

**DECORAH COMMUNITY
SCHOOL DISTRICT**

DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2009

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DECORAH COMMUNITY SCHOOL DISTRICT
BOARD OF EDUCATION AND SCHOOL OFFICIALS

Name	Title	Address	Term Expires
<u>Board of Education</u> (After September 2008 Election)			
Ramona Nelson	President	Decorah, Iowa	September 2011
Melanie Tietz	Vice-President	Decorah, Iowa	September 2011
David Ranum	Member	Decorah, Iowa	September 2009
Brian Petersburg*	Member	Decorah, Iowa	September 2011
Richard Valley	Member	Decorah, Iowa	September 2009

<u>Board of Education</u> (Before September 2008 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

School Officials for 2008-09

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

*Board term extended per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

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P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
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And Business Consultants

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New Hampton, Iowa 50659
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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, 2009, 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, 2009, 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 1, 2009, on our consideration of Decorah Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 3 and pages 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 1, 2009

Hacker, Nelson & Co., P.C.

**DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA**

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2009**

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, 2009.

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 2009 fiscal year include the following:

In total, net assets increased by \$625,816 or 3.87% from fiscal 2008. Net assets in governmental activities increased \$590,328, which represented a 3.69% increase from fiscal year 2008 which is a smaller increase than what was reported for fiscal year ending June 30, 2008. 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, increased \$35,488 which represented a 20.0% increase from fiscal year 2008. Increases in program revenues and transfers from the capital projects fund are the primary reasons for the increase.

General fund revenues (which include the instructional support fund) accounted for \$15,342,289 in revenue or 79.9% of all revenues. General fund expenses (which include the instructional support fund) accounted for \$15,481,746 in expenditures or 77.9% of all expenses.

Using the Basic Financial Statements

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this report includes all the funds used by the District to provide programs and activities, the report strives to show how the District performed financially during the 2009 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 2009 are the general fund and capital projects 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 2009 totaled \$16,794,437, an increase of 3.87% from the previous fiscal year.

	Condensed Statement of Net Assets						
	(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2009	2008	2009	2008	2009	2008	
Current and other assets	\$ 15,322	\$ 13,734	\$ 163	\$ 124	\$ 15,485	\$ 13,858	11.74%
Capital assets	22,544	22,923	117	115	22,661	23,038	-1.64%
Total assets	37,866	36,657	280	239	38,146	36,896	
Long-term debt outstanding	7,929	9,589	-	-	7,929	9,589	-17.31%
Other liabilities	13,355	11,077	67	62	13,422	11,139	20.50%
Total liabilities	21,284	20,666	67	62	21,351	20,728	
Net assets							
Invested in capital assets, net of related debt	14,994	13,870	117	115	15,111	13,985	8.05%
Restricted	1,337	1,910	-	-	1,337	1,910	-30.00%
Unrestricted	250	211	96	62	346	273	26.74%
Total net assets	\$ 16,581	\$ 15,991	\$ 213	\$ 177	\$ 16,794	\$ 16,168	

The following analysis shows the change in net assets for the year ending June 30, 2009:

	Changes in Net Assets (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2009	2008	2009	2008	2009	2008		
Revenues:								
Program revenue								
Charges for service	\$ 3,735	\$ 3,210	\$ 599	\$ 557	\$ 4,334	\$ 3,767	15.05%	
Operating grants	2,017	1,540	255	248	2,272	1,788	-21.30%	
General revenue								
Property taxes	6,352	6,030	-	-	6,352	6,030	5.34%	
Sales tax and surtax	1,651	1,334	-	-	1,651	1,334	23.76%	
Unrestricted state grants	5,249	5,208	-	-	5,249	5,208	0.79%	
Unrestricted investment earnings	153	262	1	2	154	264	-41.67%	
Other revenue	22	298	15	-	37	298	-87.58%	
Total revenues	19,179	17,882	870	807	20,049	18,689		
Program expenses:								
Instruction	11,437	10,382	-	-	11,437	10,382	10.16%	
Student support	332	305	-	-	332	305	8.85%	
Instructional Staff Services	724	606	-	-	724	606	19.47%	
Administration Services	1,390	1,410	-	-	1,390	1,410	-1.42%	
Operation & Maintenance Services	1,320	1,315	-	-	1,320	1,315	0.38%	
Transportation Services	1,085	1,173	-	-	1,085	1,173	-7.50%	
Long Term Debt Interest	294	331	-	-	294	331	-11.18%	
Facilities Acquisition	942	-	-	-	942	-	0.00%	
AEA Flow Thru	530	496	-	-	530	496	6.85%	
Non-instructional programs	10	16	834	811	844	827	2.06%	
Depreciation (unallocated)	525	404	-	-	525	404	29.95%	
Total expenses	18,589	16,438	834	811	19,423	17,249		
Increase (decrease) in net assets	590	1,444	36	(4)	626	1,440	-56.53%	
Net assets Beginning of Year	15,991	14,547	177	181	16,168	14,728	9.78%	
Net assets End of Year	\$ 16,581	\$ 15,991	\$ 213	\$ 177	\$ 16,794	\$ 16,168		

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 \$2,000,583, a \$693,596 decrease from the 2008 fiscal year end balance of \$2,694,179.

- The general fund expenditures increased during fiscal year 2009 for instruction and support services. The ending fund balance showed a decrease from the prior year of \$136,183.
- The capital projects fund ending fund balance showed a decrease primarily due to the construction on the Carrie Lee playground, Carrie Lee exterior renovations, and fiber optic loop project. Facilities acquisition expenditures increased \$565,168 which represented a 103.37% increase from fiscal year 2008. The ending fund balance showed a decrease from the prior year of \$462,180.

