

**DECORAH COMMUNITY
SCHOOL DISTRICT**

DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2011

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		14-29
Required Supplementary Information		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		30
Notes to Required Supplementary Information-Budgetary Reporting		31
Schedule of Funding Progress for the Retiree Health Plan		32
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION		33
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Nonmajor Governmental Funds		
Combining Balance Sheet	1	34
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	2	35
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	36-37
Comparative Schedule of Revenues and Expenditures	4	38
Schedule of Findings and Questioned Costs	5	39-41
Schedule of Expenditures of Federal Awards	6	42
Notes to the Schedule of Expenditures of Federal Awards		43
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 <i>GOVERNMENT AUDITING STANDARDS</i>		44-45
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133		46-47
MANAGEMENT LETTER		48-51

DECORAH COMMUNITY SCHOOL DISTRICT
BOARD OF EDUCATION AND SCHOOL OFFICIALS

Name	Title	Address	Term Expires
<u>Board of Education</u> (After September 2010 Election)			
Melanie Tietz	President	Decorah, Iowa	September 2011
Ronald Fadness	Vice-President	Decorah, Iowa	September 2013
Ramona Nelson	Member	Decorah, Iowa	September 2011
Brian Petersburg	Member	Decorah, Iowa	September 2011
Richard Valley	Member	Decorah, Iowa	September 2013

School Officials for 2010-11

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

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P.O. Box 507
Decorah, Iowa 52101
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**INDEPENDENT AUDITOR'S REPORT ON
THE 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, 2011, 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, 2011, 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 January 4, 2012, 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 on page 4 and pages 30 through 32 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
January 4, 2012

DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2011**

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, 2011.

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 2011 fiscal year include the following:

In total, net assets increased by \$2,036,624 or 12.43% from fiscal 2010. Net assets in governmental activities increased \$2,018,214, which represented a 12.51% increase from fiscal year 2010 which is a larger increase than what was reported for fiscal year ending June 30, 2010. 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 \$18,410 which represented an 7.31% increase from fiscal year 2010. A decrease in program expenses is the primary reasons for the increase. Unrestricted net assets decreased by \$73,000, which is due primarily from recording OPEB liability.

General fund revenues (which include the instructional support fund) accounted for \$16,671,081 in revenue or 77.0% of all revenues. General fund expenses (which include the instructional support fund) accounted for \$15,554,170 in expenditures or 58.5% of all expenses.

Using the Basic Financial Statements

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

The statement of net assets and statement of activities provides information about the activities of the whole District, presenting both an aggregate view of the District's finances and a 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 2011 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 2011 are the general fund, capital projects funds statewide sales, services, and use tax, and physical plant and equipment levy, and debt service 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 2011 totaled \$18,425,253, an increase of 12.43% from the previous fiscal year.

	Condensed Statement of Net Assets						
	(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2011	2010	2011	2010	2011	2010	
Current and other assets	\$ 27,206	\$ 11,546	\$ 241	\$ 196	\$ 27,447	\$ 11,742	133.75%
Capital assets	22,482	21,759	101	120	22,583	21,879	3.22%
Total assets	49,688	33,305	342	316	50,030	33,621	
Long-term debt outstanding	21,697	8,578	-	-	21,697	8,578	152.94%
Other liabilities	9,836	8,590	72	64	9,908	8,654	14.49%
Total liabilities	31,533	17,168	72	64	31,605	17,232	
Net assets							
Invested in capital assets, net of related debt	16,286	14,755	101	120	16,387	14,875	10.16%
Restricted	1,883	1,323	-	-	1,883	1,323	42.33%
Unrestricted	(14)	59	169	132	155	191	-18.85%
Total net assets	\$ 18,155	\$ 16,137	\$ 270	\$ 252	\$ 18,425	\$ 16,389	

The following analysis shows the change in net assets for the year ending June 30, 2011:

