

**DECORAH COMMUNITY
SCHOOL DISTRICT**

DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2010

TABLE OF CONTENTS

		<u>Page</u>
BOARD OF EDUCATION AND SCHOOL OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		4
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
District-Wide Financial Statements		
Statement of Net Assets	A	5
Statement of Activities	B	6
Governmental Fund Financial Statements		
Balance Sheet	C	7-8
Statement of Revenues, Expenditures, and Changes in Fund Balances	D	9-10
Proprietary Fund Financial Statements		
Statement of Net Assets	E	11
Statement of Revenues, Expenses, and Changes in Net Assets	F	12
Statement of Cash Flows	G	13
Notes to Financial Statements		14-28
Required Supplementary Information		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		29
Notes to Required Supplementary Information-Budgetary Reporting		30
Schedule of Funding Progress for the Retiree Health Plan		31
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION		32
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Nonmajor Governmental Funds		
Combining Balance Sheet	1	33
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	2	34
Nonmajor Special Revenue Funds		
Combining Balance Sheet	3	35
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	4	36
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	37-38
Comparative Schedule of Revenues and Expenditures	6	39
Schedule of Findings and Questioned Costs	7	40-42
Schedule of Expenditures of Federal Awards	8	43
Notes to the Schedule of Expenditures of Federal Awards		44
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		45-46
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		47-48
MANAGEMENT LETTER		49-52

DECORAH COMMUNITY SCHOOL DISTRICT
BOARD OF EDUCATION AND SCHOOL OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
<u>Board of Education</u> (After September 2009 Election)			
Ramona Nelson	President	Decorah, Iowa	September 2011
Melanie Tietz	Vice-President	Decorah, Iowa	September 2011
Ronald Fadness	Member	Decorah, Iowa	September 2013
Brian Petersburg	Member	Decorah, Iowa	September 2011
Richard Valley	Member	Decorah, Iowa	September 2013

<u>Board of Education</u> (Before September 2009 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

School Officials for 2009-10

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

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

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

www.hackernelson.com

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

**INDEPENDENT AUDITOR'S REPORT ON THE
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, 2010, 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, 2010, 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 16, 2010, 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 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information and funding progress for the retiree health plan information on page 4 and pages 29 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
December 16, 2010

DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2010**

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, 2010.

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 2010 fiscal year include the following:

In total, net assets increased by \$742,355 or 4.74% from fiscal 2009. Net assets in governmental activities increased \$703,329, which represented a 4.55% increase from fiscal year 2009 which is a smaller increase than what was reported for fiscal year ending June 30, 2009. 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 \$39,026 which represented an 18.32% increase from fiscal year 2009. Increases in program revenues and transfers from the capital projects fund are the primary reasons for the increase. Unrestricted net assets decreased by \$320,000, which is due primarily from recording OPEB liability.

General fund revenues (which include the instructional support fund) accounted for \$15,530,143 in revenue or 79.9% of all revenues. General fund expenses (which include the instructional support fund) accounted for \$15,202,629 in expenditures or 79.8% of all expenses.

Using the Basic Financial Statements

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

The statement of net assets and statement of activities provides information about the activities of the whole District, presenting both an aggregate view of the District's finances and a 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 2010 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 2010 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 2010 totaled \$16,388,633, an increase of 4.60% from the previous fiscal year.

	Condensed Statement of Net Assets						
	(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2010	2009	2010	2009	2010	2009	
Current and other assets	\$ 11,546	\$ 15,322	\$ 196	\$ 163	\$ 11,742	\$ 15,485	-24.17%
Capital assets	21,759	21,396	120	117	21,879	21,513	1.70%
Total assets	33,305	36,718	316	280	33,621	36,998	
Long-term debt outstanding	8,578	7,929	-	-	8,578	7,929	8.19%
Other liabilities	8,590	13,356	64	67	8,654	13,423	-35.53%
Total liabilities	17,168	21,285	64	67	17,232	21,352	
Net assets							
Invested in capital assets, net of related debt	14,755	13,846	120	117	14,875	13,963	6.53%
Restricted	1,323	1,337	-	-	1,323	1,337	-1.05%
Unrestricted	59	250	132	96	191	346	-44.80%
Total net assets	\$ 16,137	\$ 15,433	\$ 252	\$ 213	\$ 16,389	\$ 15,646	

The following analysis shows the change in net assets for the year ending June 30, 2010:

	Changes in Net Assets (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2010	2009	2010	2009	2010	2009		
Revenues:								
Program revenue								
Charges for service	\$ 3,955	\$ 3,735	\$ 568	\$ 599	\$ 4,523	\$ 4,334	4.36%	
Operating grants	2,835	2,017	309	255	3,144	2,272	-27.74%	
General revenue								
Property taxes	6,716	6,352	-	-	6,716	6,352	5.73%	
Sales tax and surtax	1,680	1,651	-	-	1,680	1,651	1.76%	
Unrestricted state grants	4,272	5,249	-	-	4,272	5,249	-18.61%	
Unrestricted investment earnings	48	153	-	1	48	154	-68.83%	
Other revenue	23	22	18	15	41	37	10.81%	
Total revenues	19,529	19,179	895	870	20,424	20,049		
Program expenses:								
Instruction	12,665	11,437	-	-	12,665	11,437	10.74%	
Student support	332	332	-	-	332	332	0.00%	
Instructional Staff Services	676	724	-	-	676	724	-6.63%	
Administration Services	1,500	1,390	-	-	1,500	1,390	7.91%	
Operation & Maintenance Services	1,342	1,320	-	-	1,342	1,320	1.67%	
Transportation Services	779	1,085	-	-	779	1,085	-28.20%	
Long Term Debt Interest	258	294	-	-	258	294	-12.24%	
Facilities Acquisition	154	942	-	-	154	942	-83.65%	
AEA Flow Thru	592	530	-	-	592	530	11.70%	
Non-instructional programs	-	10	856	834	856	844	1.42%	
Depreciation (unallocated)	527	525	-	-	527	525	0.38%	
Total expenses	18,825	18,589	856	834	19,681	19,423		
Increase in net assets	704	590	39	36	743	626	18.69%	
Net assets Beginning of Year	15,433	14,843	213	177	15,646	15,020	4.17%	
Net assets End of Year	\$ 16,137	\$ 15,433	\$ 252	\$ 213	\$ 16,389	\$ 15,646		

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 \$2,860,468, an \$859,885 increase from the 2009 fiscal year end balance of \$2,000,583.