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 following chart shows the original budget for fiscal 2009 as well as the actual revenue and expenditures for the year:

Budgetary Comparison Schedule (Expressed in Thousands)				
	Actual	Original Final	Variance	
Revenues				
Local sources	\$ 12,527	\$ 12,564	\$ (37)	
Intermediate sources	-	-	-	
State sources	6,734	6,895	(161)	
Federal sources	788	465	323	
Total revenues	\$ 20,049	\$ 19,924	\$ 125	
Expenditures				
Instruction	\$ 11,518	\$ 12,490	\$ 972	
Student support	4,587	5,040	453	
Non-instructional programs	845	950	105	
Other expenses	3,761	3,903	142	
Total expenditures	\$ 20,711	\$ 22,383	\$ 1,672	

Capital Assets and Debt Administration

Capital Assets

At the end of the 2009 fiscal year, the District had invested \$22,660,949 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, vehicles, technology (including computer equipment), media/audio visual equipment, and classroom equipment. The District had depreciation expense of \$818,830 for fiscal 2009 and total accumulated depreciation of \$9,869,482 as of June 30, 2009. The following chart shows the comparison in capital assets for 2009 and 2008:

	Capital Assets (net of depreciation)						
	(Expressed in Thousands)						
	Governmental		Business-type		Total		Percent
	Activities		Activities		Total		
2009	2008	2009	2008	2009	2008	Change	
Land	\$ 280	\$ 280	\$ -	\$ -	\$ 280	\$ 280	0.00%
Construction in Progress	575	1,126			575	1,126	-48.93%
Land Improvements	711	460			711	460	54.57%
Buildings	19,612	20,134			19,612	20,134	-2.59%
Furniture & Equipment	1,366	924	117	115	1,483	1,039	42.73%
Total	\$ 22,544	\$ 22,924	\$ 117	\$ 115	\$ 22,661	\$ 23,039	

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

Debt

As of June 30, 2009 the District had \$7,929,217 in long-term debt outstanding compared to \$9,588,759 on June 30, 2008. The following chart shows the debt comparison between 2009 and 2008:

	Long-term Debt Obligations			
	Balance		Balance	
	July 1, 2008	Additions	Reductions	June 30, 2009
Bonds/Capital Loan Notes				
General Obligation	\$ 4,820,000		\$ 565,000	\$ 4,255,000
Sales Tax Revenue	1,440,000		475,000	965,000
Capital Loan Notes	2,715,000		425,000	2,290,000
Total Bonds/Capital Loan Notes	8,975,000	-	1,465,000	7,510,000
Other Liabilities				
Capital Leases	78,051	\$ -	37,852	40,199
Compensated Absences	22,467	26,655	22,467	26,655
Early Retirement	513,241	33,000	193,878	352,363
Total Other Liabilities	613,759	59,655	254,197	419,217
Total Long-term Debt	\$ 9,588,759	\$ 59,655	\$ 1,719,197	\$ 7,929,217

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 2009 were cut by a 1.5% across the board which Governor Chet Culver announced on December 18, 2008. This was in response to revised revenue estimates by the Revenue Estimating Conference (REC).
- The State of Iowa implemented Project Easier and Certified Enrollment (PEACE) for the official certified enrollment count for October 1, 2009. The state did not anticipate the mass confusion and chaos it would cause as it overloaded their server. The process consisted of verifying the District information by October 15, consultants making conference calls to districts between October 19 and November 6. Final verification will be done the week of November 9 when the state sets up the verification process. Preliminary total enrollment for 2009 increased by 10.1 students from 2008. The District also has open enrolled and special education students from other districts. In 2009, the number increased by 14.5 students. Open enrolled out students dropped by 4 students and tuition out dropped by 3 students. Overall, the District has 9.4 fewer resident students but serves 14.5 more out of district students. The District projects that overall enrollment will remain relatively stable for 2010.
- The Iowa Legislature has approved a 4% allowable growth increase in state aid to school districts for fiscal 2010. However, in October 2009, Governor Chet Culver announced that districts would be taking a 10% across the board cut. This would amount to \$663,549 for Decorah. There are talks of more cuts next year due to the decline in state revenues.
- HF2679 incorporates four categorical funds into the school foundation aid funding formula for FY10. These categorical funds are Teacher Quality compensation, Teacher Quality professional development, Educational Excellence Phase II, and Class Size/Early Intervention Block Grant. The statutory language requiring specific uses of the designated funds is still in effect, therefore, the District is required to account for the funding separately, using the five original categories, on the Certified Annual Report.
- The Phase I teacher salary appropriation was eliminated late in the 2009 session. Due to the late timing of funding decisions, the District was not afforded the ability to plan for the reduction. Phase I amounted to \$33,250.16 for FY09 with the 1.5% cut. Districts may request additional allowable growth from the School Budget Review Committee.
- The District has experienced a cumulative increase in taxable assessed valuation of 12.46% in the last five years. The District's assessed valuation increased by \$10,648,862 this past year. The assessed valuation for commercial property has gone up this year.
- Revenue received from the one-cent local option sales tax increased by \$224,558 to \$1,216,408 for 2009. Retail sales in Winneshiek County remain constant. The City of Decorah is currently experiencing nearly 100% occupancy downtown and anticipates steady retail sales for 2010 despite the depressed economy. The Estimated Local Option Sales Tax or SAVE monthly distribution from the State of Iowa received on August 20, 2009, states that the District will receive an estimated \$1,130,450.27 from August 2009 to July 2010. This distribution is up \$4,500 from the previous year. The distribution is 95% of the estimated Local Option Collections. However, the annual reconciliation payment in November may sway either an increase or decrease from the previous year.

- The current Instructional Support levy portion of the General Fund, will expire June 30, 2012. The District will use the instructional support levy for instructional supplies, equipment, etc. As budgets are getting tighter, this funding stream will be utilized for the basic instructional needs with larger items coming from either the PPEL or SILO fund.
- The District has initiated a facility planning process to evaluate the school buildings. The Shareholder group has been diligently working on this plan during the 2008-09 and the 2009-10 school years. The District had the Iowa Construction Advocate Team (ICAT) inspect and make a recommendation to the Board in December, 2008. The Shareholders have been working with StruXture Architect's on a priority list, etc. to help the board identify the needs of the District.
- The District hired Communications Innovators to update the data network at Thomas Roberts High School, John Cline Elementary, and Central Administration Office. Along with the network, the District purchased new servers. The District replaced old computers with a lease purchase from Apple Computer for new computers and iPod labs. The annual payment of \$172,498.46 is due October 1, 2009, 2010, 2011 and 2012.
- 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. The District needed to look at voting for a Revenue Purpose Statement for the school infrastructure sales and service tax. The Revenue Purpose Statement was approved to be taken to the voters by resolution on December 8, 2008, for a vote date to be set of February 3, 2009. On February 3, 2009, 370 votes were cast and 345 for the RPS and 25 were against. The approval of the Revenue Purpose Statement will provide the District flexibility in bonding against future sales and service taxes. This tax will sunset in 2029.
- The Board approved a Voluntary Early Retirement Program for the 2009-10 school year. There is 25 certified staff that is eligible under the criteria of the program. Staff has until December 4, 2009, to notify the Decorah Community School that they will be participating in the program. Benefits under the program consist of a cash benefit of 50% of the employees contracted salary from the Master Contract salary schedule in effect during the 2009-10 school year, and group health insurance benefits at the 2010-11 Master Contract level for 8 years. The District and Board members agreed that the plan is lucrative and that another retirement option would not be offered for at least 6 years.
- Solvency ratio is a measure developed by the Iowa School Cash Anticipation Program (ISCAP) to assess one aspect of a school corporation's financial condition. The solvency ratio measures the amount of readily available unspent resources relative to the District's total general fund revenue. ISCAQP has established the following guidelines for cash flow financial solvency.