	Changes in Net Assets (Expressed in Thousands)								Percent Change
	Governmental Activities		Business-type Activities		Total		2010		
	2011	2010	2011	2010	2011	2010			
Revenues:									
Program revenue									
Charges for service	\$ 4,321	\$ 3,955	\$ 561	\$ 568	\$ 4,882	\$ 4,523		7.94%	
Operating grants	2,383	2,835	308	309	2,691	3,144		16.83%	
General revenue									
Property taxes	7,377	6,716	-	-	7,377	6,716		9.84%	
Sales tax and surtax	1,569	1,680	-	-	1,569	1,680		-6.61%	
Unrestricted state grants	4,845	4,272	-	-	4,845	4,272		13.41%	
Unrestricted investment earnings	443	48	-	-	443	48		822.92%	
Other revenue	72	23	-	18	72	41		75.61%	
Total revenues	<u>21,010</u>	<u>19,529</u>	<u>869</u>	<u>895</u>	<u>21,879</u>	<u>20,424</u>			
Program expenses:									
Instruction	11,701	12,665	-	-	11,701	12,665		-7.61%	
Student support	525	332	-	-	525	332		58.13%	
Instructional Staff Services	571	676	-	-	571	676		-15.53%	
Administration Services	1,374	1,500	-	-	1,374	1,500		-8.40%	
Operation & Maintenance Services	1,368	1,342	-	-	1,368	1,342		1.94%	
Transportation Services	841	779	-	-	841	779		7.96%	
Non-Instructional Programs	38	-	-	-	38	-		100.00%	
Long Term Debt Interest	799	258	-	-	799	258		209.69%	
General Obligation Bond Discount	153	-	-	-	153	-		100.00%	
Bond Issuance Cost	92	-	-	-	92	-		100.00%	
Facilities Acquisition	368	154	-	-	368	154		138.96%	
AEA Flow Thru	596	592	-	-	596	592		0.68%	
Non-instructional programs	-	-	851	856	851	856		-0.58%	
Depreciation (unallocated)	566	527	-	-	566	527		7.40%	
Total expenses	<u>18,992</u>	<u>18,825</u>	<u>851</u>	<u>856</u>	<u>19,843</u>	<u>19,681</u>			
Increase in net assets	2,018	704	18	39	2,036	743		174.02%	
Net assets Beginning of Year	<u>16,137</u>	<u>15,433</u>	<u>252</u>	<u>213</u>	<u>16,389</u>	<u>15,646</u>		4.75%	
Net assets End of Year	<u>\$ 18,155</u>	<u>\$ 16,137</u>	<u>\$ 270</u>	<u>\$ 252</u>	<u>\$ 18,425</u>	<u>\$ 16,389</u>			

Financial Analysis of the District's Funds

The Decorah Community School District uses fund accounting on the modified accrual basis to ensure and demonstrate compliance with finance-related legal requirements.

The District governmental funds reported combined fund balances of \$17,556,518, a \$14,696,050 increase from the 2010 fiscal year end balance of \$2,860,468.

- The general fund revenues increased during fiscal year 2011 for local property taxes and also state sources. The ending fund balance showed an increase of \$1,116,911 from the prior year.
- The capital projects funds statewide sales, services, and use tax and physical plant and equipment levy ending fund balances showed increases primarily due to the borrowing of \$10,500,000 and \$6,330,000 respectively, for the renovation of the high school project. The ending fund balances showed an increase from the prior year of \$8,703,419 and \$4,972,033 respectively.

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 amended budget for fiscal 2011 as well as the actual revenue and expenditures for the year:

Budgetary Comparison Schedule (Expressed in Thousands)				
Budget Amounts				
	Actual	Original	Final	Variance
Revenues				
Local sources	\$ 14,852	\$ 13,800	\$ 13,800	\$ 1,052
Intermediate sources	-	-	-	-
State sources	6,629	7,133	7,133	(504)
Federal sources	1,037	1,074	1,074	(37)
Total revenues	\$ 22,518	\$ 22,007	\$ 22,007	\$ 511
Expenditures				
Instruction	\$ 11,995	\$ 12,951	\$ 12,951	\$ 956
Student support	5,036	6,547	6,547	1,511
Non-instructional programs	890	975	975	85
Other expenses	9,515	2,887	10,500	985
Total expenditures	\$ 27,436	\$ 23,360	\$ 30,973	\$ 3,537

Capital Assets and Debt Administration

Capital Assets

At the end of the 2010 fiscal year, the District had invested \$22,481,832 (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 \$1,014,138 for fiscal 2011 and total accumulated depreciation of \$11,310,005 as of June 30, 2011. The following chart shows the comparison in capital assets for 2011 and 2010:

	Capital Assets (net of depreciation)							
	(Expressed in Thousands)							
	Governmental		Business-type		Total		Percent	
	Activities		Activities					
2011	2010	2011	2010	2011	2010	Change		
Land	\$ 280	\$ 280	\$ -	\$ -	\$ 280	\$ 280	0.00%	
Construction in Progress	1,484	583			1,484	583	154.55%	
Land Improvements	1,241	740			1,241	740	67.70%	
Buildings	17,499	18,023			17,499	18,023	-2.91%	
Furniture & Equipment	1,978	2,133	101	120	2,079	2,253	-7.72%	
Total	\$ 22,482	\$ 21,759	\$ 101	\$ 120	\$ 22,583	\$ 21,879		

