

**DECORAH COMMUNITY
SCHOOL DISTRICT**

DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2008

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DECORAH COMMUNITY SCHOOL DISTRICT
BOARD OF EDUCATION AND SCHOOL OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
<u>Board of Education</u> (After September 2007 Election)			
Ramona Nelson	President	Decorah, Iowa	September 2008
Melanie Tietz	Vice-President	Decorah, Iowa	September 2008
David Ranum	Member	Decorah, Iowa	September 2009
Brian Petersburg	Member	Decorah, Iowa	September 2010
Richard Valley	Member	Decorah, Iowa	September 2009

<u>Board of Education</u> (Before September 2007 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

School Officials for 2007-08

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

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P.O. Box 507
Decorah, Iowa 52101
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**INDEPENDENT AUDITOR'S REPORT ON THE
THE FINANCIAL STATEMENTS**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Decorah Community School District as of and for the year ended June 30, 2008, 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, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2008, 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 important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 3 and pages 27 through 28, 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.

Decorah, Iowa
December 3, 2008

Hacker, Nelson & Co., P.C.

**DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA**

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2008**

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, 2008.

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 2008 fiscal year include the following:

In total, net assets increased by \$1,438,886 or 9.77% from fiscal 2007. Net assets in governmental activities increased \$1,442,897, which represented a 9.92% increase from fiscal year 2007 which is a smaller increase than what was reported for fiscal year ending June 30, 2007. The District is receiving more in revenues than they have in expense. Net assets in the business-type activity, which represents the District's food service operations, decreased \$4,011 which represented a 2.21% decrease from fiscal year 2007. Increases in operating expenses are the primary reasons for the decrease.

General fund revenues (which include the instructional support fund) accounted for \$13,992,221 in revenue or 77.6% of all revenues. General fund expenses (which include the instructional support fund) accounted for \$14,452,043 in expenditures or 78.8% of all expenses.

The District's beginning net assets were restated due to omission of capital assets of \$1,734,474.

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 2008 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 2008 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 2008 totaled \$16,168,622, an increase of 24.3% from the previous fiscal year.

	Condensed Statement of Net Assets						
	(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2008	2007	2008	2007	2008	2007	
Current and other assets	\$ 13,734	\$ 13,591	\$ 124	\$ 114	\$ 13,858	\$ 13,705	1.12%
Capital assets	22,923	21,149	115	137	23,038	21,286	8.23%
Total assets	36,657	34,740	239	251	36,896	34,991	
Long-term debt outstanding	9,589	9,566	-	-	9,589	9,566	0.24%
Other liabilities	11,077	12,360	62	54	11,139	12,414	-10.27%
Total liabilities	20,666	21,926	62	54	20,728	21,980	
Net assets							
Invested in capital assets, net of related debt	13,870	10,640	115	137	13,985	10,777	29.77%
Restricted	1,910	1,732	-	-	1,910	1,732	10.28%
Unrestricted	211	442	62	60	273	502	-45.62%
Total net assets	\$ 15,991	\$ 12,814	\$ 177	\$ 197	\$ 16,168	\$ 13,011	

The following analysis shows the change in net assets for the year ending June 30, 2008:

	Changes in Net Assets (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2008	2007	2008	2007	2008	2007		
Revenues:								
Program revenue								
Charges for service	\$ 3,210	\$ 3,257	\$ 557	\$ 533	\$ 3,767	\$ 3,790		-0.61%
Operating grants	1,540	1,362	248	232	1,788	1,594		-10.85%
General revenue								
Property taxes	6,030	6,106	-	-	6,030	6,106		-1.24%
Sales tax and surtax	1,334	1,466	-	-	1,334	1,466		-9.00%
Unrestricted state grants	5,208	5,034	-	-	5,208	5,034		3.46%
Unrestricted investment earnings	262	344	2	2	264	346		-23.70%
Other revenue	298	56	-	89	298	145		105.52%
Total revenues	<u>17,882</u>	<u>17,625</u>	<u>807</u>	<u>856</u>	<u>18,689</u>	<u>18,481</u>		
Program expenses:								
Instruction	10,382	9,762	-	-	10,382	9,762		6.35%
Student support	305	294	-	-	305	294		3.74%
Instructional Staff Services	606	675	-	-	606	675		-10.22%
Administration Services	1,410	1,229	-	-	1,410	1,229		14.73%
Operation & Maintenance Services	1,315	1,156	-	-	1,315	1,156		13.75%
Transportation Services	1,173	519	-	-	1,173	519		126.01%
Long Term Debt Interest	331	361	-	-	331	361		-8.31%
AEA Flow Thru	496	477	-	-	496	477		3.98%
Non-instructional programs	16	38	811	762	827	800		3.38%
Depreciation (unallocated)	404	409	-	-	404	409		-1.22%
Total expenses	<u>16,438</u>	<u>14,920</u>	<u>811</u>	<u>762</u>	<u>17,249</u>	<u>15,682</u>		
Increase (decrease) in net assets	1,444	2,705	(4)	94	1,440	2,799		-48.55%
Net assets Beginning of Year	14,547	10,109	181	103	14,728	10,212		44.22%
Net assets End of Year	<u>\$ 15,991</u>	<u>\$ 12,814</u>	<u>\$ 177</u>	<u>\$ 197</u>	<u>\$ 16,168</u>	<u>\$ 13,011</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 \$2,694,179, a \$324,087 decrease from the 2007 fiscal year end balance of \$3,018,266.

- The general fund expenditures increased during fiscal year 2008 for instruction and support services. The ending fund balance showed a decrease from the prior year of \$453,018.
- The capital projects fund ending fund balance showed an increase primarily due to the completion of the renovation of Carrie Lee Elementary School. Facilities acquisition expenditures decreased \$3,125,911 which represented a 76.0% decrease from fiscal year 2007. The ending fund balance showed an increase from the prior year of \$145,171.