Target Solvency Position from 5.0 and 10 percent, Acceptable Solvency Position between 0.00 and 4.99 percent, Solvency Alert between -3.00 and 0.00 percent, and Concern below -3.00 percent.

The District's solvency ratio has continually declined in the last 7 years, except for a small increase in 2006-07. The current solvency ratio is 2.91%.

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, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	\$ 3,115,831	\$ 134,112	\$ 3,249,943
ISCAP	4,388,761		4,388,761
Receivables			
Property tax			
Delinquent	63,265		63,265
Succeeding year	6,588,073		6,588,073
Accounts	412,811	193	413,004
Accrued interest	42,515		42,515
Due from other governments	710,247		710,247
Inventories		29,234	29,234
Capital assets, non-depreciable	855,143		855,143
Capital assets, net of accumulated depreciation	21,688,920	116,886	21,805,806
Total assets	\$ 37,865,566	\$ 280,425	\$ 38,145,991
LIABILITIES			
Accounts payable	\$ 332,573	\$ 10,712	\$ 343,285
Salaries and benefits payable	1,509,238	56,742	1,565,980
Accrued interest payable	33,963		33,963
ISCAP accrued interest payable	945		945
ISCAP bond premium	91,088		91,088
Deferred revenue			
Succeeding year property tax	6,588,073		6,588,073
Other	474,003	-	474,003
ISCAP warrants payable	4,325,000		4,325,000
Long-term liabilities			
Portion due within one year			
Bonds payable	1,515,000		1,515,000
Capital leases	40,199		40,199
Compensated absences	26,655		26,655
Early retirement	107,267		107,267
Portion due after one year			
Bonds payable	5,995,000		5,995,000
Capital leases	-		-
Early retirement	245,096		245,096
Total liabilities	21,284,100	67,454	21,351,554
NET ASSETS			
Invested in capital assets, net of related debt	14,993,864	116,886	15,110,750
Restricted for			
Debt service	52,744		52,744
Capital projects	765,661		765,661
Other purposes	518,951		518,951
Unrestricted	250,246	96,085	346,331
Total net assets	16,581,466	212,971	16,794,437
Total liabilities and net assets	\$ 37,865,566	\$ 280,425	\$ 38,145,991

See Notes to Financial Statements.

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DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
Governmental activities			
Instruction			
Regular instruction	\$ 5,299,481	\$ 1,211,036	\$ 1,229,754
Special instruction	3,348,391	1,770,055	229,201
Other instruction	2,788,774		8,284
	<u>11,436,646</u>	<u>2,981,091</u>	<u>1,467,239</u>
Support services			
Student services	331,821	730,910	
Instructional staff services	724,010		
Administration services	1,390,233	14,570	
Operation and maintenance plant services	1,320,134		
Transportation services	1,085,432		20,016
	<u>4,851,630</u>	<u>745,480</u>	<u>20,016</u>
Non-instructional	<u>10,234</u>	<u>8,910</u>	
Other			
Long-term debt interest	293,627		
Facilities acquisition	941,854		
AEA flowthrough	530,159		530,159
Depreciation (unallocated)	525,091		
	<u>2,290,731</u>		<u>530,159</u>
Total governmental activities	<u>18,589,241</u>	<u>3,735,481</u>	<u>2,017,414</u>
Business-type activities			
Non-instructional programs			
Nutrition services	834,462	598,946	255,345
Total	<u>\$ 19,423,703</u>	<u>\$ 4,334,427</u>	<u>\$ 2,272,759</u>
General revenues			
Property taxes levied for			
General purposes			
Management			
PPEL			
Debt service			
Local option sales tax and surtax			
Unrestricted state grants			
Unrestricted investment earnings			
Transfer in (out)			
Other			
Total general revenues			
Change in net assets			
Net assets, beginning of year			
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
\$ (2,858,691)		\$ (2,858,691)
(1,349,135)		(1,349,135)
(2,780,490)		(2,780,490)
<u>(6,988,316)</u>		<u>(6,988,316)</u>
399,089		399,089
(724,010)		(724,010)
(1,375,663)		(1,375,663)
(1,320,134)		(1,320,134)
(1,065,416)		(1,065,416)
<u>(4,086,134)</u>		<u>(4,086,134)</u>
<u>(1,324)</u>		<u>(1,324)</u>
(293,627)		(293,627)
(941,854)		(941,854)
-		-
(525,091)		(525,091)
<u>(1,760,572)</u>		<u>(1,760,572)</u>
<u>(12,836,346)</u>		<u>(12,836,346)</u>
	\$ 19,829	19,829
<u>(12,836,346)</u>	<u>19,829</u>	<u>(12,816,517)</u>
4,460,178		4,460,178
455,161		455,161
703,533		703,533
733,203		733,203
1,651,058		1,651,058
5,248,610		5,248,610
153,424	705	154,129
(14,954)	14,954	-
36,461		36,461
<u>13,426,674</u>	<u>15,659</u>	<u>13,442,333</u>
590,328	35,488	625,816
<u>15,991,138</u>	<u>177,483</u>	<u>16,168,621</u>
<u>\$ 16,581,466</u>	<u>\$ 212,971</u>	<u>\$ 16,794,437</u>