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

Debt

As of June 30, 2011 the District had \$21,359,787 in long-term debt outstanding compared to \$8,274,519 on June 30, 2010. The following chart shows the debt comparison between 2011 and 2010:

	Long-term Debt Obligations			
	Balance			Balance
	June 30, 2010	Additions	Reductions	June 30, 2011
Bonds/Capital Loan Notes				
General Obligation	\$ 3,655,000	\$ 10,405,000	\$ 3,655,000	\$ 10,405,000
General Obligation Refunding	-	3,050,000		3,050,000
Tax Revenue Bonds	485,000		485,000	-
Capital Loan Notes	1,855,000	6,330,000	1,855,000	6,330,000
Total Bonds/Capital Loan Notes	5,995,000	19,785,000	5,995,000	19,785,000
Other Liabilities				
Capital Leases	509,121	-	168,323	340,798
Compensated Absences	35,014	42,112	35,014	42,112
Notes Payable	500,000	-	166,667	333,333
Early Retirement	1,235,384	-	376,840	858,544
Total Other Liabilities	2,279,519	42,112	746,844	1,574,787
Total Long-term Debt	\$ 8,274,519	\$ 19,827,112	\$ 6,741,844	\$ 21,359,787

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.

- The Iowa Legislature did not establish allowable growth rates for FY 2012 and therefore the state percent of allowable growth defaulted to zero. The Legislature did set the FY 2013 allowable growth at 2% for both regular program and the categorical programs.
- Before the first day of school, the anticipated enrollment at John Cline and Middle School were to increase. Based on those projected enrollment figures, the District hired 2 long-term substitutes for Second Grade and Fifth Grade. When the official headcount in October was taken, the District had a loss of 42.44 actual enrolled students. The decline in the total students that are educated at the Decorah Community School District was 72.54 students, which does not reflect how 27 Crossroads students are not counted by the state as a Decorah student. Therefore, the net loss between the two years is 45.54 students.
- In 2010-11, the Voluntary Four-Year-Old Preschool Program was in the first year of inception. For 2011-12, SF 533 changed the Voluntary Four-Year-Old Preschool budget enrollment from 60% to 50% of actual enrollment. The District received \$187,079.40 in 2010-11 and expects to receive \$261,794 in 2011-12.
- Due to a librarian retirement in 2010-11, the District entered into a sharing arrangement with the North Winneshiek Community School to share a Library Media Instructor. North Winneshiek held the full-time contract and expenses were split 47% for NW and 53% for Decorah. The District worked with a part-time associate to get 5-12 Librarian certification. In 2011-12, this employee is certified 5-12 and the District continues the 47/53 split with North Winneshiek CSD. The District is working on changing this sharing agreement for the future.
- The District terminated a sharing arrangement with South Winneshiek Community School with the English Language Learner Instructor 50/50 split at the end of 2010-11. The Decorah Community School hired a Middle School/ELL Instructor to cover 6th grade reading and District ELL needs.
- The District has experienced a cumulative increase in taxable assessed valuation of 19.46% in the last five years. The District's assessed valuation in 2010-11 increased by \$43,676,840.
- Revenue received from the one-cent local option sales tax decreased by \$89,944.30 to \$1,155,312.24 for 2010-2011. The Estimated Local Option Sales Tax or SAVE monthly re-estimated distribution from the State of Iowa received on September 19, 2011, states that the District will receive an estimated \$1,150,948.75 from August 2011 to July 2012. This distribution is down \$4,363.49 from the previous years' mid-year adjusted payments. The distribution is 95% of the estimated Local Option Collections. However, the annual reconciliation payment received in November 2011 of \$68,760.84 will end with a \$64,397.34 increase.
- The District sold bonds in 2010-11 for the renovation of the high school. The GO Bond Sale of \$10,405,000 2010 Series A, GO Refunding Bonds of \$3,050,000 2010 Series B, and the PPEL Bonds (school capital loan and refunding notes) of \$6,330,000 were all done in the 2010-11 school year. For the last portion of funding the anticipated \$19,649,500 approved construction contract with Larson Construction for the remodel project, the Board sold School Infrastructure Bonds in 2011-12. The Bond Sale of \$7,410,000 was done on November 21, 2011.
- The Decorah Metronet includes the five anchor members of: Decorah Community School District, City of Decorah, Winneshiek Medical Center, Luther College, and Winneshiek County. The Metronet is a highly efficient and redundant broadband technology project that links the five local organizations to high speed computer and internet linkages. The estimate for the network is \$682,000 plus engineering fees. The Decorah Metronet was awarded a Broadband Technologies Opportunities Grant (BTOP) worth slightly less than \$520,000 from federal stimulus funds.