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 expenditure 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 2008 fiscal year due to increases in categorical funding for special education costs, energy and supply costs and increases in business activity operational costs.

The following chart shows the original and amended budget for fiscal 2008 as well as the actual revenue and expenditures for the year:

		Budgetary Comparison Schedule (Expressed in Thousands)			
		Budget Amounts			
		Actual	Original	Final	Variance
Revenues					
Local sources	\$	11,805	\$ 11,558	\$ 11,558	\$ 247
Intermediate sources		-	-	-	-
State sources		6,498	6,508	6,508	(10)
Federal sources		524	409	409	115
Total revenues		\$ 18,827	\$ 18,475	\$ 18,475	\$ 352
Expenditures					
Instruction	\$	10,686	\$ 10,155	\$ 11,420	\$ 734
Student support		4,419	4,339	4,675	256
Non-instructional programs		826	765	820	(6)
Other expenses		3,230	3,715	3,716	486
Total expenditures		\$ 19,161	\$ 18,974	\$ 20,631	\$ 1,470

Capital Assets and Debt Administration

Capital Assets

At the end of the 2008 fiscal year, the District had invested \$23,038,358 (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 \$662,327 for fiscal 2008 and total accumulated depreciation of \$9,169,833 as of June 30, 2008. The following chart shows the comparison in capital assets for 2007 and 2008:

	Capital Assets (net of depreciation)						
	(Expressed in Thousands)						
	Governmental		Business-type		Total		Percent
	Activities		Activities		Total		
2008	2007	2008	2007	2008	2007	Change	
Land	\$ 280	\$ 280	\$ -	\$ -	\$ 280	\$ 280	0.00%
Construction in Progress	1,126	5,526	-	-	1,126	5,526	-79.62%
Land Improvements	460	482	-	-	460	482	-4.56%
Buildings	20,134	13,922	-	-	20,134	13,922	44.62%
Furniture & Equipment	924	939	115	137	1,039	1,076	-3.44%
Total	\$ 22,924	\$ 21,149	\$ 115	\$ 137	\$ 23,039	\$ 21,286	

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

Debt

As of June 30, 2008 the District had \$9,588,759 in long-term debt outstanding compared to \$11,312,084 on June 30, 2007. The following chart shows the debt comparison between 2007 and 2008:

	Long-term Debt Obligations			
	Balance			Balance
	July 1, 2007	Additions	Reductions	June 30, 2008
Bonds/Capital Loan Notes				
General Obligation	\$ 5,350,000		\$ 530,000	\$ 4,820,000
Sales Tax Revenue	1,910,000		470,000	1,440,000
Capital Loan Notes	3,130,000		415,000	2,715,000
Total Bonds/Capital Loan Notes	10,390,000	-	1,415,000	8,975,000
Other Liabilities				
Capital Leases	118,457	\$ -	40,406	78,051
Compensated Absences	11,864	22,467	11,864	22,467
Deferred Compensation	30,151	-	30,151	-
Early Retirement	761,612	-	248,371	513,241
Total Other Liabilities	922,084	22,467	330,792	613,759
Total Long-term Debt	\$ 11,312,084	\$ 22,467	\$ 1,745,792	\$ 9,588,759

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

Current Issues

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

- Revenue received by the State of Iowa for regular program costs for fiscal year 2008 remained at original budgeted projections. For fiscal year 2009, state aid will be 60.62% of the \$5,560 the District receives per student. This compares to 61.9% of the \$5,347 the District received per student for 2007.
- Enrollment for 2008 increased by 26.7 students from 2007. The number of open enrollment students from neighboring district's increased by 11.0, the number of open enrollment students attending neighboring district's decreased by 1.1 students, and the number of whole grade sharing students from North Winneshiek Community Schools increased by 13 students from 2007. The District also has special education students from other districts. In 2008, the number decreased to 88 from 92, a decrease of 4. 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 2009. 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 11.03% in the last five years. The District's assessed valuation increased by \$23,267,947 this past year. The assessed valuation will go up for the following year due to Decorah's continued growth.
- Revenue received from the one-cent local option sales tax decreased by \$328,175 to \$991,850 for 2008. Retail sales in Winneshiek County remain constant. The City of Decorah is currently experiencing nearly 100% occupancy downtown and anticipates steady retail sales for 2009 despite the depressed economy. The Estimated Local Option Sales Tax or SAVE monthly distribution from the State of Iowa received on August 14, 2008, states that the District will receive an estimated \$1,125,950.18 from August 2008 to July 2009. This distribution is up \$66,320 from the previous year. The distribution is 95% of the estimated Local Option Collections.
- 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 was discontinued when State Technology Funding was dropped by the Iowa Legislature in fiscal 2003.
- Construction began on the Carrie Lee playground, Carrie Lee exterior renovations, and fiber optic loop project. The District was a recipient of an anonymous donation of \$300,000 for the deconstruction of East Side with the remaining funds being utilized for the playground construction.
- The 2008 Iowa Legislature's passage of the State Penny for School Infrastructure means voters of the District will decide on how that money is spent. It provides a more stable and equitable funding for school facility improvements. The current tax for Decorah is in effect for a period of ten years which started on July 1, 2001, and ends June 30, 2011. The voters of the District must decide now by district, rather than county on how to spend the money. Section 423F.3 requires that the board adopt a Revenue Purpose Statement, subject to the approval of the electors, listing the proposed use of funds. This will be done by an election. This tax will sunset in 2029.