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and pooled investments				
Other	\$ 1,555,309	\$ 812,805	\$ 747,717	\$ 3,115,831
ISCAP	4,388,761			4,388,761
Receivables				
Property tax				
Delinquent	44,619		18,646	63,265
Succeeding year	4,759,452		1,828,621	6,588,073
Accounts	411,875		936	412,811
Accrued interest	42,515			42,515
Due from other funds	-		-	-
Due from other governments	532,089	178,158		710,247
Total assets	\$ 11,734,620	\$ 990,963	\$ 2,595,920	\$ 15,321,503
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 80,743	\$ 225,302	\$ 26,528	\$ 332,573
Salaries and benefits payable	1,509,238			1,509,238
ISCAP warrants payable	4,325,000			4,325,000
Accrued interest payable	945			945
Bond premium	91,088			91,088
Deferred revenue				
Succeeding year property tax	4,759,452		1,828,621	6,588,073
Other	474,003			474,003
Total liabilities	11,240,469	225,302	1,855,149	13,320,920
Fund balances				
Reserved for				
Debt service			86,707	86,707
Unreserved, reported in				
General fund	494,151			494,151
Special revenue funds			654,064	654,064
Capital projects fund		765,661		765,661
Total fund balances	494,151	765,661	740,771	2,000,583
Total liabilities and fund balances	\$ 11,734,620	\$ 990,963	\$ 2,595,920	\$ 15,321,503

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$ 2,000,583
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	
\$ 9,655,690	22,544,063
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Bonds payable	(7,510,000)
Capital leases	(40,199)
Accrued interest	(33,963)
Compensated absences	(26,655)
Early retirement	(352,363)
Net assets of governmental activities per Exhibit A	<u>\$ 16,581,466</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, 2009

	General	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES				
Local sources				
Local property tax	\$ 4,894,828		\$ 1,891,897	\$ 6,786,725
Tuition	2,990,001			2,990,001
Other	192,641	\$ 1,239,450	718,975	2,151,066
State sources	6,724,680		1,205	6,725,885
Federal sources	540,139			540,139
Total revenues	15,342,289	1,239,450	2,612,077	19,193,816
EXPENDITURES				
Current				
Instruction				
Regular instruction	5,210,475	-	890,739	6,101,214
Special instruction	3,348,391			3,348,391
Other instruction	2,068,116			2,068,116
	10,626,982		890,739	11,517,721
Support services				
Student services	336,897			336,897
Instructional staff services	725,990			725,990
Administration services	1,361,028	48,213	14,047	1,423,288
Operation and maintenance plant services	1,191,149		160,591	1,351,740
Transportation services	709,541		39,331	748,872
	4,324,605	48,213	213,969	4,586,787
Non-instructional		-	10,234	10,234
Other				
Long-term debt				
Principal			1,465,000	1,465,000
Interest and fiscal charges			297,372	297,372
Facilities acquisition		1,111,920	356,539	1,468,459
AEA flowthrough	530,159			530,159
	530,159	1,111,920	2,118,911	3,760,990
Total expenditures	15,481,746	1,160,133	3,233,853	19,875,732
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(139,457)	79,317	(621,776)	(681,916)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-		1,029,421	1,029,421
Operating transfers (out)	-	(541,497)	(502,878)	(1,044,375)
Sale of capital assets	3,274			3,274
	3,274	(541,497)	526,543	(11,680)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	(136,183)	(462,180)	(95,233)	(693,596)
FUND BALANCE, beginning of year	630,334	1,227,841	836,004	2,694,179
FUND BALANCE, end of year	\$ 494,151	\$ 765,661	\$ 740,771	\$ 2,000,583

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, 2009

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	\$	(693,596)
<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 depreciation exceed capital outlays in the period.</p>		
Depreciation	\$ (797,805)	
Capital outlays	421,008	(376,797)
<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>		
		1,465,000
<p>The net effect of disposal capital assets</p>		
		(2,567)
<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>		
		3,746
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Capital leases	37,852	
Compensated absences	(4,188)	
Early retirement	160,878	194,542
Change in net assets of governmental activities per Exhibit B	\$	590,328

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2009

	School Nutrition Fund
ASSETS	
CURRENT ASSETS	
Cash	\$ 134,112
Accounts receivable	193
Inventories	29,234
Total current assets	163,539
NONCURRENT ASSETS	
Furniture and equipment	330,678
Less accumulated depreciation	(213,792)
Total noncurrent assets	116,886
Total assets	\$ 280,425
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 10,712
Contracts and benefits payable	56,742
Due to other funds	-
Deferred revenue	-
Total liabilities	67,454
NET ASSETS	
Invested in capital assets, net of related debt	116,886
Unrestricted deficit	96,085
Total net assets	212,971
Total liabilities and net assets	\$ 280,425

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, 2009

	School Nutrition Fund
OPERATING REVENUES	
Local sources	
Charges for services	\$ 598,946
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	373,061
Purchased services	16,265
Supplies	424,111
Depreciation	21,025
Total operating expenses	834,462
Operating loss	(235,516)
NONOPERATING REVENUES	
Interest income	705
State sources	7,644
Federal sources	247,701
Total nonoperating revenues	256,050
OTHER FINANCING SOURCES	
Transfers in	14,954
Change in net assets	35,488
Net assets, beginning of year	177,483
Net assets, end of year	\$ 212,971

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2009

	School Nutrition Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	\$ 580,170
Cash received from miscellaneous operating activities	20,770
Cash payments to employees for services	(371,600)
Cash payments to suppliers for goods and services	(426,925)
Cash payments paid on employees' behalf	4,327
Other payments	(16,265)
	(209,523)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State grants and federal grants received	255,345
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(22,979)
Transfers in	14,954
	(8,025)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	705
	38,502
CASH, beginning of year	95,610
CASH, end of year	\$ 134,112
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (235,516)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	21,025
Decrease in accounts receivable	1,994
(Increase) in inventories	(2,771)
Decrease in accounts payable	(43)
Increase in salaries and benefits payable	5,788
	(209,523)

Non-cash, noncapital financing activities:

During the year ended June 30, 2009, the District received commodities valued at \$50,344.

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 fund is accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with its activity are included on the 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 financial statements:

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, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2008.