- The general fund expenditures decreased during fiscal year 2010 for support services. The ending fund balance showed an increase from the prior year of \$327,514.
- The capital projects fund ending fund balance showed an increase primarily due to the borrowing of \$500,000 for the wiring project. Facilities acquisition expenditures decreased \$781,602 which represented a 103.37% decrease from fiscal year 2009. The ending fund balance showed an increase from the prior year of \$425,205.

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 2010 as well as the actual revenue and expenditures for the year:

Budgetary Comparison Schedule (Expressed in Thousands)			
	Actual	Original Final	Variance
Revenues			
Local sources	\$ 13,007	\$ 12,824	\$ 183
Intermediate sources	-	-	-
State sources	5,845	7,300	(1,455)
Federal sources	1,442	569	873
Total revenues	\$ 20,294	\$ 20,693	\$ (399)
Expenditures			
Instruction	\$ 11,532	\$ 13,046	\$ 1,514
Student support	4,789	5,356	567
Non-instructional programs	856	987	131
Other expenses	2,718	4,256	1,538
Total expenditures	\$ 19,895	\$ 23,645	\$ 3,750

Capital Assets and Debt Administration

Capital Assets

At the end of the 2010 fiscal year, the District had invested \$21,759,180 (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 \$822,849 for fiscal 2010 and total accumulated depreciation of \$10,371,801 as of June 30, 2010. The following chart shows the comparison in capital assets for 2010 and 2009:

	Capital Assets (net of depreciation)						
	(Expressed in Thousands)						
	Governmental		Business-type		Total		Percent
	Activities		Activities		Total		
2010	2009	2010	2009	2010	2009	Change	
Land	\$ 280	\$ 280	\$ -	\$ -	\$ 280	\$ 280	0.00%
Construction in Progress	583	575			583	575	1.39%
Land Improvements	740	711			740	711	4.08%
Buildings	18,023	18,464			18,023	18,464	-2.39%
Furniture & Equipment	2,133	1,366	120	117	2,253	1,483	51.92%
Total	\$ 21,759	\$ 21,396	\$ 120	\$ 117	\$ 21,879	\$ 21,513	

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

Debt

As of June 30, 2010 the District had \$8,577,102 in long-term debt outstanding compared to \$7,929,217 on June 30, 2009. The following chart shows the debt comparison between 2010 and 2009:

	Long-term Debt Obligations			
	Balance			Balance
	June 30, 2009	Additions	Reductions	June 30, 2010
Bonds/Capital Loan Notes				
General Obligation	\$ 4,255,000		\$ 600,000	\$ 3,655,000
Sales Tax Revenue	965,000		480,000	485,000
Capital Loan Notes	2,290,000		435,000	1,855,000
Total Bonds/Capital Loan Notes	7,510,000	-	1,515,000	5,995,000
Other Liabilities				
Capital Leases	40,199	\$ 680,427	211,505	509,121
Compensated Absences	26,655	35,014	26,655	35,014
Notes Payable	-	500,000	-	500,000
Early Retirement	352,363	985,056	102,035	1,235,384
OPEB obligation	-	302,583	-	302,583
Total Other Liabilities	419,217	2,503,080	340,195	2,582,102
Total Long-term Debt	\$ 7,929,217	\$ 2,503,080	\$ 1,855,195	\$ 8,577,102

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.

- On October 8, 2009, Governor Chet Culver announced a 10% across-the-board cut to state general fund appropriations effective immediately. This was approximately \$600 million cut from the state budget between October and June. This announcement came one day after the Revenue Estimating Conference (REC) reported a projected 8.4% decline in state revenue. Decorah Community School District's cut was \$663,549.
- The State of Iowa implemented Project Easier and Certified Enrollment (PEACE) for the official certified enrollment count for October 1, 2009. Project EASIER (Electronic Access System for Iowa Education Records) requires districts to upload their student data information into a secure website. This information is pre-populated into the District's Certified Enrollment counts. The District's total enrollment served increased by 5 students. Decorah resident students, however, decreased by 14.5 students.
- The Iowa Legislature has approved a 4% allowable growth increase in state aid to school districts for fiscal 2010. The legislature did have a reduction of state aid for the District of \$680,226 but funded \$591,607 with ARRA Education Stabilization funds.
- 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 District implemented an Early Retirement policy for employees who were 55 years of age on August 15, 2010, who completed their contracted responsibilities not later than August 15, 2010, who had been employed by the Decorah Community School for at least fifteen years, and when the sum of the employee's age and the total years of public school employment in the United States equals at least eighty years on August 15, 2010. The cash benefit would be 50% of the employee's base contract for 2009-10 exclusive of extended pay, supplemental pay, Teacher Quality Act payments, or other payments not based on the regular salary schedule and a single health insurance plan at the negotiated 2010-11 rate for a maximum of 96 months until the employee is Medicare eligible. The District had 15 employees take advantage of this retirement policy.
- The District entered into a sharing arrangement with South Winneshiek Community School District to share an English Language Learner Instructor 50/50 mid school year. The instructor is an employee of the South Winneshiek Community School District.
- The District has experienced a cumulative increase in taxable assessed valuation of 12.46% in the last five years. The District's assessed valuation in 2009-10 increased by \$10,648,862. The assessed valuation for commercial property has gone up this year.

- Revenue received from the one-cent local option sales tax increased by \$28,848.48 to \$1,245,256.54 for 2010. The Estimated Local Option Sales Tax or SAVE monthly distribution from the State of Iowa received on August 17, 2010, states that the District will receive an estimated \$1,191,087.84 from August 2010 to July 2011. This distribution is down \$50,509.16 from the previous years' midyear adjusted payments. 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 District's shareholder group was diligently working to upgrade the Thomas Roberts High School and John Cline Elementary. The Board of Education had a special board meeting on July 19, 2010 in which the board received a petition from the community to request a special election on the issuance of bonds to remodel the high school.
- The District entered into an agreement with Alliant Energy in December 2009 for the lighting retrofit of six buildings in the District. The Installed Cost of conversion to efficient T-8 fluorescent was \$151,015.83 with the savings expected to be \$20,746.91. The District will make 96 payments of \$2,251.78. The \$216,170.88 is intended to compensate Alliant Energy for the Performance Edge Contract which included without limitation, the purchase and installation of equipment, all labor and construction costs, optimization of existing equipment, maintenance of installed equipment for purpose of achieving optimum efficiency, and other project(s) agreed to by and between the parties.
- The District applied for the Statewide Voluntary Preschool Program for 4-year olds for the 2010-11 school year. The District was granted \$141,192 for the program. The District received notification via letter dated May 28, 2010, that the District will receive \$187,079.40 to implement a 4-year old preschool with collaborative partners.
- The District entered into a sharing arrangement with North Winneshiek Community School District to share a librarian at 47% at North Winneshiek and 53% at Decorah for the 2010-11 school year. The librarian is an employee of the North Winneshiek Community School District. This is in part due to the retirement of our current library-media instructor and hiring of a long-term substitute associate.