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, 2011

EXHIBIT A

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	\$ 19,288,724	\$ 212,128	\$ 19,500,852
Receivables			
Property tax			
Delinquent	58,108		58,108
Succeeding year	6,588,073		6,588,073
Accounts	470,605	2,170	472,775
Accrued interest	72		72
Due from other governments	800,774		800,774
Inventories		26,832	26,832
Capital assets, non-depreciable	1,763,869		1,763,869
Capital assets, net of accumulated depreciation	20,717,963	101,074	20,819,037
	\$ 49,688,188	\$ 342,204	\$ 50,030,392
LIABILITIES			
Accounts payable	\$ 679,327	\$ 11,945	\$ 691,272
Salaries and benefits payable	1,610,984	59,857	1,670,841
Accrued interest payable	187,909		187,909
Deferred revenue			
Succeeding year property tax	6,588,073		6,588,073
Other	771,454		771,454
Long-term liabilities			
Portion due within one year			
Bonds payable	1,235,000		1,235,000
Capital leases	169,703		169,703
Notes payable	166,667		166,667
Compensated absences	42,112		42,112
Early retirement	337,810		337,810
Portion due after one year			
Bonds payable	18,550,000		18,550,000
Capital leases	171,095		171,095
Notes payable	166,666		166,666
Early retirement	520,734		520,734
OPEB obligation	335,803		335,803
	31,533,337	71,802	31,605,139
NET ASSETS			
Invested in capital assets, net of related debt	16,286,326	101,074	16,387,400
Restricted for			
Debt service	58,054		58,054
School infrastructure	639,621		639,621
Management levy purposes	491,731		491,731
Student activities	162,205		162,205
Physical plant and equipment	264,095		264,095
Categorical funding	266,390		266,390
Unrestricted	(13,571)	169,328	155,757
	18,154,851	270,402	18,425,253
	\$ 49,688,188	\$ 342,204	\$ 50,030,392

See Notes to Financial Statements.

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DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
Governmental activities			
Instruction			
Regular instruction	\$ 6,382,475	\$ 2,204,146	\$ 1,417,011
Special instruction	3,543,948	2,048,365	99,236
Other instruction	1,774,976	1,630	258,071
	<u>11,701,399</u>	<u>4,254,141</u>	<u>1,774,318</u>
Support services			
Student services	524,858	51,630	
Instructional staff services	571,284		
Administration services	1,373,802	15,112	
Operation and maintenance plant services	1,368,403		
Transportation services	840,551		12,342
	<u>4,678,898</u>	<u>66,742</u>	<u>12,342</u>
Non-instructional			
	<u>38,160</u>		
Other			
Long-term debt interest	798,559		
General obligation bond discount	152,416		
Bond issuance cost	92,048		
Facilities acquisition	368,015		
AEA flowthrough	596,148		596,148
Depreciation (unallocated)	566,118		
	<u>2,573,304</u>	<u>-</u>	<u>596,148</u>
Total governmental activities	18,991,761	4,320,883	2,382,808
Business-type activities			
Non-instructional programs			
Nutrition services	851,384	560,953	308,657
Total	<u>\$ 19,843,145</u>	<u>\$ 4,881,836</u>	<u>\$ 2,691,465</u>
General revenues			
Property taxes levied for			
General purposes			
Management			
PPEL			
Debt service			
Statewide sales, services and use tax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Total general revenues			
Change in net assets			
Net assets, beginning of year			
Net assets, end of year			

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (2,761,318)		\$ (2,761,318)
(1,396,347)		(1,396,347)
(1,515,275)		(1,515,275)
(5,672,940)		(5,672,940)
(473,228)		(473,228)
(571,284)		(571,284)
(1,358,690)		(1,358,690)
(1,368,403)		(1,368,403)
(828,209)		(828,209)
(4,599,814)		(4,599,814)
(38,160)		(38,160)
(798,559)		(798,559)
(152,416)		(152,416)
(92,048)		(92,048)
(368,015)		(368,015)
-		-
(566,118)		(566,118)
(1,977,156)	\$ -	(1,977,156)
(12,288,070)		(12,288,070)
	18,226	18,226
(12,288,070)	18,226	(12,269,844)
5,258,648		5,258,648
549,746		549,746
790,562		790,562
777,858		777,858
1,569,577		1,569,577
4,845,040		4,845,040
443,205	184	443,389
71,648		71,648
14,306,284	184	14,306,468
2,018,214	18,410	2,036,624
16,136,637	251,992	16,388,629
\$ 18,154,851	\$ 270,402	\$ 18,425,253