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, 2009 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, 2009 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, 2009, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	Amortized Cost
Diversified portfolio	\$ 57,365
Direct Government Obligations Portfolio	2,013,558
Total	\$ 2,070,923

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, 2009:

Governmental	
General fund	
Title IIA	\$ 46,297
Title I	24,653
Non- public transportation	18,564
Income surtax	419,351
Other	23,224
	532,089
Capital projects	
Local option sales tax	178,158
	\$ 710,247

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Governmental activities				
Land	\$ 280,200			\$ 280,200
Construction in progress	1,125,975	\$ 574,943	\$ 1,125,975	574,943
Total capital assets not being depreciated	1,406,175	574,943	1,125,975	855,143
Capital assets being depreciated				
Land improvements	854,232	296,057		1,150,289
Buildings	26,238,904			26,238,904
Furniture and equipment	3,401,181	675,984	121,748	3,955,417
Total capital assets being depreciated	30,494,317	972,041	121,748	31,344,610
Less accumulated depreciation for				
Land improvements	394,490	44,764		439,254
Buildings	6,105,294	522,010		6,627,304
Furniture and equipment	2,477,282	231,031	119,181	2,589,132
Total accumulated depreciation	8,977,066	797,805	119,181	9,655,690
Total capital assets being depreciated, net	21,517,251	174,236	2,567	21,688,920
Governmental activities				
Capital assets, net	\$ 22,923,426	\$ 749,179	\$ 1,128,542	\$ 22,544,063
Business-type activities				
Furniture and equipment	\$ 307,699	\$ 22,979	\$ None	\$ 330,678
Less accumulated depreciation	192,767	21,025		213,792
Business-type activities				
Capital assets, net	\$ 114,932	\$ 1,954	\$ None	\$ 116,886

NOTES TO FINANCIAL STATEMENTS

4. **Capital Assets (Continued)**

Depreciation expense for the year ended June 30, 2009 was charged to the governmental functions of the District as follows:

Governmental activities	
Instruction	
Regular	\$ 42,424
Special	
Other	64,882
Support services	
Instructional staff	9,191
Administration	12,145
Operation and maintenance of plant	10,238
Transportation	133,834
Unallocated depreciation	525,091
	\$ 797,805
Business-type activities	
Food services	\$ 21,025

5. **Long-term Debt Obligations**

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 4,820,000	\$ None	\$ 565,000	\$ 4,255,000	\$ 600,000
Tax revenue bonds	1,440,000	None	475,000	965,000	480,000
Capital loan notes	2,715,000	None	425,000	2,290,000	435,000
	8,975,000	None	1,465,000	7,510,000	1,515,000
Other liabilities					
Capital leases	78,051	None	37,852	40,199	40,199
Compensated absences	22,467	26,655	22,467	26,655	26,655
Early retirement	513,241	33,000	193,878	352,363	107,267
	613,759	59,655	254,197	419,217	174,121
Governmental activities					
Long-term liabilities	\$ 9,588,759	\$ 59,655	\$ 1,719,197	\$ 7,929,217	\$ 1,689,121

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 \$503 a month of health insurance for five years or until the employee reaches the age 65, whichever comes first. The plan was reinstated during the year ended June 30, 2009.

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, 2009, the District has obligations to 20 participants with a total liability of \$352,363. Actual early retirement expenditures for the year ended June 30, 2009 totaled \$193,878.

b. Bond Indebtedness

\$4,255,000 2004B General Obligation School Serial Bonds, due annually in varying installments July 1, 2009 through June 1, 2015 plus interest semi-annually with interest rates of the bonds varying from 3.30% to 3.85%. Bonds maturing after June 1, 2010 are callable June 1, 2010 or at any date thereafter upon terms of par plus accrued interest to date of call.

\$965,000 2004 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due annually beginning on July 1, 2009 through June 1, 2011 plus interest semi-annually with interest rates of the bonds varying from 3.3% 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.

\$2,290,000 2004B General Obligation School Capital Loan Notes, due annually in varying installments July 1, 2009 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 \$293,627 for the year ended June 30, 2009. 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	
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			775,000	60,633	775,000	60,633	
2015			820,000	31,570	820,000	31,570	
Total	\$ 965,000	\$ 53,656	\$ 4,255,000	\$ 575,440	\$ 5,220,000	\$ 629,096	

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
2010	\$ 435,000	\$ 66,853
2011	445,000	55,978
2012	455,000	43,740
2013	470,000	30,090
2014	485,000	15,520
Total	\$ 2,290,000	\$ 212,181

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 \$1,018,656. For the current year, \$475,000 principal and \$51,142 interest was paid on the bonds and total local option sales and services tax revenues were \$1,216,408.

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, 2009. 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, 2009, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 421,188,613
Debt limit – 5% of total assessed valuation	\$ 21,059,431
Debt applicable to debt limit	
General obligation	
Capital loan notes	(2,290,000)
Bonded debt outstanding	(5,220,000)
	\$ 13,549,431
Legal debt margin	\$ 13,549,431

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 \$40,199 at June 30, 2009. The following is a schedule of future minimum lease payments under capital leases as of June 30, 2009:

Year ending June 30, 2010	\$ 40,199
Imputed interest	2,492
	\$ 42,691
Minimum lease payments for all capital leases	\$ 42,691

6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

	Transfers In	Transfers Out
Capital projects fund		\$ 541,497
Nonmajor governmental	\$ 1,029,421	502,878
Enterprise fund	14,954	
	\$ 1,044,375	\$ 1,044,375
	\$ 1,044,375	\$ 1,044,375

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, 2009 are as follows:

Restricted net assets	
Debt service fund	\$ 52,744
Capital projects fund	765,661
Management fund	480,918
Plant, property and equipment levy fund	38,033
	\$ 1,337,356
	\$ 1,337,356

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, 2009 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2008-09B	1/21/09	1/21/10	\$ 1,586,076	\$ 42,169	\$ 1,566,000	
2009-10A	6/25/09	6/23/10	2,802,685	346	2,759,000	\$ 945
Total			\$ 4,388,761	\$ 42,515	\$ 4,325,000	\$ 945

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. ISCAP advance activity in the general fund for the year ended June 30, 2009 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2008-09A	\$ None	\$ 670,000	\$ 670,000	\$ None
Total	\$ None	\$ 670,000	\$ 670,000	\$ None

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
2008-09B	3.00%	2.110%
2009-10A	2.50%	0.902%

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 \$3,090 until June 2010.

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

Year ended June 30, 2009	<u>\$ 37,080</u>
--------------------------	------------------

Total lease expense for the year ended June 30, 2009 was \$79,290.

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 4.10%, 3.90%, and 3.70% of their annual covered salary and the District is required to contribute 6.35%, 6.05%, and 5.75% of annual covered payroll for the years ended June 30, 2009, 2008, and 2007, respectively. Contribution requirements are established by state statute.

The District's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$618,193, \$550,924, and \$497,808, respectively, equal to the required contributions for each year.