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, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	\$ 3,677,283	\$ 175,687	\$ 3,852,970
Receivables			
Property tax			
Delinquent	59,257		59,257
Succeeding year	6,588,073		6,588,073
Accounts	385,296	244	385,540
Accrued interest	72		72
Due from other governments	835,660		835,660
Inventories		20,402	20,402
Capital assets, non-depreciable	863,627		863,627
Capital assets, net of accumulated depreciation	20,895,553	119,927	21,015,480
	<u>\$ 33,304,821</u>	<u>\$ 316,260</u>	<u>\$ 33,621,081</u>
LIABILITIES			
Accounts payable	\$ 133,950	\$ 11,629	\$ 145,579
Salaries and benefits payable	1,400,539	52,634	1,453,173
Accrued interest payable	34,768		34,768
Deferred revenue			
Succeeding year property tax	6,588,073		6,588,073
Other	433,753		433,753
Long-term liabilities			
Portion due within one year			
Bonds payable	1,575,000		1,575,000
Capital leases	168,323		168,323
Notes payable	166,667		166,667
Compensated absences	35,014		35,014
Early retirement	369,560		369,560
Portion due after one year			
Bonds payable	4,420,000		4,420,000
Capital leases	340,798		340,798
Notes payable	333,333		333,333
Early retirement	865,824		865,824
OPEB obligation	302,583		302,583
	<u>17,168,185</u>	<u>64,263</u>	<u>17,232,448</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,755,059	119,927	14,874,986
Restricted for			
Debt service	51,490		51,490
Capital projects	690,866		690,866
Other purposes	580,219		580,219
Unrestricted	59,002	132,070	191,072
	<u>16,136,636</u>	<u>251,997</u>	<u>16,388,633</u>
Total net assets	<u>\$ 33,304,821</u>	<u>\$ 316,260</u>	<u>\$ 33,621,081</u>
Total liabilities and net assets	<u>\$ 33,304,821</u>	<u>\$ 316,260</u>	<u>\$ 33,621,081</u>

See Notes to Financial Statements.

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DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
Governmental activities			
Instruction			
Regular instruction	\$ 8,177,519	\$ 2,092,723	\$ 1,809,498
Special instruction	2,740,264	1,802,994	347,376
Other instruction	1,746,916	1,050	9,018
	<u>12,664,699</u>	<u>3,896,767</u>	<u>2,165,892</u>
Support services			
Student services	331,679	39,980	
Instructional staff services	675,866		
Administration services	1,500,341	18,054	
Operation and maintenance plant services	1,342,374		
Transportation services	778,828		60,244
	<u>4,629,088</u>	<u>58,034</u>	<u>60,244</u>
Non-instructional			
Other			
Long-term debt interest	258,135		
Facilities acquisition	153,979		17,296
AEA flowthrough	591,775		591,775
Depreciation (unallocated)	527,220		
	<u>1,531,109</u>		<u>609,071</u>
Total governmental activities	18,824,896	3,954,801	2,835,207
Business-type activities			
Non-instructional programs			
Nutrition services	856,097	568,354	308,603
Total	\$ 19,680,993	\$ 4,523,155	\$ 3,143,810
General revenues			
Property taxes levied for			
General purposes			
Management			
PPEL			
Debt service			
Statewide sales, services and use tax			
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
\$ (4,275,298)		\$ (4,275,298)
(589,894)		(589,894)
(1,736,848)		(1,736,848)
(6,602,040)		(6,602,040)
(291,699)		(291,699)
(675,866)		(675,866)
(1,482,287)		(1,482,287)
(1,342,374)		(1,342,374)
(718,584)		(718,584)
(4,510,810)		(4,510,810)
-		-
(258,135)		(258,135)
(136,683)		(136,683)
-		-
(527,220)		(527,220)
(922,038)		(922,038)
(12,034,888)		(12,034,888)
	\$ 20,860	20,860
(12,034,888)	20,860	(12,014,028)
4,849,529		4,849,529
379,267		379,267
731,062		731,062
751,747		751,747
1,679,866		1,679,866
4,272,606		4,272,606
48,853	167	49,020
(17,999)	17,999	-
43,286		43,286
12,738,217	18,166	12,756,383
703,329	39,026	742,355
15,433,307	212,971	15,646,278
\$ 16,136,636	\$ 251,997	\$ 16,388,633

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and pooled investments				
Other	\$ 1,901,012	\$ 942,907	\$ 833,364	\$ 3,677,283
Receivables				
Property tax				
Delinquent	43,205		16,052	59,257
Succeeding year	4,759,452		1,828,621	6,588,073
Accounts	383,369		1,927	385,296
Accrued interest	72			72
Due from other governments	558,472	277,188		835,660
Total assets	<u>\$ 7,645,582</u>	<u>\$ 1,220,095</u>	<u>\$ 2,679,964</u>	<u>\$ 11,545,641</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 101,315	\$ 29,229	\$ 3,406	\$ 133,950
Salaries and benefits payable	1,400,539			1,400,539
Deferred revenue				
Succeeding year property tax	4,759,452		1,828,621	6,588,073
Other	562,611			562,611
Total liabilities	<u>6,823,917</u>	<u>29,229</u>	<u>1,832,027</u>	<u>8,685,173</u>
Fund balances				
Reserved for				
Debt service			86,258	86,258
Other purposes	143,551			143,551
Unreserved, reported in				
General fund	678,114			678,114
Special revenue funds			761,679	761,679
Capital projects fund		1,190,866		1,190,866
Total fund balances	<u>821,665</u>	<u>1,190,866</u>	<u>847,937</u>	<u>2,860,468</u>
Total liabilities and fund balances	<u>\$ 7,645,582</u>	<u>\$ 1,220,095</u>	<u>\$ 2,679,964</u>	<u>\$ 11,545,641</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$ 2,860,468
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 \$ 10,371,801	21,759,180
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	128,858
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	(5,995,000)
Capital leases	(509,121)
Notes payable	(500,000)
Accrued interest	(34,768)
Compensated absences	(35,014)
Early retirement	(1,235,384)
OPEB obligation	(302,583)
Net assets of governmental activities per Exhibit A	<u>\$ 16,136,636</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, 2010