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DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	<u>General</u>	<u>Capital Projects Statewide Sales, Services, and Use Tax</u>	<u>Capital Projects Physical Plant and Equipment Levy</u>
ASSETS			
Cash and pooled investments			
Other	\$ 3,344,169	\$ 10,236,574	\$ 5,006,329
Receivables			
Property tax			
Delinquent	41,490		6,190
Succeeding year	4,759,452		718,041
Accounts	470,345		
Accrued interest	72		
Due from other governments	533,911	266,863	
Total assets	<u>\$ 9,149,439</u>	<u>\$ 10,503,437</u>	<u>\$ 5,730,560</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 127,460	\$ 550,665	\$ 852
Salaries and benefits payable	1,610,984		
Deferred revenue			
Succeeding year property tax	4,759,452		718,041
Other	712,967	58,487	
Total liabilities	<u>7,210,863</u>	<u>609,152</u>	<u>718,893</u>
Fund balances			
Restricted for			
Debt service			
Categorical funding	266,390		
Management levy purposes			
Student activities			
Physical plant and equipment			5,011,667
School infrastructure		9,894,285	
Unassigned	1,672,186		
Total fund balances	<u>1,938,576</u>	<u>9,894,285</u>	<u>5,011,667</u>
Total liabilities and fund balances	<u>\$ 9,149,439</u>	<u>\$ 10,503,437</u>	<u>\$ 5,730,560</u>

See Notes to Financial Statements.

EXHIBIT C

Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ 51,963	\$ 649,689	\$ 19,288,724
6,091	4,337	58,108
738,357	372,223	6,588,073
	260	470,605
		72
		800,774
<u>\$ 796,411</u>	<u>\$ 1,026,509</u>	<u>\$ 27,206,356</u>
	\$ 350	\$ 679,327
		1,610,984
\$ 738,357	372,223	6,588,073
		771,454
<u>738,357</u>	<u>372,573</u>	<u>9,649,838</u>
58,054		58,054
		266,390
	491,731	491,731
	162,205	162,205
		5,011,667
		9,894,285
		1,672,186
<u>58,054</u>	<u>653,936</u>	<u>17,556,518</u>
<u>\$ 796,411</u>	<u>\$ 1,026,509</u>	<u>\$ 27,206,356</u>

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$ 17,556,518
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	22,481,832
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	(19,785,000)
Capital leases	(340,798)
Notes payable	(333,333)
Accrued interest	(187,909)
Compensated absences	(42,112)
Early retirement	(858,544)
OPEB obligation	(335,803)
Net assets of governmental activities per Exhibit A	<u>\$ 18,154,851</u>

See Notes to Financial Statements.

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DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General	Capital Projects Statewide Sales, Services, and Use Tax	Capital Projects Physical Plant and Equipment Levy
REVENUES			
Local sources			
Local property tax	\$ 5,672,913		\$ 790,562
Tuition	3,545,106		
Other	97,472	\$ 1,696,397	7,670
State sources	6,620,945		415
Federal sources	734,645		
Total revenues	16,671,081	1,696,397	798,647
EXPENDITURES			
Current			
Instruction			
Regular instruction	5,658,810		
Special instruction	3,525,326		
Other instruction	1,690,550	9,750	8,497
	10,874,686	9,750	8,497
Support services			
Student services	382,149		
Instructional staff services	560,335	509,122	
Administration services	1,331,149	4,377	
Operation and maintenance plant services	1,181,293		
Transportation services	628,410	41,086	153,412
	4,083,336	554,585	153,412
Non-instructional		38,160	
Other			
Long-term debt			
Principal			
Interest and fiscal charges			
Bond issuance cost		37,524	35,084
Facilities acquisition		1,841,972	9,712
AEA flowthrough	596,148		
	596,148	1,879,496	44,796
Total expenditures	15,554,170	2,481,991	206,705
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,116,911	(785,594)	591,942
OTHER FINANCING SOURCES (USES)			
General obligation bond issued		10,405,000	6,330,000
General obligation bond discount		(93,164)	(44,943)
Operating transfers in		35,500	
Operating transfers (out)		(858,323)	(1,904,966)
	-	9,489,013	4,380,091
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	1,116,911	8,703,419	4,972,033
FUND BALANCE, beginning of year	821,665	1,190,866	39,634
FUND BALANCE, end of year	\$ 1,938,576	\$ 9,894,285	\$ 5,011,667

See Notes to Financial Statements.