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, 2008

ASSETS	Governmental Activities	Business-type Activities	Total
Cash and pooled investments			
Other	\$ 4,100,866	\$ 95,610	\$ 4,196,476
ISCAP	2,935,744		2,935,744
Receivables			
Property tax			
Delinquent	41,079		41,079
Succeeding year	6,250,139		6,250,139
Accounts	4,209	2,187	6,396
Accrued interest	25,811		25,811
Due from other governments	375,604		375,604
Inventories		26,463	26,463
Capital assets, non-depreciable	1,406,175		1,406,175
Capital assets, net of accumulated depreciation	21,517,251	114,932	21,632,183
Total assets	\$ 36,656,878	\$ 239,192	\$ 36,896,070
LIABILITIES			
Accounts payable	\$ 389,858	\$ 10,754	\$ 400,612
Salaries and benefits payable	1,428,800	50,955	1,479,755
Accrued interest payable	37,708		37,708
ISCAP accrued interest payable	806		806
ISCAP bond premium	53,669		53,669
Deferred revenue			
Succeeding year property tax	6,250,139		6,250,139
ISCAP warrants payable	2,916,000		2,916,000
Long-term liabilities			
Portion due within one year			
Capital lease payable	37,852		37,852
Bonds payable	1,465,000		1,465,000
Compensated absences	22,467		22,467
Early retirement	179,319		179,319
Portion due after one year			
Capital lease payable	40,199		40,199
Bonds payable	7,510,000		7,510,000
Early retirement	333,922		333,922
Total liabilities	20,665,739	61,709	20,727,448
NET ASSETS			
Invested in capital assets, net of related debt	13,870,375	114,932	13,985,307
Restricted for			
Debt service	45,612		45,612
Capital projects	1,227,841		1,227,841
Other purposes	636,501		636,501
Unrestricted	210,810	62,551	273,361
Total net assets	15,991,139	177,483	16,168,622
Total liabilities and net assets	\$ 36,656,878	\$ 239,192	\$ 36,896,070

See Notes to Financial Statements.

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DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
Governmental activities			
Instruction			
Regular instruction	\$ 5,070,107	\$ 1,031,919	\$ 869,392
Special instruction	2,931,951	1,514,929	148,577
Other instruction	2,380,407		5,917
	<u>10,382,465</u>	<u>2,546,848</u>	<u>1,023,886</u>
Support services			
Student services	304,996	643,094	
Instructional staff services	606,304		
Administration services	1,409,982		
Operation and maintenance plant services	1,315,289	13,372	
Transportation services	1,172,644		19,732
	<u>4,809,215</u>	<u>656,466</u>	<u>19,732</u>
Non-instructional			
	<u>15,926</u>	<u>6,840</u>	
Other			
Long-term debt	330,893		
Facilities acquisition			
AEA flowthrough	496,088		496,088
Depreciation (unallocated)	404,117		
	<u>1,231,098</u>		<u>496,088</u>
Total governmental activities	16,438,704	3,210,154	1,539,706
Business-type activities			
Non-instructional programs			
Nutrition services	810,606	556,931	247,500
Total	\$ 17,249,310	\$ 3,767,085	\$ 1,787,206
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
\$ (3,168,796)		\$ (3,168,796)
(1,268,445)		(1,268,445)
(2,374,490)		(2,374,490)
<u>(6,811,731)</u>		<u>(6,811,731)</u>
338,098		338,098
(606,304)		(606,304)
(1,409,982)		(1,409,982)
(1,301,917)		(1,301,917)
(1,152,912)		(1,152,912)
<u>(4,133,017)</u>		<u>(4,133,017)</u>
(9,086)		(9,086)
(330,893)		(330,893)
-		-
-		-
(404,117)		(404,117)
<u>(735,010)</u>		<u>(735,010)</u>
(11,688,844)		(11,688,844)
	\$ (6,175)	(6,175)
<u>(11,688,844)</u>	<u>(6,175)</u>	<u>(11,695,019)</u>
4,203,951		4,203,951
467,799		467,799
667,901		667,901
690,437		690,437
1,333,682		1,333,682
5,207,842		5,207,842
262,096	2,164	264,260
298,033		298,033
-	-	-
<u>13,131,741</u>	<u>2,164</u>	<u>13,133,905</u>
1,442,897	(4,011)	1,438,886
<u>14,548,242</u>	<u>181,494</u>	<u>14,729,736</u>
<u>\$ 15,991,139</u>	<u>\$ 177,483</u>	<u>\$ 16,168,622</u>