	General	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES				
Local sources				
Local property tax	\$ 5,284,138		\$ 1,862,076	\$ 7,146,214
Tuition	3,161,819			3,161,819
Other	106,316	\$ 1,258,292	765,770	2,130,378
State sources	5,836,794		1,085	5,837,879
Federal sources	1,141,076			1,141,076
Total revenues	15,530,143	1,258,292	2,628,931	19,417,366
EXPENDITURES				
Current				
Instruction				
Regular instruction	6,269,732		796,563	7,066,295
Special instruction	2,716,120		24,144	2,740,264
Other instruction	1,677,782	5,400	42,690	1,725,872
	10,663,634	5,400	863,397	11,532,431
Support services				
Student services	323,043			323,043
Instructional staff services	561,213	338,497	6,036	905,746
Administration services	1,338,450	87,925	10,552	1,436,927
Operation and maintenance plant services	1,167,393		158,414	1,325,807
Transportation services	557,121	37,080	202,989	797,190
	3,947,220	463,502	377,991	4,788,713
Other				
Long-term debt				
Principal			1,515,000	1,515,000
Interest and fiscal charges			256,139	256,139
Facilities acquisition		330,318	25,106	355,424
AEA flowthrough	591,775			591,775
	591,775	330,318	1,796,245	2,718,338
Total expenditures	15,202,629	799,220	3,037,633	19,039,482
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	327,514	459,072	(408,702)	377,884
OTHER FINANCING SOURCES (USES)				
Operating transfers in			1,018,121	1,018,121
Operating transfers (out)		(533,867)	(502,253)	(1,036,120)
Proceeds for loan payable		500,000		500,000
	-	(33,867)	515,868	482,001
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	327,514	425,205	107,166	859,885
FUND BALANCE, beginning of year	494,151	765,661	740,771	2,000,583
FUND BALANCE, end of year	\$ 821,665	\$ 1,190,866	\$ 847,937	\$ 2,860,468

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, 2010

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	\$	859,885
<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	\$ (822,849)	
Capital outlays	1,186,125	363,276
<p>Some grant revenues received have not been earned prior to year end, so they are deferred in the governmental funds.</p>		
		128,858
<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>		
		1,515,000
<p>Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of activities.</p>		
		(500,000)
<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>		
		(805)
<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	(468,922)	
Compensated absences	(8,359)	
Early retirement	(883,021)	
OPEB obligation	(302,583)	(1,662,885)
Change in net assets of governmental activities per Exhibit B	\$	703,329

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2010

	School Nutrition Fund
ASSETS	
CURRENT ASSETS	
Cash	\$ 175,687
Accounts receivable	244
Inventories	20,402
Total current assets	196,333
NONCURRENT ASSETS	
Furniture and equipment	355,442
Less accumulated depreciation	(235,515)
Total noncurrent assets	119,927
Total assets	\$ 316,260
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 11,629
Contracts and benefits payable	52,634
Total liabilities	64,263
NET ASSETS	
Invested in capital assets, net of related debt	119,927
Unrestricted deficit	132,070
Total net assets	251,997
Total liabilities and net assets	\$ 316,260

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, 2010

	School Nutrition Fund
OPERATING REVENUES	
Local sources	
Charges for services	\$ 568,354
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	379,675
Purchased services	9,816
Supplies	443,291
Depreciation	23,315
Total operating expenses	856,097
Operating loss	(287,743)
NONOPERATING REVENUES	
Interest income	167
State sources	7,380
Federal sources	301,223
Total nonoperating revenues	308,770
OTHER FINANCING SOURCES	
Transfers in	17,999
Change in net assets	39,026
Net assets, beginning of year	212,971
Net assets, end of year	\$ 251,997

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2010

	School Nutrition Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	\$ 547,562
Cash received from miscellaneous operating activities	21,473
Cash payments to employees for services	(263,316)
Cash payments to suppliers for goods and services	(372,522)
Cash payments paid on employees' behalf	(120,466)
Other payments	(9,816)
	(197,085)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State grants and federal grants received	245,256
	245,256
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(24,762)
Transfers in	17,999
	(6,763)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	167
	167
Net increase in cash and cash equivalents	41,575
CASH, beginning of year	134,112
CASH, end of year	\$ 175,687
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (287,743)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	23,315
Commodities used	63,347
(Increase) in accounts receivable	(51)
Decrease in inventories	8,832
(Decrease) in accounts payable	(678)
(Decrease) in salaries and benefits payable	(4,107)
	(4,107)
Net cash used in operating activities	\$ (197,085)
Non-cash, noncapital financing activities:	
During the year ended June 30, 2010, the District received commodities valued at \$61,867	

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 or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. 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 District is required to certify its budget in April 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 in both government-wide and fund financial statements 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

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 governmental commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets

Capital assets, which include property, furniture and equipment and intangibles, 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 the following thresholds and estimated useful lives in excess of two years:

Buildings	2,500
Improvements other than buildings	2,500
Intangibles	100,000
Furniture and equipment	
School nutrition fund equipment	500
Other furniture and equipment	2,500

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Capital Assets (Continued)

Property, furniture and equipment and intangibles 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
Intangibles	5-10 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable

Payroll and related expenditures or expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Also, wages for hourly employees earned in June and paid in July have been accrued as liabilities. The rate in effect at June 30, 2010 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 and unspent grant proceeds. Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Long-term Obligation

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets. Early retirement liability has been paid 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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

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.

Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments

The District's deposits in banks at June 30, 2010 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 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, 2010, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	Amortized Cost
Diversified portfolio	\$ 47,670
Direct Government Obligations Portfolio	855,174
Total	\$ 902,844

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.

NOTES TO FINANCIAL STATEMENTS

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2010:

Governmental		
General fund		
Title IIA	\$	46,224
Title I		24,691
Non-public transportation		30,145
Income surtax		433,753
Other		23,659
		558,472
Capital projects		
Statewide sales, services and use tax		277,188
		\$ 835,660

4. Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Governmental activities				
Land	\$ 280,200			\$ 280,200
Construction in progress	574,943	\$ 191,882	\$ 183,398	583,427
Total capital assets not being depreciated	855,143	191,882	183,398	863,627
Capital assets being depreciated				
Land improvements	1,150,289	78,319		1,228,608
Buildings	25,090,745	84,019	9,362	25,165,402
Furniture and equipment	3,955,417	1,015,303	97,376	4,873,344
Total capital assets being depreciated	30,196,451	1,177,641	106,738	31,267,354
Less accumulated depreciation for				
Land improvements	439,254	49,219		488,473
Buildings	6,627,304	524,139	9,362	7,142,081
Furniture and equipment	2,589,132	249,491	97,376	2,741,247
Total accumulated depreciation	9,655,690	822,849	106,738	10,371,801
Total capital assets being depreciated, net	20,540,761	354,792	None	20,895,553
Governmental activities				
Capital assets, net	\$ 21,395,904	\$ 546,674	\$ 183,398	\$ 21,759,180
Business-type activities				
Furniture and equipment	\$ 330,682	\$ 24,760	\$ None	\$ 355,442
Less accumulated depreciation	212,200	23,315		235,515
Business-type activities				
Capital assets, net	\$ 118,482	\$ 1,445	\$ None	\$ 119,927