11. Other Postemployment Benefits (OPEB)

The District participates in the Northeast Iowa Schools Insurance Trust (Trust), a voluntary joint undertaking of twelve school districts, as authorized by Chapter 28E of the Code of Iowa. The primary purpose of the Trust is to provide medical, dental, life, disability, and welfare plan for its employees and their families. The Trust was formed to create a pool to pay insurance costs. The agreement was effective July 1, 2005 and will continue in force until terminated by mutual agreement of the governing board. The Trust is administered by Midwest Group Benefits Consultants, Inc.

The Trust self-insures its health benefits and buys stop-loss insurance from IISI. Upon retirement, the retiree can continue his/her health coverage upon payment of the appropriate health premium based upon the District specific plan coverage in which Decorah Community School District pays a premium of \$582 for each retired employee. For the year ended June 30, 2009 the District paid \$119,272 in health insurance for the retired employees and the retired employees paid \$7,512 for their health insurance. There are 1,322 active and 140 retired members in the Trust. Participants must be age 55 or older at retirement. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report may be obtained at the Decorah Community School District's office located at 510 Winnebago Street, Decorah, IA 52101.

The 28E agreement provides that contribution requirements of the plan members and the participating employers are established and may be amended by the officials of the Trust. Plan members or beneficiaries receiving benefits contribute differing amounts per month for the active employee's required health insurance contributions depending on the District.

12. Employee Insurance Plan

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 Midwest 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, 2009, since the pool arrangement allows the Trust to make additional assessments to members. The District's share of the trust's liability for any unreported claim or assessment at June 30, 2009 was unavailable as of December 1, 2009. The District contributions to the Trust for the years ended June 30, 2009, 2008, and 2007 were \$1,176,960, \$1,169,769 and \$1,507,470, respectively, which equaled the required contributions each year. The employee paid \$18,654 in dental insurance for the year ended June 30, 2009.

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, 2009, no liability has been recorded in the District's financial statements. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance company coverage.

13. Net Assets

The District-wide statement of net assets reports \$1,337,356 of restricted net assets, of which \$571,695 is restricted by enabling legislation.

14. 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.

15. 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 \$530,159 for the year ended June 30, 2009 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

16. 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 \$548 per month for full time staff and \$1,367 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 227 participants in the plan for the year ended June 30, 2009.

17. 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, 2009, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

b. Insurance Plan

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

18. Commitments

The total outstanding construction and other commitments of the District at June 30, 2009 amount to \$1,873,588.

19. Related Party Transaction

During the year ended June 30, 2009, 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 \$201,520. Mr. Petersburg is a principal of A & J Petersburg Insurance Agency.

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DECORAH COMMUNITY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
For the Year Ended June 30, 2009

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
REVENUES			
Local sources	\$ 11,927,792	\$ 599,651	\$ 12,527,443
State sources	6,725,885	7,644	6,733,529
Federal sources	540,139	247,701	787,840
Total revenues	19,193,816	854,996	20,048,812
EXPENDITURES/EXPENSES			
Instruction	11,517,721	-	11,517,721
Support services	4,586,787	-	4,586,787
Non-instructional	10,234	834,462	844,696
Other	3,760,990	-	3,760,990
Total expenditures/expenses	19,875,732	834,462	20,710,194
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	(681,916)	20,534	(661,382)
OTHER FINANCING SOURCES, NET	(11,680)	14,954	3,274
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES	(693,596)	35,488	(658,108)
FUND BALANCE, beginning of year	2,694,179	177,483	2,871,662
FUND BALANCE, end of year	\$ 2,000,583	\$ 212,971	\$ 2,213,554

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Final	
\$	12,563,496	\$ (36,053)
	6,895,094	(161,565)
	465,200	322,640
	<u>19,923,790</u>	<u>125,022</u>
	12,489,600	971,879
	5,039,828	453,041
	950,000	105,304
	3,903,059	142,069
	<u>22,382,487</u>	<u>1,672,293</u>
	(2,458,697)	1,797,315
	<u>-</u>	<u>3,274</u>
	(2,458,697)	1,800,589
	<u>3,474,970</u>	<u>(603,308)</u>
\$	<u>1,016,273</u>	\$ <u>1,197,281</u>

DECORAH COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2009

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. 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.

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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 as of and for the year ended June 30, 2009 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, 2008, 2007, 2006, 2005 and 2004 (none of which is presented herein). We expressed unqualified opinions on the 2008, 2007, 2006, 2005 and 2004 basic financial statements. In our opinion, the information set forth in the required supplementary information for each of the six years in the period ended June 30, 2009, 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 1, 2009

DECORAH COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009

	Special Revenue	Debt Service	Total Nonmajor Funds
ASSETS			
Cash and pooled investments	\$ 668,202	\$ 79,515	\$ 747,717
Receivables			
Property tax			
Delinquent	11,454	7,192	18,646
Succeeding year	1,090,264	738,357	1,828,621
Accounts	936		936
Due from other funds			-
Total assets	\$ 1,770,856	\$ 825,064	\$ 2,595,920
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 26,528		\$ 26,528
Deferred revenue			
Succeeding year property tax	1,090,264	\$ 738,357	1,828,621
Total liabilities	1,116,792	738,357	1,855,149
Fund balances			
Reserved for			
Debt service		86,707	86,707
Unreserved	654,064		654,064
	654,064	86,707	740,771
Total liabilities and fund balances	\$ 1,770,856	\$ 825,064	\$ 2,595,920

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, 2009

	Special Revenue	Debt Service	Total Nonmajor Funds
REVENUES			
Local sources			
Property taxes	\$ 1,158,694	\$ 733,203	\$ 1,891,897
Other	716,304	2,671	718,975
State sources	740	465	1,205
Total revenues	<u>1,875,738</u>	<u>736,339</u>	<u>2,612,077</u>
EXPENDITURES			
Current			
Instruction			
Regular instruction	890,739		890,739
Support services			
Administration services	14,047		14,047
Operation and maintenance plant services	160,591		160,591
Transportation services	39,331		39,331
Non-instructional	10,234		10,234
Long-term debt			
Principal		1,465,000	1,465,000
Interest and fiscal charges		297,372	297,372
Other			
Facilities acquisition	356,539		356,539
Total expenditures	<u>1,471,481</u>	<u>1,762,372</u>	<u>3,233,853</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>404,257</u>	<u>(1,026,033)</u>	<u>(621,776)</u>
OTHER FINANCING SOURCES			
Transfers in	-	1,029,421	1,029,421
Transfers out	(502,878)		(502,878)
	<u>(502,878)</u>	<u>1,029,421</u>	<u>526,543</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	(98,621)	3,388	(95,233)
FUND BALANCE, beginning of year	<u>752,685</u>	<u>83,319</u>	<u>836,004</u>
FUND BALANCE, end of year	<u>\$ 654,064</u>	<u>\$ 86,707</u>	<u>\$ 740,771</u>