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and pooled investments				
Other	\$ 1,959,854	\$ 1,288,430	\$ 852,582	\$ 4,100,866
ISCAP	2,935,744			2,935,744
Receivables				
Property tax				
Delinquent	28,818		12,261	41,079
Succeeding year	4,398,297		1,851,842	6,250,139
Accounts	415	-	3,794	4,209
Accrued interest	25,811			25,811
Due from other governments	198,988	176,616		375,604
Total assets	<u>\$ 9,547,927</u>	<u>\$ 1,465,046</u>	<u>\$ 2,720,479</u>	<u>\$ 13,733,452</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 120,021	\$ 237,205	\$ 32,633	\$ 389,859
Salaries and benefits payable	1,428,800		-	1,428,800
ISCAP warrants payable	2,916,000			2,916,000
Accrued interest payable	806			806
Bond premium	53,669			53,669
Deferred revenue				
Succeeding year property tax	4,398,297		1,851,842	6,250,139
Total liabilities	<u>8,917,593</u>	<u>237,205</u>	<u>1,884,475</u>	<u>11,039,273</u>
Fund balances				
Reserved for				
Debt service			83,319	83,319
Unreserved, reported in				
General fund	630,334			630,334
Special revenue funds			752,685	752,685
Capital projects fund		1,227,841		1,227,841
Total fund balances	<u>630,334</u>	<u>1,227,841</u>	<u>836,004</u>	<u>2,694,179</u>
Total liabilities and fund balances	<u>\$ 9,547,927</u>	<u>\$ 1,465,046</u>	<u>\$ 2,720,479</u>	<u>\$ 13,733,452</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$	2,694,179
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 \$ 8,977,066		22,923,426
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		(78,051)
Bonds payable		(8,975,000)
Compensated absences		(22,467)
Accrued interest		(37,707)
Early retirement		(513,241)
Deferred compensation		-
Net assets of governmental activities per Exhibit A	\$	<u>15,991,139</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES				
Local sources				
Local property tax	\$ 4,456,085		\$ 1,826,137	\$ 6,282,222
Tuition	2,553,688			2,553,688
Other	231,948	\$ 1,241,500	958,838	2,432,286
State sources	6,465,388		1,261	6,466,649
Federal sources	285,112			285,112
Total revenues	13,992,221	1,241,500	2,786,236	18,019,957
EXPENDITURES				
Current				
Instruction				
Regular instruction	5,053,577		923,173	5,976,750
Special instruction	2,931,951			2,931,951
Other instruction	1,777,746		-	1,777,746
	<u>9,763,274</u>		<u>923,173</u>	<u>10,686,447</u>
Support services				
Student services	327,704		-	327,704
Instructional staff services	604,581			604,581
Administration services	1,397,662	13,935	28,101	1,439,698
Operation and maintenance plant services	1,157,805		148,815	1,306,620
Transportation services	704,929		35,086	740,015
	<u>4,192,681</u>	<u>13,935</u>	<u>212,002</u>	<u>4,418,618</u>
Non-instructional			<u>15,926</u>	<u>15,926</u>
Other				
Long-term debt				
Principal			1,415,000	1,415,000
Interest and fiscal charges			334,139	334,139
Facilities acquisition		546,752	437,878	984,630
AEA flowthrough	496,088			496,088
	<u>496,088</u>	<u>546,752</u>	<u>2,187,017</u>	<u>3,229,857</u>
Total expenditures	14,452,043	560,687	3,338,118	18,350,848
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(459,822)	680,813	(551,882)	(330,891)
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers (out)		(535,642)	1,038,895	1,038,895
Sale of capital assets	6,804		(503,253)	(1,038,895)
	<u>6,804</u>	<u>(535,642)</u>	<u>535,642</u>	<u>6,804</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	(453,018)	145,171	(16,240)	(324,087)
FUND BALANCE, beginning of year	1,083,352	1,082,670	852,244	3,018,266
FUND BALANCE, end of year	\$ 630,334	\$ 1,227,841	\$ 836,004	\$ 2,694,179

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, 2008

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	\$	(324,087)
<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	\$	(643,885)
Capital outlays	829,457	185,572
<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>		
		1,415,000
<p>The net effect of disposal of capital assets</p>		
		(145,157)
<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>		
		3,244
<p>Some payments reported as expenditures in the governmental funds are reported as changes in liabilities in the statement of net assets.</p>		
Capital leases	40,406	
Compensated absences	(10,603)	
Early retirement	248,371	
Deferred compensation	30,151	308,325
Change in net assets of governmental activities per Exhibit B	\$	1,442,897

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2008

	School Nutrition Fund
ASSETS	
CURRENT ASSETS	
Cash	\$ 95,610
Accounts receivable	2,187
Due from other governments	-
Inventories	26,463
Total current assets	124,260
NONCURRENT ASSETS	
Furniture and equipment	307,699
Less accumulated depreciation	(192,767)
Total noncurrent assets	114,932
Total assets	\$ 239,192
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 10,754
Salaries and benefits payable	50,955
Total liabilities	61,709
NET ASSETS	
Invested in capital assets, net of related debt	114,932
Unrestricted	62,551
Total net assets	177,483
Total liabilities and net assets	\$ 239,192

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, 2008

	School Nutrition Fund
OPERATING REVENUES	
Local sources	
Charges for services	\$ 556,931
Total operating income	556,931
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	346,492
Purchased services	11,164
Supplies	434,508
Depreciation	18,442
Total operating expenses	810,606
Operating (loss)	(253,675)
NONOPERATING REVENUES (EXPENSES)	
Interest on investments	2,164
State sources	8,516
Federal sources	238,984
Total nonoperating revenues (expenses)	249,664
NET LOSS	(4,011)
Net assets, beginning of year, restated	181,494
Net assets, end of year	\$ 177,483

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2008

	School Nutrition Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	\$ 539,061
Cash received from miscellaneous operating activities	16,540
Cash payments to employees for services	(233,491)
Cash payments to suppliers for goods and services	(436,785)
Cash payments paid on employees' behalf	(106,529)
Other payments	(15,134)
	(236,338)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State grants and federal grants received	247,500
	(11,525)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(11,525)
	2,164
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	2,164
	1,801
CASH, beginning of year	93,809
CASH, end of year	\$ 95,610
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (253,675)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	18,442
Increase in accounts receivable	(1,332)
Increase in inventories	(7,050)
Increase in accounts payable	804
Increase in salaries and benefits payable	6,473
	\$ (236,338)

Non-cash, noncapital financing activities:

During the year ended June 30, 2008, the District received commodities valued at \$55,651.

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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2007.

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, 2008 was used to calculate the salaries payable.

Deferred Revenue

In the fund financial statements certain revenues are measurable, however they are not available. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of 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.

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments

The District's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	Amortized Cost
Diversified portfolio	\$ 60,833
Direct Government Obligations Portfolio	2,261,044
Total	\$ 2,321,877

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, 2008:

Governmental	
General fund	
Non-public transportation	\$ 20,337
Title IIA	44,172
Title I	22,923
Other	9,480
	96,912
Capital projects	
Local option sales tax	176,616
	\$ 273,528