NOTES TO FINANCIAL STATEMENTS

4. **Capital Assets (Continued)**

Depreciation expense for the year ended June 30, 2010 was charged to the governmental functions of the District as follows:

Governmental activities	
Instruction	
Regular	\$ 39,385
Special	
Other	63,734
Support services	
Instructional staff	9,191
Administration	20,237
Operation and maintenance of plant	16,431
Transportation	146,651
Unallocated depreciation	527,220
	\$ 822,849
Business-type activities	
Food services	\$ 23,315

5. **Long-term Debt Obligations**

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 4,255,000	\$ None	\$ 600,000	\$ 3,655,000	\$ 645,000
Tax revenue bonds	965,000	None	480,000	485,000	485,000
Capital loan notes	2,290,000	None	435,000	1,855,000	445,000
	7,510,000	None	1,515,000	5,995,000	1,575,000
Other liabilities					
Capital leases	40,199	680,427	211,505	509,121	168,323
Notes payable		500,000		500,000	166,667
Compensated absences	26,655	35,014	26,655	35,014	35,014
Early retirement	352,363	985,056	102,035	1,235,384	369,560
OPEB obligation		302,583		302,583	
	419,217	2,503,080	340,195	2,582,102	739,564
Governmental activities					
Long-term liabilities	\$ 7,929,217	\$ 2,503,080	\$ 1,855,195	\$ 8,577,102	\$ 2,314,564

5. Long-term Debt Obligations (Continued)

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 \$609 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, 2010, the District has obligations to 34 participants with a total liability of \$1,235,384. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$102,035.

Bond Indebtedness

\$3,655,000 2004B General Obligation School Serial Bonds, due annually in varying installments July 1, 2011 through June 1, 2015 plus interest semi-annually with interest rates of the bonds varying from 3.40% to 3.85%. Bonds maturing after June 1, 2010 are callable upon terms of par plus accrued interest to date of call.

\$485,000 2004 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due June 1, 2011 plus interest semi-annually with interest rate of the bonds at 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.

\$1,855,000 2004B General Obligation School Capital Loan Notes, due annually in varying installments July 1, 2011 through June 1, 2014 plus interest semi-annually with interest rates of the bonds varying from 2.75% to 3.2%. Bonds maturing after June 1, 2009 are callable upon terms of par plus accrued interest to date of call.

Notes Payable

Viking State Bank

In September 2009 the District entered an agreement with Viking State Bank to finance the network project in the high school. The note was for \$500,000 at 2.9% interest and matures on September 15, 2010 through September 15, 2012.

Interest costs incurred and charged to expenses was \$254,938 for the year ended June 30, 2010. 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	
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	\$ 485,000	\$ 18,188	\$ 3,655,000	\$ 422,822	\$ 4,140,000	\$ 441,010	

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

	Governmental Activities				
	Capital Notes				
	June 30,	General Obligation		Notes Payable	
		Principal	Interest	Principal	Interest
2011	\$ 445,000	\$ 55,978	\$ 166,667	\$ 10,071	
2012	455,000	43,740	166,667	10,071	
2013	470,000	30,090	166,666	15,108	
2014	485,000	15,520			
Total	\$ 1,855,000	\$ 145,328	\$ 500,000	\$ 35,250	

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 \$503,189. For the current year, \$480,000 principal and \$35,468 interest was paid on the bonds and total local option sales and services tax revenues were \$1,245,257.

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, 2010. 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)

At June 30, 2010, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 438,548,985
Debt limit – 5% of total assessed valuation	\$ 21,927,449
Debt applicable to debt limit	
General obligation	
Capital loan notes	(1,855,000)
Bonded debt outstanding	(4,140,000)
Notes payable	(500,000)
Legal debt margin	\$ 15,432,449

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 \$517,494 at June 30, 2010. The following is a schedule of future minimum lease payments under capital leases as of June 30, 2010:

Year ending June 30,	
2011	\$ 172,498
2012	172,498
2013	172,498
	517,494
Less imputed interest	(8,373)
Present value of minimum lease payments	\$ 509,121

6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

	Transfers In	Transfers Out
Capital projects fund		\$ 533,867
Nonmajor governmental	\$ 1,018,121	502,253
Enterprise fund	17,999	
	\$ 1,036,120	\$ 1,036,120

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 District-wide statement of net assets reports \$1,325,363 of restricted net assets, of which \$634,497 is restricted by enabling legislation. The amounts restricted at June 30, 2010 are as follows:

Restricted net assets	
Debt service fund	\$ 54,278
Capital projects fund	690,866
Management fund	540,586
Plant, property and equipment levy fund	39,633
	\$ 1,325,363

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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semi-annual period. Bankers Trust Co. NA is the trustee for the program.

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. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning Year	Advances Received	Advances Repaid	Balance End of Year
2009-10A	6/25/09	6/23/10	\$ None	\$ 100,000	\$ 100,000	\$ None

During the year ended June 30, 2010, the District paid \$15,183 of interest on the ISCAP warrants.

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 three years and requires monthly payments of \$3,175 from July 1, 2010 through June 30, 2011, \$3,290 from July 1, 2011 through June 30, 2012, and \$3,400 from July 1, 2012 through June 30, 2013.

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

Year ended June 30,	
2011	\$ 38,100
2012	39,480
2013	<u>40,800</u>
	<u>\$ 118,380</u>

Total lease expense for the year ended June 30, 2010 was \$37,080.

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 4.30%, 4.10%, and 3.90% of their annual covered salary and the District is required to contribute 6.65%, 6.35%, and 6.05% of annual covered payroll for the years ended June 30, 2010, 2009, and 2008, respectively. Contribution requirements are established by state statute.

The District's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$658,164, \$618,193, and \$550,924, respectively, equal to the required contributions for each year.

11. Other Postemployment Benefits (OPEB)

Plan Description

As explained in Note 12, the District is a member of the Northeast Iowa Schools Insurance Trust (Trust) which provides medical and prescription drug benefits for retirees and their spouses. Decorah Community School District has 230 active and 25 retired members in the Plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through the Trust. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy

The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	166,113
Interest on net OPEB obligation		3,861
Adjustment to annual required contribution		<u>(21,838)</u>
Annual OPEB cost		148,136
Contributions made		<u>-</u>
Increase in net OPEB obligation		148,136
Net OPEB obligation beginning of year		<u>154,447</u>
Net OPEB obligation end of year	\$	<u><u>302,583</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year end June 30, 2010.