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2009

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 476,365	\$ 55,242	\$ 136,595	\$ 668,202
Receivables				
Property tax				
Delinquent	4,553	6,901		11,454
Succeeding year	372,223	718,041		1,090,264
Accounts			936	936
Total assets	<u>\$ 853,141</u>	<u>\$ 780,184</u>	<u>\$ 137,531</u>	<u>\$ 1,770,856</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable		\$ 24,110	\$ 2,418	\$ 26,528
Deferred revenue				
Succeeding year property tax	\$ 372,223	718,041		1,090,264
Total liabilities	<u>372,223</u>	<u>742,151</u>	<u>2,418</u>	<u>1,116,792</u>
Fund balances				
Unreserved	<u>480,918</u>	<u>38,033</u>	<u>135,113</u>	<u>654,064</u>
Total liabilities and fund balances	<u>\$ 853,141</u>	<u>\$ 780,184</u>	<u>\$ 137,531</u>	<u>\$ 1,770,856</u>

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2009

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES				
Local sources				
Local property tax	\$ 455,161	\$ 703,533		\$ 1,158,694
Other	27,860	2,041	\$ 686,403	716,304
State sources	294	446		740
Total revenues	483,315	706,020	686,403	1,875,738
EXPENDITURES				
Current				
Instruction				
Regular instruction	169,726	53,539	667,474	890,739
Support services				
Administration services	10,684	3,363		14,047
Operation and maintenance plant services	118,291	42,300		160,591
Transportation services	39,331			39,331
Non-instructional	10,234			10,234
Other				
Facilities acquisition		356,539		356,539
Total expenditures	348,266	455,741	667,474	1,471,481
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	135,049	250,279	18,929	404,257
OTHER FINANCING SOURCES (USES)				
Operating transfers out		(502,878)		(502,878)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	135,049	(252,599)	18,929	(98,621)
FUND BALANCE, beginning of year	345,869	290,632	116,184	752,685
FUND BALANCE, end of year	\$ 480,918	\$ 38,033	\$ 135,113	\$ 654,064

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, 2009

	Balance June 30, 2008	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2009
Permanent Transfer - General Fund	\$ -	\$ -	\$ -	\$ -
High School Athletic General	-	-	-	-
High School Football	4,142	75,993	74,205	5,930
High School Basketball	3,224	28,051	29,532	1,743
High School Wrestling	1,230	9,157	10,178	209
High School Baseball	1,830	11,203	14,973	(1,940)
High School Golf	555	7,109	6,454	1,210
High School Track	32	21,709	18,954	2,787
High School Softball	6,550	5,894	7,779	4,665
High School Volleyball	653	7,402	7,503	552
High School Tennis	6,241	3,005	2,830	6,416
High School Cross Country	3,300	12,469	12,095	3,674
High School Student Council	2,975	-	179	2,796
High School Community Club	51	572	460	163
High School Swimming	606	11,184	10,555	1,235
High School Choir	(1,387)	1,564	177	-
High School Soccer	272	10,441	9,974	739
SADD Chapter	200	-	-	200
"D" Club	1,520	4,254	5,504	270
Art Club	2,868	7,865	6,394	4,339
Culture Club	11	-	-	11
Science Club	1,964	-	-	1,964
Future Farmers of America	14,503	62,795	61,268	16,030
Horticulture Club	-	-	-	-
Office Education	-	-	-	-
DECA	669	14,956	15,869	(244)
IMC Club	-	-	-	-
Student Assistance	2,713	2,397	1,766	3,344
High School Music	(15,237)	8,087	8,641	(15,791)
High School Instrumental Music	614	1,978	2,592	-
High School Yearbook	19,733	27,659	30,315	17,077
High School Speech	4,761	31,030	32,917	2,874
High School Dramatics	4,345	7,776	2,715	9,406
High School Orchestra	(2,552)	2,616	64	-
High School Madrigal	2,963	4,644	4,656	2,951
Sub-totals	69,349	381,810	378,549	72,610

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, 2009

	Balance June 30, 2008	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2009
Sub-totals	\$ 69,349	\$ 381,810	\$ 378,549	\$ 72,610
High School Fire Squad	1,558	21,866	20,247	3,177
High School Cheerleading	2,333	10,224	10,941	1,616
High School Newspaper	-	-	-	-
Class 2007	(987)	987	-	-
Class 2008	625	359	984	-
Class 2009	583	4,346	4,895	34
Class 2010	1,774	3,780	4,634	920
Class 2011	720	807	86	1,441
Class 2012	-	723	27	696
High School General	1,289	189,574	189,822	1,041
Middle School Athletic General	-	160	160	-
Middle School Football	-	3,558	3,558	-
Middle School Cross Country	-	583	583	-
Middle School Basketball	-	2,330	2,330	-
Middle School Wrestling	-	845	845	-
Middle School Track	-	1,304	1,304	-
Middle School Volleyball	-	1,141	1,141	-
Middle School Music	(168)	232	64	-
Middle School Soccer	-	-	-	-
Middle School Library Club	838	-	832	6
Middle School Outdoor Ed	618	11,675	7,727	4,566
Middle School Yearbook	1,329	7,000	3,886	4,443
Scholarships	6,205	6,100	3,332	8,973
Middle School General	265	-	34	231
Middle School Fund Raising	8,401	51,022	55,086	4,337
Middle School Student Council	41	2,925	2,751	215
Middle School Cheerleading	-	-	-	-
Middle School Summer Tag	2,000	200	-	2,200
Sesquicentennial	-	-	-	-
Elementary Fund Raising	-	-	-	-
Investments	463	1,393	1,759	97
Vocational Ag	418	-	-	418
Vocational	42	360	1,089	(687)
A/P Exam Testing	646	8,354	7,934	1,066
DHS Wall Of Fame	1,035	-	749	286
DVABC	(5,878)	19,751	13,873	-
Decorah Cares	-	-	-	-
Decorah Craft Show	2,190	10,002	8,547	3,645
Elementary Playground	15,410	-	442	14,968
Youth Marketplace	-	4,079	2,653	1,426
W/S Elementary General	5,085	9,129	6,826	7,388
	<u>\$ 116,184</u>	<u>\$ 756,619</u>	<u>\$ 737,690</u>	<u>\$ 135,113</u>

See Independent Auditor's Report on the Supplementary Information.