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities				
Land	\$ 280,200			\$ 280,200
Construction in progress	7,259,908	\$ 563,930	\$ 6,697,863	1,125,975
Total capital assets not being depreciated	7,540,108	563,930	6,697,863	1,406,175
Capital assets being depreciated				
Land improvements	846,562	7,670		854,232
Buildings	19,747,723	6,697,863	206,682	26,238,904
Furniture and equipment	3,276,985	257,857	133,661	3,401,181
Total capital assets being depreciated	23,871,270	6,963,390	340,343	30,494,317
Less accumulated depreciation for				
Land improvements	364,528	29,962		394,490
Buildings	5,826,341	406,083	127,130	6,105,294
Furniture and equipment	2,337,498	207,840	68,056	2,477,282
Total accumulated depreciation	8,528,367	643,885	195,186	8,977,066
Total capital assets being depreciated, net	15,342,903	6,319,505	145,157	21,517,251
Governmental activities				
Capital assets, net	\$ 22,883,011	\$ 6,883,435	\$ 6,843,020	\$ 22,923,426
Business-type activities				
Furniture and equipment	\$ 296,174	\$ 11,525	\$ None	\$ 307,699
Less accumulated depreciation	174,325	18,442		192,767
Business-type activities				
Capital assets, net	\$ 121,849	\$ (6,917)	\$ None	\$ 114,932

NOTES TO FINANCIAL STATEMENTS

4. **Capital Assets (Continued)**

Depreciation expense for the year ended June 30, 2008 was charged to the governmental functions of the District as follows:

Governmental activities		
Instruction		
Regular	\$	31,079
Special		
Other		50,741
Support services		
Instructional staff		1,723
Administration		10,936
Operation and maintenance of plant		12,913
Transportation		132,376
Unallocated depreciation		404,117
	\$	<u>643,885</u>
 Business-type activities		
Food services	\$	<u>18,442</u>

5. **Long-term Debt Obligations**

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 5,350,000	\$ None	\$ 530,000	\$ 4,820,000	\$ 565,000
Tax revenue bonds	1,910,000	None	470,000	1,440,000	475,000
Capital loan notes	3,130,000	None	415,000	2,715,000	425,000
Total bonds	<u>10,390,000</u>	<u>None</u>	<u>1,415,000</u>	<u>8,975,000</u>	<u>1,465,000</u>
 Other liabilities					
Capital leases	118,457	None	40,406	78,051	37,852
Compensated absences	11,864	22,467	11,864	22,467	22,467
Deferred compensation	30,151	None	30,151	None	None
Early retirement	761,612	None	248,371	513,241	179,319
Total other liabilities	<u>922,084</u>	<u>22,467</u>	<u>330,792</u>	<u>613,759</u>	<u>239,638</u>
 Governmental activities					
Long-term liabilities	<u>\$ 11,312,084</u>	<u>\$ 22,467</u>	<u>\$ 1,745,792</u>	<u>\$ 9,588,759</u>	<u>\$ 1,704,638</u>

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

a. Early Retirement

The District had offered a voluntary early retirement plan to its staff and certified employees. Eligible employees must be at least age fifty-five, employees must have completed fifteen years of cumulative service to the District, and the sum of the person's age and the total number of years of public school employment must equal at least 80 years on August 15, 2006. Employees must complete an application, which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee ages 55 through 62 is 50% of the employee's current regular salary schedule. The District is obligated to pay between \$273 and \$439 a month of health insurance for five years or until the employee reaches the age 65, whichever comes first. The plan was eliminated as of July 1, 2006. Currently enrolled participants will continue to receive their benefits; however, additional employees are not 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, 2008, the District has obligations to 14 participants with a total liability of \$513,241. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$248,371.

b. Bond Indebtedness

\$4,385,000 2004B General Obligation School Serial Bonds, due annually in varying installments July 1, 2008 through June 1, 2015 plus interest semi-annually with interest rates of the bonds varying from 3.15% 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.

\$435,000 2004 General Obligation School Refunding Serial Bonds, due annually in varying installments July 1, 2008 through June 1, 2009 plus interest semi-annually with interest rates of the bonds varying from 2.2% to 2.4%.

\$1,440,000 2004 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due annually beginning on July 1, 2008 through June 1, 2011 plus interest semi-annually with interest rates of the bonds varying from 3.0% 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.

\$2,715,000 2004B General Obligation School Capital Loan Notes, due annually in varying installments July 1, 2008 through June 1, 2014 plus interest semi-annually with interest rates of the bonds varying from 2.5% 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 \$330,893 for the year ended June 30, 2008. 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	
2009	\$ 475,000	\$ 51,142	\$ 565,000	\$ 167,153	\$ 1,040,000	\$ 218,295	
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			730,000	86,913	730,000	86,913	
2014-2015			1,595,000	92,203	1,595,000	92,203	
Total	\$ 1,440,000	\$ 104,798	\$ 4,820,000	\$ 742,593	\$ 6,260,000	\$ 847,391	

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

b. Bond Indebtedness (Continued)

Year Ending June 30,	Governmental Activities	
	Capital Notes	
	General Obligation	
	Principal	Interest
2009	\$ 425,000	\$ 77,478
2010	435,000	66,853
2011	445,000	55,978
2012	455,000	43,740
2013	470,000	30,090
2014-2015	485,000	15,520
 Total	\$ 2,715,000	\$ 289,659

The District has pledged future local option sales and services tax revenues to repay the \$3,800,000 bonds issued in September 2003. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$1,544,798. For the current year, \$470,000 principal and \$65,243 interest was paid on the bonds and total local option sales and services tax revenues were \$1,081,548.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$380,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account. This amount is reported in the capital projects fund and is restricted.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The District complied with all of the revenue bond provisions during the year ended June 30, 2008. The required Reserve Account was established by the District and no transfers were made to the Sinking Account.

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

b. Bond Indebtedness (Continued)

At June 30, 2008, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 399,863,606
Debt limit – 5% of total assessed valuation	\$ 19,993,180
Debt applicable to debt limit	
General obligation	
Capital loan notes	(2,715,000)
Bonded debt outstanding	(6,260,000)
Legal debt margin	\$ 11,018,180

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 \$78,051 at June 30, 2008. The following is a schedule of future minimum lease payments under capital leases as of June 30, 2008:

	Year ending June 30,	
	2009	\$ 37,852
	2010	40,199
		78,051
Imputed interest		7,330
Minimum lease payments for all capital leases		\$ 85,381

6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

	Transfers In	Transfers Out	
Capital projects fund		\$ 535,642	
Nonmajor governmental	\$ 1,038,895	503,253	
	\$ 1,038,895	\$ 1,038,895	

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.