For the year ended June 30, 2010, the District contributed \$None to the medical plan for the OPEB obligation. Plan members eligible for benefits contributed \$None of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized below as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 148,136	0%	\$ 302,583

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$1,328,224, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,328,224. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8.905 million, and the ratio of the UAAL to covered payroll was 14.9%. As of June 30, 2010, there were no trust fund assets.

11. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provide at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

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 Northeast Iowa Schools Insurance Trust (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, 2010, 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, 2010 was unavailable as of December 16, 2010. The District contributions to the trust for the years ended June 30, 2010, 2009, and 2008 were \$1,644,804, \$1,176,960 and \$1,169,769, respectively, which equaled the required contributions each year. The employee paid \$17,520 in dental insurance for the year ended June 30, 2010.

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, 2010, no liability has been recorded in the District's financial statements. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance company coverage.

13. Risk Management

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

14. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$591,775 for the year ended June 30, 2010 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

15. Flexible Fringe Benefit Plan

The District sponsors a flexible fringe benefit plan as a part of its contractual obligation with its employees. The benefit available under the plan is insurance. Each participating employee can choose among medical, life, and dental insurance. The District contributes \$550 per month for full time staff and \$1,514 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 55 participants in the plan for the year ended June 30, 2010.

16. Contingencies

a. Grant Funding

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2010, 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.

17. Commitments

The total outstanding construction and other commitments of the District at June 30, 2010 amount to \$200,557.

18. Related Party Transaction

During the year ended June 30, 2010, 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 \$208,404. Mr. Petersburg is a principal of A&J Petersburg Insurance Agency.

19. Accounting Change

Governmental Accounting Standards Board Statement No. 51 Accounting and Financial Reporting for Intangible Assets, was implemented during fiscal year 2010. The District has no intangible assets to be reported in capital assets as of June 30, 2010.

20. Subsequent Events

On November 8, 2010, the District issued General Obligation School Bonds totaling \$10,405,000 for the renovation of the high school. The District issued General Obligation School Refund Bonds totaling \$3,050,000 for refinancing of previous bonds.

Subsequent events were evaluated through December 16, 2010, which is the date the financial statements were available to be issued.

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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, 2010

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
REVENUES			
Local sources	\$ 12,438,411	\$ 568,521	\$ 13,006,932
State sources	5,837,879	7,380	5,845,259
Federal sources	1,141,076	301,223	1,442,299
Total revenues	19,417,366	877,124	20,294,490
EXPENDITURES/EXPENSES			
Instruction	11,532,431	-	11,532,431
Support services	4,788,713	-	4,788,713
Non-instructional	-	856,097	856,097
Other	2,718,338	-	2,718,338
Total expenditures/expenses	19,039,482	856,097	19,895,579
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	377,884	21,027	398,911
OTHER FINANCING SOURCES, NET	482,001	17,999	500,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES	859,885	39,026	898,911
FUND BALANCE, beginning of year	2,000,583	212,971	2,213,554
FUND BALANCE, end of year	\$ 2,860,468	\$ 251,997	\$ 3,112,465

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Final	
\$	12,823,617	\$ 183,315
	7,299,909	(1,454,650)
	569,000	873,299
	<u>20,692,526</u>	<u>(398,036)</u>
	13,045,941	1,513,510
	5,355,969	567,256
	986,983	130,886
	4,255,762	1,537,424
	<u>23,644,655</u>	<u>3,749,076</u>
	(2,952,129)	3,351,040
	<u>505,000</u>	<u>(5,000)</u>
	(2,447,129)	3,346,040
	<u>2,818,511</u>	<u>(604,957)</u>
\$	<u><u>371,382</u></u>	\$ <u><u>2,741,083</u></u>

DECORAH COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2010

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.

DECORAH COMMUNITY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 (in thousands)

Fiscal Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 1,328	\$ 1,328	0.0%	\$ 7,853	16.9%
2010	July 1, 2008	-	\$ 1,328	\$ 1,328	0.0%	\$ 8,905	14.9%

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

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

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

www.hackernelson.com

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

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

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

Our report on our audit of the financial statements of Decorah Community School District as of and for the year ended June 30, 2010 appears on pages 2-3. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We have previously audited, in accordance with U.S. generally accepted auditing standards, the financial statements of Decorah Community School District as of and for the years ending June 30, 2004 through 2009 (none of which is presented herein). We expressed unqualified opinions on the 2004 through 2009 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, 2010, appearing on page 39, is fairly stated, in all material respects in relation to the financial statements from which it has been derived.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
December 16, 2010

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2010

	Special Revenue	Debt Service	Total Nonmajor Funds
ASSETS			
Cash and pooled investments	\$ 753,531	\$ 79,833	\$ 833,364
Receivables			
Property tax			
Delinquent	9,627	6,425	16,052
Succeeding year	1,090,264	738,357	1,828,621
Accounts	1,927		1,927
Total assets	<u>\$ 1,855,349</u>	<u>\$ 824,615</u>	<u>\$ 2,679,964</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 3,406		\$ 3,406
Deferred revenue			
Succeeding year property tax	1,090,264	\$ 738,357	1,828,621
Total liabilities	<u>1,093,670</u>	<u>738,357</u>	<u>1,832,027</u>
Fund balances			
Reserved for			
Debt service		86,258	86,258
Unreserved	761,679		761,679
	<u>761,679</u>	<u>86,258</u>	<u>847,937</u>
Total liabilities and fund balances	<u>\$ 1,855,349</u>	<u>\$ 824,615</u>	<u>\$ 2,679,964</u>

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2010

	Special Revenue	Debt Service	Total Nonmajor Funds
REVENUES			
Local sources			
Property taxes	\$ 1,110,329	\$ 751,747	\$ 1,862,076
Other	765,383	387	765,770
State sources	650	435	1,085
Total revenues	1,876,362	752,569	2,628,931
EXPENDITURES			
Current			
Instruction			
Regular instruction	796,563		796,563
Special instruction	24,144		24,144
Other instruction	42,690		42,690
Support services			
Instructional staff services	6,036		6,036
Administration services	10,552		10,552
Operation and maintenance plant services	158,414		158,414
Transportation services	202,989		202,989
Long-term debt			
Principal		1,515,000	1,515,000
Interest and fiscal charges		256,139	256,139
Other			
Facilities acquisition	25,106		25,106
Total expenditures	1,266,494	1,771,139	3,037,633
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	609,868	(1,018,570)	(408,702)
OTHER FINANCING SOURCES			
Transfers in	-	1,018,121	1,018,121
Transfers out	(502,253)		(502,253)
	(502,253)	1,018,121	515,868
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	107,615	(449)	107,166
FUND BALANCE, beginning of year	654,064	86,707	740,771
FUND BALANCE, end of year	\$ 761,679	\$ 86,258	\$ 847,937