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

	Modified Accrual		
	2009	2008	2007
REVENUES			
Local sources			
Local tax	\$ 6,786,725	\$ 6,282,222	\$ 6,341,796
Tuition	2,990,001	2,553,688	2,624,750
Other	2,151,066	2,432,286	2,339,895
Intermediate sources	-	-	-
State sources	6,725,885	6,466,649	6,176,068
Federal sources	540,139	285,112	245,963
Total revenues	\$ 19,193,816	\$ 18,019,957	\$ 17,728,472
EXPENDITURES			
Current			
Instruction			
Regular instruction	\$ 6,101,214	\$ 5,976,750	\$ 6,195,772
Special instruction	3,348,391	2,931,951	2,782,024
Other instruction	2,068,116	1,777,746	1,063,206
Support services			
Student services	336,897	327,704	311,136
Instructional staff services	725,990	604,581	673,653
Administration services	1,423,288	1,439,698	1,254,791
Operation and maintenance plant services	1,351,740	1,306,620	1,143,162
Transportation services	748,872	740,015	702,556
Non-instructional	10,234	15,926	37,663
Other			
Facilities acquisition	1,468,459	984,630	4,110,541
Long-term debt			
Principal	1,465,000	1,415,000	1,375,000
Interest and fiscal charges	297,372	334,139	363,645
AEA flowthrough	530,159	496,088	476,764
Total expenditures	\$ 19,875,732	\$ 18,350,848	\$ 20,489,913

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 6

Modified Accrual		
2006	2005	2004
\$ 5,998,168	\$ 5,715,624	\$ 4,788,589
2,533,470	2,114,518	2,051,186
2,703,281	2,009,289	1,751,257
-	21,485	12,751
5,783,248	5,488,689	5,568,314
240,641	252,791	270,532
\$ 17,258,808	\$ 15,602,396	\$ 14,442,629
\$ 6,131,923	\$ 5,883,790	\$ 5,005,459
2,841,924	2,389,212	2,663,282
1,067,063	1,050,483	1,231,424
288,598	308,740	280,259
540,396	525,972	535,201
1,093,675	976,645	1,143,570
1,161,498	1,018,698	1,027,393
660,791	634,698	637,563
36,350	1,638	3,276
4,930,220	6,897,137	1,171,147
1,319,958	1,180,800	3,080,000
397,332	273,976	215,231
453,211	450,267	456,353
\$ 20,922,939	\$ 21,592,056	\$ 17,450,158

DECORAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.394 – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Decorah Community School District did not qualify as a low-risk auditee.

DECORAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 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.

II-B-09 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.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

DECORAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2009
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
CFDA Number 84.394: State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
Federal Award Year: 2009
U.S. Department of Education
Passed through the Iowa Department of Education

See II-A-09 and II-B-09 above.

Part IV: Other Findings Related to Required Statutory Reporting:

See Management Letter dated December 1, 2009.

Part V: Summary of Prior Federal Audit Findings and Questions Costs

Comment Reference	Comment Title	Status	Explanation
II-A-08	Financial report preparation	Not corrected	Management does not have the necessary training to prepare year-end financial statements.
II-B-08	Overlapping duties	Not corrected	The District has limited staff and segregates duties to the best of their abilities.

DECORAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
Indirect			
Department of Agriculture			
Passed Through Iowa Department of Education			
School Breakfast Program	10.553	FY09	\$ 24,157
National School Lunch Program	10.555	FY09	173,200
Food Distribution Program (non-cash)	10.550	FY09	<u>48,053</u>
Total Department of Agriculture			<u>245,410</u>
Department of Education			
Passed Through Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY09	98,735
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY09	3,651
State Grants for Innovative Programs	84.298	FY09	10,290
Rural Education Achievement Program	84.358A	FY09	74,727
Tech-Prep Education	84.243A	FY09	5,041
Improving Teacher Quality State Grants	84.367	FY09	46,297
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY09	116,012
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389A	FY09	<u>10,918</u>
Total Department of Education			<u>365,671</u>
Department of Homeland Security			
Passed Through Iowa Department of Education			
Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036	FY09	<u>49,039</u>
			<u>\$ 660,120</u>

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Decorah Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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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, 2009, which collectively comprise Decorah Community School District's basic financial statements and have issued our report thereon dated December 1, 2009. 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 in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that 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 1, 2009.

Decorah Community School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. 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 1, 2009

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Decorah Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Decorah Community School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Decorah Community School District's management. Our responsibility is to express an opinion on Decorah Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Decorah Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Decorah Community School District's compliance with those requirements.

In our opinion, Decorah Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Decorah Community School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Decorah Community School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Items II-A-09 and II-B-09 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

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, 2009, and have issued our report thereon dated December 1, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Decorah Community School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Decorah Community School District's response 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 1, 2009

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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, 2009, 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 12 below are compliance comments required by the Iowa Auditor of State. A separate report dated December 1, 2009 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated December 1, 2009 on the financial statements of the Decorah Community School District. Comment numbers 4 and 13 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, 2009 did not exceed the amounts budgeted.
2. Questionable Expenditures
We noted no expenditures that may not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.
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, 2009, 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: \$201,520

4. Business Transactions (Continued)

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

The District underreported the number of students certified to the Iowa Department of Education. The District's certified enrollment count included two students as both regular students and also tuition out students, and four students attending alternative high school were not counted. This resulted in understating the total actual enrollment by 2 students.

Recommendation

The District should notify the Iowa Department of Education of the error to get the proper count.

Response

The District will contact Iowa Department of Education.

Conclusion

Response accepted.

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. Categorical Funding

No instances were noted of categorical funding being used to supplant rather than supplement other funds.

11. Student Activity Fund

No instances of noncompliance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), for money in the Student Activity Fund which should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational program were noted.

12. Statewide Sales and Service Tax

No instances of noncompliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

13. Student Activity Funds Deficits

As of June 30, 2009, several individual student activity accounts have negative account balances.

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.

14. Disbursements

The general fund reconciliation included outstanding checks over two years old.

Recommendation

Checks outstanding for two or more years should be filed with State Treasurer's office. See https://www.greatiowatreasurehunt.com/compliance_reporting/pdffiles/2009_Holder_Manual.pdf for instructions.

Response

The District will implement a policy to avoid this situation in the future. The District will resolve this situation.

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 1, 2009