7. Fund Equity

The amounts restricted at June 30, 2008 are as follows:

Restricted net assets	
Debt service fund	\$ 45,612
Capital projects fund	1,227,841
Management fund	345,869
Plant, property and equipment levy fund	290,632
	\$ 1,909,954

NOTES TO FINANCIAL STATEMENTS

8. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semi-annual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semi-annual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program.

A summary of the District's participation in ISCAP as of June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08B	1/23/08	1/23/09	\$ 816,613	\$ 25,008	\$ 814,000	
2008-09A	6/27/08	6/27/09	2,119,131	803	2,102,000	\$ 806
Total			\$ 2,935,744	\$ 25,811	\$ 2,916,000	\$ 806

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
2007-08B	3.75%	3.451%
2008-09A	3.50%	3.469%

9. 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 \$3,050 until June 2009.

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

Year ended June 30, 2009	<u>\$ 36,600</u>
--------------------------	------------------

Total lease expense for the year ended June 30, 2008 was \$78,631.

10. 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 3.90%, 3.70%, and 3.70% of their annual covered salary and the District is required to contribute 6.05%, 5.75%, and 5.75% of annual covered payroll for the years ended June 30, 2008, 2007, and 2006, respectively. Contribution requirements are established by state statute.

The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$550,924, \$497,808, and \$481,677, respectively, equal to the required contributions for each year.

11. Employee Insurance Plan

The District participates in the Northeast Iowa Conference Schools 28E Retention Pool Trust to provide a medical, dental, life, disability, and welfare plan for its employees and their families. The Trust composes the District and ten other districts that create the 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 \$95,000 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, 2008, since the pool arrangement allows the Trust to make additional assessments to members. The District contributed \$1,169,769 for the year ended June 30, 2008.

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, 2008, no liability has been recorded in the District's financial statements. As of June 30, 2008, 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.

12. Net Assets

The District-wide statement of net assets reports \$1,909,954 of restricted net assets, of which \$682,113 is restricted by enabling legislation.

13. Risk Management

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

14. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$496,088 for the year ended June 30, 2008 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 \$499 per month for full time classified staff, \$528 per month for full time certified staff and \$1,355 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 228 participants in the plan for the year ended June 30, 2008.

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, 2008, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

b. Insurance Plan

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

17. Commitments

The total outstanding construction of the District at June 30, 2008 amount to \$838,715.

18. Related Party Transaction

During the year ended June 30, 2008, the District entered into a business transaction with a District official, Board member Brian Petersburg. The transaction consisted of insurance policies with total payments to A & J Petersburg Insurance Agency of \$186,308. Mr. Petersburg is a principal of A & J Petersburg Insurance Agency.

19. Restatement

Net assets invested in capital assets, net of related debt was restated due to the omission of Carrie Lee construction in progress as of June 30, 2007 in the amount of \$1,734,474. Net assets invested in capital assets, net of related debt was restated for the nutrition fund due to reclassification of assets as of June 30, 2008 in the amount of \$15,182.

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DECORAH COMMUNITY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -
BUDGET AND ACTUAL- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
For the Year Ended June 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
REVENUES			
Local sources	\$ 11,268,196	\$ 559,095	\$ 11,827,291
State sources	6,466,649	8,516	6,475,165
Federal sources	285,112	238,984	524,096
Total revenues	18,019,957	806,595	18,826,552
EXPENDITURES/EXPENSES			
Instruction	10,686,447		10,686,447
Support services	4,418,618		4,418,618
Non-instructional	15,926	810,606	826,532
Other	3,229,857		3,229,857
Total expenditures/expenses	18,350,848	810,606	19,161,454
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	(330,891)	(4,011)	(334,902)
OTHER FINANCING SOURCES, NET	6,804	-	6,804
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES	(324,087)	(4,011)	(328,098)
FUND BALANCE, beginning of year	3,018,266	181,494	3,199,760
FUND BALANCE, end of year	\$ 2,694,179	\$ 177,483	\$ 2,871,662

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Final	
\$ 11,557,696	\$ 11,557,696	\$ 269,595
6,507,821	6,507,821	(32,656)
409,300	409,300	114,796
<u>18,474,817</u>	<u>18,474,817</u>	<u>351,735</u>
10,155,250	11,420,000	733,553
4,338,847	4,675,000	256,382
764,600	820,000	(6,532)
3,715,267	3,715,579	485,722
<u>18,973,964</u>	<u>20,630,579</u>	<u>1,469,125</u>
(499,147)	(2,155,762)	1,820,860
<u>1,000</u>	<u>1,000</u>	<u>5,804</u>
(498,147)	(2,154,762)	1,826,664
<u>2,788,665</u>	<u>2,788,665</u>	<u>411,095</u>
<u>\$ 2,290,518</u>	<u>\$ 633,903</u>	<u>\$ 2,237,759</u>

DECORAH COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2008

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 27, 2008. 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 expenditures by \$1,656,615.

During the year ended June 30, 2008, expenditures in the non-instructional function exceeded the amount budgeted.