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2010

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 537,207	\$ 33,385	\$ 182,939	\$ 753,531
Receivables				
Property tax				
Delinquent	3,379	6,248		9,627
Succeeding year	372,223	718,041		1,090,264
Accounts			1,927	1,927
Total assets	\$ 912,809	\$ 757,674	\$ 184,866	\$ 1,855,349
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable			\$ 3,406	\$ 3,406
Deferred revenue				
Succeeding year property tax	\$ 372,223	\$ 718,041		1,090,264
Total liabilities	372,223	718,041	3,406	1,093,670
Fund balances				
Unreserved	540,586	39,633	181,460	761,679
Total liabilities and fund balances	\$ 912,809	\$ 757,674	\$ 184,866	\$ 1,855,349

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, 2010

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES				
Local sources				
Local property tax	\$ 379,267	\$ 731,062		\$ 1,110,329
Other	25,305	5,177	\$ 734,901	765,383
State sources	227	423		650
Total revenues	404,799	736,662	734,901	1,876,362
EXPENDITURES				
Current				
Instruction				
Regular instruction	108,009		688,554	796,563
Special instruction	24,144			24,144
Other instruction		42,690		42,690
Support services				
Instructional staff services	6,036			6,036
Administration services	10,552			10,552
Operation and maintenance plant services	158,414			158,414
Transportation services	37,976	165,013		202,989
Other				
Facilities acquisition		25,106		25,106
Total expenditures	345,131	232,809	688,554	1,266,494
EXCESS OF REVENUES OVER EXPENDITURES	59,668	503,853	46,347	609,868
OTHER FINANCING SOURCES (USES)				
Operating transfers out		(502,253)		(502,253)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	59,668	1,600	46,347	107,615
FUND BALANCE, beginning of year	480,918	38,033	135,113	654,064
FUND BALANCE, end of year	\$ 540,586	\$ 39,633	\$ 181,460	\$ 761,679

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, 2010

	Balance June 30, 2009	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2010
High School Football	\$ 5,930	\$ 47,373	\$ 48,041	\$ 5,262
High School Basketball	1,743	26,566	27,310	999
High School Wrestling	209	15,389	15,505	93
High School Baseball	(1,940)	15,100	10,727	2,433
High School Golf	1,210	9,779	8,765	2,224
High School Track	2,787	12,747	13,007	2,527
High School Softball	4,665	7,138	6,981	4,822
High School Volleyball	552	15,218	14,492	1,278
High School Tennis	6,416	3,608	3,606	6,418
High School Cross Country	3,674	12,362	12,879	3,157
High School Student Council	2,796		307	2,489
High School Community Club	163	2,925	1,884	1,204
High School Swimming	1,235	12,643	13,357	521
High School Choir		54	5	49
High School Soccer	739	18,084	14,960	3,863
SADD Chapter	200			200
"D" Club	270	1,714	25	1,959
Art Club	4,339	6,581	8,610	2,310
Culture Club	11			11
Science Club	1,964		155	1,809
Future Farmers of America	16,030	67,074	63,556	19,548
Horticulture Club		3,040	2,338	702
DECA	(244)	394	152	(2)
Student Assistance	3,344	2,413	2,491	3,266
High School Music	(15,791)	8,773	8,019	(15,037)
High School Instrumental Music		18,361	18,697	(336)
High School Yearbook	17,077	28,908	9,902	36,083
High School Speech	2,874	27,251	26,861	3,264
High School Dramatics	9,406	8,474	9,283	8,597
High School Madrigal	2,951	4,609	4,998	2,562
Sub-totals	72,610	376,578	346,913	102,275

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, 2010

	Balance June 30, 2009	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2010
Sub-totals	\$ 72,610	\$ 376,578	\$ 346,913	\$ 102,275
High School Fire Squad	3,177	36,668	26,809	13,036
High School Cheerleading	1,616	10,686	10,135	2,167
Class 2009	34		34	
Class 2010	920	4,283	2,205	2,998
Class 2011	1,441	1,995	1,552	1,884
Class 2012	696		17	679
Class 2013		35	35	
High School General	1,041	183,564	181,852	2,753
Middle School Football		2,533	2,533	
Middle School Cross Country		579	579	
Middle School Basketball		2,513	2,513	
Middle School Wrestling		527	527	
Middle School Track		791	791	
Middle School Volleyball		1,341	1,341	
Middle School Music		48	48	
Middle School Library Club	6			6
Middle School Outdoor Ed	4,566	10,435	11,315	3,686
Middle School Yearbook	4,443	6,800	4,243	7,000
Scholarships	8,973	5,600	8,970	5,603
Middle School General	231			231
Middle School Fund Raising	4,337	57,155	55,564	5,928
Middle School Student Council	215	3,118	2,731	602
Middle School Summer Tag	2,200	200		2,400
Investments	97	1,003	1,026	74
Vocational Ag	418			418
Vocational	(687)	1,749	497	565
A/P Exam Testing	1,066	14,777	14,823	1,020
DHS Wall Of Fame	286		152	134
DVABC		60,399	60,344	55
Decorah Craft Show	3,645	9,038	9,268	3,415
Elementary Playground	14,968			14,968
Youth Marketplace	1,426	3,098	2,782	1,742
W/S Elementary General	7,388	6,597	6,164	7,821
	<u>\$ 135,113</u>	<u>\$ 802,110</u>	<u>\$ 755,763</u>	<u>\$ 181,460</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		
	2010	2009	2008
REVENUES			
Local sources			
Local tax	\$ 7,146,214	\$ 6,786,725	\$ 6,282,222
Tuition	3,161,819	2,990,001	2,553,688
Other	2,130,378	2,151,066	2,432,286
Intermediate sources	0.00	0.00	0.00
State sources	5,837,879	6,725,885	6,466,649
Federal sources	1,141,076	540,139	285,112
Total revenues	\$ 19,417,366	\$ 19,193,816	\$ 18,019,957
EXPENDITURES			
Current			
Instruction			
Regular instruction	\$ 7,066,295	\$ 6,101,214	\$ 5,976,750
Special instruction	2,740,264	3,348,391	2,931,951
Other instruction	1,725,872	2,068,116	1,777,746
Support services			
Student services	323,043	336,897	327,704
Instructional staff services	905,746	725,990	604,581
Administration services	1,436,927	1,423,288	1,439,698
Operation and maintenance plant services	1,325,807	1,351,740	1,306,620
Transportation services	797,190	748,872	740,015
Non-instructional	0.00	10,234	15,926
Other			
Facilities acquisition	355,424	1,468,459	984,630
Long-term debt			
Principal	1,515,000	1,465,000	1,415,000
Interest and fiscal charges	256,139	297,372	334,139
AEA flowthrough	591,775	530,159	496,088
Total expenditures	\$ 19,039,482	\$ 19,875,732	\$ 18,350,848