EXHIBIT D

Debt Service	Nonmajor Governmental Funds	Total
\$ 777,858	\$ 549,746	\$ 7,791,079
		3,545,106
424,898	728,626	2,955,063
408	293	6,622,061
		734,645
<u>1,203,164</u>	<u>1,278,665</u>	<u>21,647,954</u>
	1,079,465	6,738,275
	23,067	3,548,393
		1,708,797
<u>-</u>	<u>1,102,532</u>	<u>11,995,465</u>
		382,149
	23,389	1,092,846
	10,154	1,345,680
	173,108	1,354,401
	37,592	860,500
	<u>244,243</u>	<u>5,035,576</u>
		38,160
6,329,990		6,329,990
645,418		645,418
19,440		92,048
		1,851,684
		596,148
<u>6,994,848</u>	<u>-</u>	<u>9,515,288</u>
<u>6,994,848</u>	<u>1,346,775</u>	<u>26,584,489</u>
<u>(5,791,684)</u>	<u>(68,110)</u>	<u>(4,936,535)</u>
3,050,000		19,785,000
(14,309)		(152,416)
2,763,289		2,798,789
(35,500)		(2,798,789)
<u>5,763,480</u>	<u>-</u>	<u>19,632,584</u>
(28,204)	(68,110)	14,696,049
86,258	722,046	2,860,469
<u>\$ 58,054</u>	<u>\$ 653,936</u>	<u>\$ 17,556,518</u>

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

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	\$	14,696,049
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Depreciation	\$ (1,014,138)	
Capital outlays	<u>1,736,790</u>	722,652
Some grant revenues received in prior years had not been earned prior to that year end, so they were deferred in the governmental funds in the prior year.		(128,858)
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.		6,161,667
Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of activities.		(19,785,000)
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.		(153,141)
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.		
Capital leases	168,323	
Compensated absences	(7,098)	
Early retirement	376,840	
OPEB obligation	<u>(33,220)</u>	<u>504,845</u>
Change in net assets of governmental activities per Exhibit B	\$	<u><u>2,018,214</u></u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2011

	School Nutrition Fund
ASSETS	
CURRENT ASSETS	
Cash	\$ 212,128
Accounts receivable	2,170
Inventories	26,832
Total current assets	241,130
NONCURRENT ASSETS	
Furniture and equipment	361,670
Less accumulated depreciation	(260,596)
Total noncurrent assets	101,074
Total assets	\$ 342,204
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 11,945
Contracts and benefits payable	59,857
Total liabilities	71,802
NET ASSETS	
Invested in capital assets, net of related debt	101,074
Unrestricted	169,328
Total net assets	270,402
Total liabilities and net assets	\$ 342,204

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, 2011

	<u>School Nutrition Fund</u>
OPERATING REVENUES	
Local sources	
Charges for services	\$ 560,953
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	406,061
Purchased services	11,289
Supplies	407,728
Depreciation	26,306
Total operating expenses	851,384
Operating loss	(290,431)
NONOPERATING REVENUES	
Interest income	184
State sources	6,921
Federal sources	301,736
Total nonoperating revenues	308,841
Change in net assets	18,410
Net assets, beginning of year	251,992
Net assets, end of year	<u>\$ 270,402</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2011

	School Nutrition Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	\$ 544,379
Cash received from miscellaneous operating activities	14,967
Cash payments to employees for services	(269,030)
Cash payments to suppliers for goods and services	(360,130)
Cash payments paid on employees' behalf	(129,808)
Other payments	(11,289)
	(210,911)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State grants and federal grants received	254,623
	(7,455)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(7,455)
	(7,455)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	184
	36,441
CASH, beginning of year	175,687
CASH, end of year	\$ 212,128
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (290,431)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	26,306
Commodities used	54,034
(Increase) in accounts receivable	(1,926)
(Increase) in inventories	(6,430)
Increase in accounts payable	313
Increase in salaries and benefits payable	7,223
	(210,911)
Non-cash, noncapital financing activities:	
During the year ended June 30, 2011, the District received commodities valued at \$52,908	

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, 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, the debt service fund, the statewide sales, services and use tax-capital projects fund and physical plant and equipment levy-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 major 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 Funds

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. The major funds in this category are statewide sales, services and use tax and physical plant and equipment levy.

Debt Service Fund

The debt service fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

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.

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

b. Significant Accounting Policies (Continued)

Measurement Focus (Continued)

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.

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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents

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 the investments in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposits, which are stated at cost.

For purposes of the statement of cash flows, all short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Capital Assets (Continued)

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

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, 2011 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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Fund Balance

In the governmental fund financial statements, fund balances are classified as follows:

Restricted fund balances are amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned fund balance is the remaining fund balance which is not included in other spendable classifications.

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, 2011 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.