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**INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION**

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

Our report on our audit of the basic financial statements of Decorah Community School District for 2008 appears on page 2. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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, 2007, 2006, and 2005, (none of which is presented herein). We expressed unqualified opinions on the 2007, 2006, and 2005 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, 2008, appearing on page 36, 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 3, 2008

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2008

	Special Revenue	Debt Service	Total Nonmajor Funds
ASSETS			
Cash and pooled investments	\$ 773,852	\$ 78,730	\$ 852,582
Receivables			
Property tax			
Delinquent	7,672	4,589	12,261
Succeeding year	1,134,061	717,781	1,851,842
Accounts	3,794		3,794
Due from other funds			-
Total assets	<u>\$ 1,919,379</u>	<u>\$ 801,100</u>	<u>\$ 2,720,479</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 32,633		\$ 32,633
Salaries and benefits payable	-		-
Deferred revenue			
Succeeding year property tax	1,134,061	\$ 717,781	1,851,842
Total liabilities	<u>1,166,694</u>	<u>717,781</u>	<u>1,884,475</u>
Fund balances			
Reserved	-	83,319	83,319
Unreserved	752,685		752,685
Total fund balances	<u>752,685</u>	<u>83,319</u>	<u>836,004</u>
Total liabilities and fund balances	<u>\$ 1,919,379</u>	<u>\$ 801,100</u>	<u>\$ 2,720,479</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, 2008

	Special Revenue	Debt Service	Total Nonmajor Funds
REVENUES			
Local sources			
Local property tax	\$ 1,135,700	\$ 690,437	\$ 1,826,137
Other	948,520	10,318	958,838
State sources	787	474	1,261
Total revenues	<u>2,085,007</u>	<u>701,229</u>	<u>2,786,236</u>
EXPENDITURES			
Current			
Instruction			
Regular instruction	923,173		923,173
Support services			
Administration services	28,101	-	28,101
Operation and maintenance plant services	148,815		148,815
Transportation services	35,086		35,086
Non-instructional	15,926		15,926
Other			
Long-term debt			
Principal	-	1,415,000	1,415,000
Interest and fiscal charges	-	334,139	334,139
Facilities acquisition	437,878		437,878
Total expenditures	<u>1,588,979</u>	<u>1,749,139</u>	<u>3,338,118</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>496,028</u>	<u>(1,047,910)</u>	<u>(551,882)</u>
OTHER FINANCING SOURCES			
Transfers in	-	1,038,895	1,038,895
Transfers out	(503,253)		(503,253)
	<u>(503,253)</u>	<u>1,038,895</u>	<u>535,642</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	(7,225)	(9,015)	(16,240)
FUND BALANCE, beginning of year	<u>759,910</u>	<u>92,334</u>	<u>852,244</u>
FUND BALANCE, end of year	<u>\$ 752,685</u>	<u>\$ 83,319</u>	<u>\$ 836,004</u>

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2008

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 342,637	\$ 312,919	\$ 118,296	\$ 773,852
Receivables				
Property tax				
Delinquent	3,232	4,440		7,672
Succeeding year	445,327	688,734		1,134,061
Accounts			3,794	3,794
Total assets	\$ 791,196	\$ 1,006,093	\$ 122,090	\$ 1,919,379
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ 26,727	\$ 5,906	\$ 32,633
Salaries and benefits payable	-			-
Deferred revenue				
Succeeding year property tax	445,327	688,734		1,134,061
Total liabilities	445,327	715,461	5,906	1,166,694
Fund balances				
Reserved				-
Unreserved	345,869	290,632	116,184	752,685
Total fund balances	345,869	290,632	116,184	752,685
Total liabilities and fund balances	\$ 791,196	\$ 1,006,093	\$ 122,090	\$ 1,919,379

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, 2008

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES				
Local sources				
Local property tax	\$ 467,799	\$ 667,901		\$ 1,135,700
Other	31,043	314,170	\$ 603,307	948,520
State sources	329	458		787
Total revenues	499,171	982,529	603,307	2,085,007
EXPENDITURES				
Current				
Instruction				
Regular instruction	220,526	53,653	648,994	923,173
Support services				
Administration services	28,040	61		28,101
Operation and maintenance plant services	119,310	29,505		148,815
Transportation services	35,086			35,086
Non-instructional	15,926			15,926
Other				
Facilities acquisition		437,878		437,878
Total expenditures	418,888	521,097	648,994	1,588,979
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	80,283	461,432	(45,687)	496,028
OTHER FINANCING SOURCES				
Transfers in	-		-	-
Transfers out		(503,253)		(503,253)
	-	(503,253)	-	(503,253)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	80,283	(41,821)	(45,687)	(7,225)
FUND BALANCE, beginning of year	265,586	332,453	161,871	759,910
FUND BALANCE, end of year	\$ 345,869	\$ 290,632	\$ 116,184	\$ 752,685

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, 2008

	Balance June 30, 2007	Revenues	Expenditures	Balance June 30, 2008
Permanent Transfer - General Fund	\$ 20,000	\$ -		\$ 20,000
High School Student Council	2,994			2,994
High School Athletic General	(24,486)	11,236	\$ 22,663	(35,913)
High School Football	34,702	22,616	24,441	32,877
High School Basketball	39,735	19,993	17,143	42,585
High School Wrestling	7,300	14,128	14,843	6,585
High School Baseball	(19,508)	14,055	15,903	(21,356)
High School Golf	(9,989)	3,511	5,873	(12,351)
High School Track	(15,428)	10,985	17,684	(22,127)
High School Softball	(12,190)	12,082	11,533	(11,641)
High School Volleyball	2,257	8,554	8,551	2,260
High School Tennis	2,911	3,080	4,917	1,074
High School Cross Country	(2,802)	8,089	7,676	(2,389)
High School St. Planner	(15,702)	213	3,991	(19,480)
High School Community Club	124	1,088	1,161	51
High School Swimming	(4,466)	5,739	7,819	(6,546)
High School Choir	(338)		1,387	(1,725)
SADD Chapter	200			200
"D" Club	2,255	2,396	3,085	1,566
Art Club	2,245	7,768	7,321	2,692
Culture Club	11	-	-	11
Science Club	1,794	734	565	1,963
Future Farmers of America	17,038	59,936	62,234	14,740
Horticulture Club	238		297	(59)
Office Education	441			441
DECA	9,962	13,394	14,322	9,034
IMC Club	620	-		620
Student Assistance	1,564	500	50	2,014
High School Music	(23,044)	3,662	8,142	(27,524)
High School Instrumental Music	553	-	-	553
High School Talent Showcase	1,568			1,568
High School Yearbook	(5,187)	15,947	29,480	(18,720)
High School Speech	6,707	22,952	25,515	4,144
High School Dramatics	10,788	18,397	24,706	4,479
High School Orchestra	(2,424)		553	(2,977)
High School Madrigal	2,811	4,611	4,459	2,963
Sub-totals	33,254	285,666	346,314	(27,394)