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 6

Modified Accrual			
2007	2006	2005	2004
\$ 6,341,796	\$ 5,998,168	\$ 5,715,624	\$ 4,788,589
2,624,750	2,533,470	2,114,518	2,051,186
2,339,895	2,703,281	2,009,289	1,751,257
0.00	0.00	21,485	12,751
6,176,068	5,783,248	5,488,689	5,568,314
245,963	240,641	252,791	270,532
<u>\$ 17,728,472</u>	<u>\$ 17,258,808</u>	<u>\$ 15,602,396</u>	<u>\$ 14,442,629</u>
\$ 6,195,772	\$ 6,131,923	\$ 5,883,790	\$ 5,005,459
2,782,024	2,841,924	2,389,212	2,663,282
1,063,206	1,067,063	1,050,483	1,231,424
311,136	288,598	308,740	280,259
673,653	540,396	525,972	535,201
1,254,791	1,093,675	976,645	1,143,570
1,143,162	1,161,498	1,018,698	1,027,393
702,556	660,791	634,698	637,563
37,663	36,350	1,638	3,276
4,110,541	4,930,220	6,897,137	1,171,147
1,375,000	1,319,958	1,180,800	3,080,000
363,645	397,332	273,976	215,231
476,764	453,211	450,267	456,353
<u>\$ 20,489,913</u>	<u>\$ 20,922,939</u>	<u>\$ 21,592,056</u>	<u>\$ 17,450,158</u>

DECORAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

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 84.391A-ARRA-Special Education Grants to States, Recovery Act
 - CFDA Number 84.394-ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act
- (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, 2010

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 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-10 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 the District is not large enough to permit a segregation of duties for effective internal controls, we believe it is important 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, 2010

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.391A-ARRA-Special Education Grants to States, Recovery Act

Federal Award Year: 2010

U.S. Department of Education

Passed through the Iowa Department of Education

CFDA Number 84.394-ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act

Federal Award Year: 2010

U.S. Department of Education

Passed through the Iowa Department of Education

See II-A-10 and II-B-10 above.

Part IV: Other Findings Related to Required Statutory Reporting:

See Management Letter dated December 16, 2010

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

Comment Reference	Comment Title	Status	Explanation
II-A-09	Financial report preparation	Not corrected	Management does not have the necessary training to prepare year-end financial statements.
II-B-09	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, 2010

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
Indirect			
Department of Agriculture			
Passed Through Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY10	\$ 26,703
National School Lunch Program	10.555	FY10	<u>211,595</u>
			238,298
Food Distribution Program (non-cash)	10.550	FY10	<u>63,347</u>
Total Department of Agriculture			<u>301,645</u>
Department of Education			
Passed Through Iowa Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	FY10	98,762
ARRA-Title I Grants to Local Educational Agencies, Recovery Act	84.389A	FY10	<u>9,826</u>
			108,588
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY10	3,390
State Grants for Innovative Programs	84.298	FY10	10,576
Rural Education Achievement Program	84.358A	FY10	74,874
Tech-Prep Education	84.243A	FY10	652
Improving Teacher Quality State Grants	84.367	FY10	46,224
ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act	84.394	FY10	634,044
ARRA-Special Education Grants to States, Recovery Act	84.391A	FY10	<u>148,438</u>
Total Department of Education			<u>1,026,786</u>
			<u>\$ 1,328,431</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, 2010

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.

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

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

www.hackernelson.com

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Decorah Community School District as of and for the year ended June 30, 2010, which collectively comprise Decorah Community School District's basic financial statements and have issued our report thereon dated December 16, 2010. 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items II-A-10 and II-B-10. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 16, 2010.

Decorah Community School District's responses to the findings identified in our audit are 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 16, 2010

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

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

www.hackernelson.com

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

**INDEPENDENT AUDITOR'S REPORT ON 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, 2010. 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, 2010.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133,, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Items II-A-10 and II-B-10 to be significant deficiencies.

Decorah Community School District's responses to the findings identified in our audit are 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 16, 2010

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

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www.hackernelson.com

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

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, 2010, 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 13 below are compliance comments required by the Iowa Auditor of State. A separate report dated December 16, 2010 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated December 16, 2010 on the financial statements of the Decorah Community School District. Comment numbers 4 and 14 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, 2010 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, 2010, 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: \$208,404

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

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

8. Supplementary Weighting

The District certified three students over 1.0 FTE to the Iowa Department of Education. The three students attended classes while being home schooled. The number of classes they attend brought them over 1.0 FTE. This resulted in overstating the total certified enrollment by .27 FTE.

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.

9. 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.

10. Certified Annual Report

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

11. Categorical Funding

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

12. 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.

13. 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.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

Beginning balance		\$	None
Statewide sales, services and use tax			1,245,257
Expenditures/transfers out:			
School infrastructure:			
Equipment	\$	729,389	
Debt service for school infrastructure:			
General obligation debt		515,868	1,245,257
			<hr/>
Ending balance		\$	<u>None</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
		<hr/>
Debt service levy	\$ 1.22	\$ 515,868
Public educational and recreational levy	1.19	729,389
		<hr/>
		\$ <u>1,245,257</u>

14. Student Activity Funds Deficits

As of June 30, 2010, 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. The District should allocate the funds to other accounts to help fund the activity.

Response

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

Conclusion

Response accepted.

15. Disbursements

One check out of twenty-five checks tested did not have purchase orders or dual signatures to show approval which is required to be in compliance with District policy.

Recommendation

All checks should have a purchase order attached with dual signatures to show approval prior to payment.

Response

The District is reviewing all invoices to verify all documents and signatures are obtained.

Conclusion

Response accepted.

16. Bank Account

During our audit, we noted the FFA booster/alumni club had a checking account under the District's EIN but not having the transactions run through the District's bookkeeping system, therefore, not adhering to the District's control system.

Recommendation

We recommend all bank accounts using the District's EIN to go through the District's system to verify the proper use of funds or not to use the District's EIN.

Response

The District is working on resolving the 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 16, 2010