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments (Continued)

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	Amortized Cost
Diversified portfolio	\$ 242,348
Direct Government Obligations Portfolio	5,536,989
 Total	 \$ 5,779,337

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

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

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2011:

Governmental	
General fund	
Title IIA	\$ 48,305
Title I	27,670
Non-public transportation	12,832
Income surtax	434,918
Other	10,186
	533,911
Capital projects	
Statewide sales, services and use tax	266,863
	\$ 800,774

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Governmental activities				
Land	\$ 280,200			\$ 280,200
Construction in progress	583,427	\$ 1,483,669	\$ 583,427	1,483,669
Total capital assets not being depreciated	863,627	1,483,669	583,427	1,763,869
Capital assets being depreciated				
Land improvements	1,228,608	588,002		1,816,610
Buildings	25,165,402			25,165,402
Furniture and equipment	4,873,344	248,546	75,934	5,045,956
Total capital assets being depreciated	31,267,354	836,548	75,934	32,027,968
Less accumulated depreciation for				
Land improvements	488,473	87,243		575,716
Buildings	7,142,081	524,139		7,666,220
Furniture and equipment	2,741,247	402,756	75,934	3,068,069
Total accumulated depreciation	10,371,801	1,014,138	75,934	11,310,005
Total capital assets being depreciated, net	20,895,553	(177,590)	None	20,717,963
Governmental activities				
Capital assets, net	\$ 21,759,180	\$ 1,306,079	\$ 583,427	\$ 22,481,832
Business-type activities				
Furniture and equipment	\$ 355,440	\$ 7,455	\$ 1,225	\$ 361,670
Less accumulated depreciation	235,515	26,306	1,225	260,596
Business-type activities				
Capital assets, net	\$ 119,925	\$ (18,851)	\$ None	\$ 101,074

NOTES TO FINANCIAL STATEMENTS

4. **Capital Assets (Continued)**

Depreciation expense for the year ended June 30, 2011 was charged to the governmental functions of the District as follows:

Governmental activities	
Instruction	
Regular	\$ 46,359
Special	
Other	66,179
Support services	
Instructional staff	147,977
Administration	21,987
Operation and maintenance of plant	13,039
Transportation	152,479
Unallocated depreciation	566,118
	\$ 1,014,138
 Business-type activities	
Food services	\$ 26,306

5. **Long-term Debt Obligations**

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 3,655,000	\$ 10,405,000	\$ 3,655,000	\$ 10,405,000	\$ None
Tax revenue bonds	485,000		485,000	None	None
Capital loan notes	1,855,000		1,855,000	None	None
General obligation refunding bond		3,050,000		3,050,000	835,000
Capital loan notes		6,330,000		6,330,000	400,000
Total bonds	5,995,000	19,785,000	5,995,000	19,785,000	1,235,000
 Other liabilities					
Capital leases	509,121		168,323	340,798	169,703
Notes payable	500,000		166,667	333,333	166,667
Compensated absences	35,014	42,112	35,014	42,112	42,112
Early retirement	1,235,384		376,840	858,544	337,810
Total other liabilities	2,279,519	42,112	746,844	1,574,787	716,292
 Governmental activities					
Long-term liabilities	\$ 8,274,519	\$ 19,827,112	\$ 6,741,844	\$ 21,359,787	\$ 1,951,292

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, 2011, the District has obligations to 28 participants with a total liability of \$858,544. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$376,840.

Bond Indebtedness

\$10,405,000 General Obligation Bond, Series 2010A, due annually in varying installments June 1, 2013 through June 1, 2025 plus interest semi-annually with interest rates of the bonds varying from 1.25% to 3.70%. Bonds maturing after June 1, 2018 are callable upon terms of par plus accrued interest to date of call. The Series 2010A Bonds will be paid from annual taxes levied against all taxable property within the District and are being used for the purpose of providing funds to construct additions to, remodel, improve, furnish and equip, the current high school building and to improve the site.

\$3,050,000 General Obligation School Refunding Bonds, Series 2010B, with principal due June 1, 2012 through June 1, 2015 plus interest semi-annually with interest rate of the bonds varying from 1.00% to 1.30%. Series 2010B bonds are not subject to early redemption.

\$6,330,000 2010B General Obligation School Capital Loan Notes, due annually in varying installments June 1, 2012 through June 1, 2024 plus interest semi-annually with interest rates of the bonds varying from 0.50% to 3.3%. Bonds maturing after June 1, 2019 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, 2011 through September 15, 2012.