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, 2008

	Balance June 30, 2007	Revenues	Expenditures	Balance June 30, 2008
Sub-totals	\$ 33,254	\$ 285,666	\$ 346,314	\$ (27,394)
High School Fire Squad	(2,364)	11,919	10,441	(886)
High School Cheerleading	119	11,672	10,704	1,087
High School Newspaper	(392)		-	(392)
Class 2007	(2,729)	-	3,608	(6,337)
Class 2008	(2,941)	2,559	4,335	(4,717)
Class 2009	(81)	2,688	4,014	(1,407)
Class 2010	(26)	490	33	431
Class 2011	-	26	50	(24)
High School General	121,132	152,486	113,373	160,245
Middle School Athletic General	165		237	(72)
Middle School Football	(5,163)	1,387	3,476	(7,252)
Middle School Cross Country	(1,454)	300	709	(1,863)
Middle School Basketball	(10,463)	7,010	8,750	(12,203)
Middle School Wrestling	(1,378)	564	1,176	(1,990)
Middle School Track	(4,910)	460	1,541	(5,991)
Middle School Volleyball	(3,094)	499	2,375	(4,970)
Middle School Music	(555)		213	(768)
Middle School Soccer	(11,224)	7,191	8,818	(12,851)
Middle School Library Club	837			837
Middle School Outdoor Ed	(4,406)	4,837	7,219	(6,788)
Middle School East Side Use	165			165
Middle School Yearbook	(16,188)	1,018	6,533	(21,703)
Scholarships	4,505			4,505
Middle School General	(1,634)		300	(1,934)
Middle School Fund Raising	28,579	48,324	53,325	23,578
Middle School Student Council	45	437	440	42
Middle School Cheerleading	210			210
Middle School Summer Tag	-	2,000		2,000
Sesquicentennial	40			40
Elementary Fund Raising	5,208	10,025	10,156	5,077
Investments	18,250	4,163		22,413
Vocational Ag	418			418
Vocational	124	773	884	13
A/P Exam Testing	2,322	7,658	7,067	2,913
DHS Wall Of Fame	89		60	29
DVABC	-	36,965	42,843	(5,878)
Decorah Cares	-			-
Decorah Craft Show	-	2,190		2,190
W/S Elementary General	15,411			15,411
	<u>\$ 161,871</u>	<u>\$ 603,307</u>	<u>\$ 648,994</u>	<u>\$ 116,184</u>

See Independent Auditor's Report on the Supplementary Information.

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

	Modified Accrual			
	2008	2007	2006	2005
REVENUES				
Local sources				
Local tax	\$ 6,282,222	\$ 6,341,796	\$ 5,998,168	\$ 5,715,624
Tuition	2,553,688	2,624,750	2,533,470	2,114,518
Other	2,432,286	2,339,895	2,703,281	2,009,289
Intermediate sources	-	-	-	21,485
State sources	6,466,649	6,176,068	5,783,248	5,488,689
Federal sources	285,112	245,963	240,641	252,791
Total revenues	\$ 18,019,957	\$ 17,728,472	\$ 17,258,808	\$ 15,602,396
EXPENDITURES				
Current				
Instruction				
Regular instruction	\$ 5,976,750	\$ 6,195,772	\$ 6,131,923	\$ 5,883,790
Special instruction	2,931,951	2,782,024	2,841,924	2,389,212
Other instruction	1,777,746	1,063,206	1,067,063	1,050,483
Support services				
Student services	327,704	311,136	288,598	308,740
Instructional staff services	604,581	673,653	540,396	525,972
Administration services	1,439,698	1,254,791	1,093,675	976,645
Operation and maintenance plant services	1,306,620	1,143,162	1,161,498	1,018,698
Transportation services	740,015	702,556	660,791	634,698
Central support	-	-	-	-
Non-instructional	15,926	37,663	36,350	1,638
Other				
Facilities acquisition	984,630	4,110,541	4,930,220	6,897,137
Long-term debt				
Principal	1,415,000	1,375,000	1,319,958	1,180,800
Interest and fiscal charges	334,139	363,645	397,332	273,976
AEA flowthrough	496,088	476,764	453,211	450,267
Total expenditures	\$ 18,350,848	\$ 20,489,913	\$ 20,922,939	\$ 21,592,056

See Independent Auditor's Report on the Supplementary Information.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the 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, 2008, which collectively comprise Decorah Community School District's basic financial statements and have issued our report thereon dated December 3, 2008. 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 the 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 3, 2008.

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 responses and, accordingly, we express no opinion on them.

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.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
December 3, 2008

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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, 2008, 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 3, 2008 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated December 3, 2008, 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, 2008 exceeded the amended certified budget amount in the non-instructional function.

Recommendation

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

Response

Management is cognizant of the issue and will try to watch the budget closer in the future.

Conclusion

Response accepted.

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, except for the following:

During the year ended June 30, 2008, the District entered into a business transaction with a District official. Details are as follows:

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

Transaction Description: Insurance policies.

Amount: \$186,308

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

5. Bond Coverage

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

6. Board Minutes

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

7. Certified Enrollment

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

8. Deposits and Investments

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

9. Certified Annual Report

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

10. Deficit Balances

Several student activity accounts had deficit balances at June 30, 2008.

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.

We have also provided you under separate cover a listing of general steps that you should review and consider implementing to strengthen controls. This list is not all inclusive. You should review all aspects of your operations and implement appropriate controls as deemed necessary. Some of these items may not be applicable or you may have already implemented them.

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.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
December 3, 2008