year ended June 30, 2007 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
No business transactions between the District and District officials or employees were noted.

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: \$175,785

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. We did find that four cash and investment accounts were closed during the year without Board approval.

Recommendation

We recommend that all accounts being closed receive Board approval prior to action being taken.

Response

Accounts to be closed will be taken to the Board in the future.

Conclusion

Response accepted.

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. Deficit Balances

Several student activity accounts had deficit balances at June 30, 2007.

Recommendation

The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response

The sponsors, principals and Board will actively review deficit accounts and try to bring them to a positive balance.

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.

Hatcher, Nelson & Co., P.C.

Decorah, Iowa
December 13, 2007