NOTES TO FINANCIAL STATEMENTS

5. **Long-term Debt Obligations (Continued)**

Interest costs incurred and charged to expenses was \$798,559 for the year ended June 30, 2011. A summary of the bond principal and interest maturities is as follows:

Year Ending June 30,	Governmental Activities					
	Refunding					
	General Obligation		Notes Payable		General Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 835,000	\$ 32,780	\$ 166,667	\$ 10,071	None	\$ 407,692
2013	715,000	24,430	166,666	15,108	255,000	279,560
2014	740,000	17,280			240,000	276,372
2015	760,000	9,880			230,000	273,373
2016					1,005,000	269,922
2017-2021					5,360,000	1,010,848
2022-2025					3,315,000	237,606
Total	\$ 3,050,000	\$ 84,370	\$ 333,333	\$ 25,179	\$ 10,405,000	\$ 2,755,373

Year Ending June 30,	Governmental Activities			
	Capital Notes			
	General Obligation		Total	
	Principal	Interest	Principal	Interest
2012	\$ 400,000	\$ 159,182	\$ 1,401,667	\$ 609,725
2013	445,000	140,198	1,581,666	459,296
2014	450,000	136,638	1,430,000	430,290
2015	455,000	131,463	1,445,000	414,716
2016	460,000	124,638	1,465,000	394,560
2017-2021	2,465,000	468,442	7,825,000	1,479,290
2022-2025	1,655,000	108,215	4,970,000	345,821
Total	\$ 6,330,000	\$ 1,268,776	\$ 20,118,333	\$ 4,133,698

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

The District complied with all of the revenue bond provisions during the year ended June 30, 2011. The required reserve account was established by the District and no transfers were made to the sinking account.

At June 30, 2011, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 473,609,762
Debt limit – 5% of total assessed valuation	\$ 23,680,488
Debt applicable to debt limit	
General obligation	
Capital loan notes	(6,330,000)
Refunding	(3,050,000)
Bonded debt outstanding	(10,405,000)
Notes payable	(333,333)
Legal debt margin	\$ 3,562,155

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 \$344,996 at June 30, 2011. The following is a schedule of future minimum lease payments under capital leases as of June 30, 2011:

	Year ending June 30,		
	2012	\$	172,498
	2013		172,498
			344,996
Less imputed interest			(4,198)
Present value of minimum lease payments		\$	340,798

6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

	Transfers In		Transfers Out
Capital projects fund	\$ 35,500	\$	858,323
Debt service fund	2,763,289		35,500
Physical plant and equipment levy fund			1,904,966
	\$ 2,798,789	\$	2,798,789

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. Leases

The District has entered into a rental agreement with Bruening Rock Products, Inc. for the present bus garage facility. The agreement is for two years and requires monthly payments of \$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,		
2012	\$	39,480
2013		40,800
	\$	80,280

Total lease expense for the year ended June 30, 2011 was \$38,100.

8. 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 4.50%, 4.30%, and 4.10% of their annual covered salary and the District is required to contribute 6.95%, 6.65%, and 6.35% of annual covered payroll for the years ended June 30, 2011, 2010, and 2009, respectively. Contribution requirements are established by state statute.

The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$643,354, \$658,164, and \$618,193, respectively, equal to the required contributions for each year.

9. Other Postemployment Benefits (OPEB)

Plan Description

As explained in Note 10, 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 191 active and 33 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 rate 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.

9. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	110,239
Interest on net OPEB obligation		7,565
Adjustment to annual required contribution		<u>(44,762)</u>
Annual OPEB cost		73,042
Contributions made		<u>(39,822)</u>
Increase in net OPEB obligation		33,220
Net OPEB obligation beginning of year		<u>302,583</u>
Net OPEB obligation end of year	\$	<u>335,803</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. 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, 2011.

For the year ended June 30, 2011, the District contributed \$39,822 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, 2011 are summarized below as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 114,625	0%	\$ 114,625
June 30, 2010	\$ 148,136	0%	\$ 302,583
June 30, 2011	\$ 73,042	54.52%	\$ 335,803

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$1,428,956, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,428,956. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8.606 million, and the ratio of the UAAL to covered payroll was 16.6%. As of June 30, 2011, there were no trust fund assets.

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.

9. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions (Continued)

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, 2010 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, 2009 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2009.

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

10. 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) maintained by Midwest Group Benefits Consultants, Inc. The trust's Board of Directors decided to terminate the self-funded health plans, effective July 1, 2009, and change to partially self-funded plans using fully insured health plans through Wellmark Blue Cross/Blue Shield. There were three new plans offered to the schools. The trust assumes liability for claims on its three plans as follows: Plan 1-between \$500 and \$5,000 for single coverage and \$1,000 and \$10,000 for family coverage, Plan 2-between \$1,000 and \$5,000 for single coverage and \$2,000 and \$10,000 for family coverage and Plan 3-between \$2,000 and \$5,000 for single coverage and \$4,000 and \$10,000 for family coverage. All plans include coinsurance and Plan 2 includes copayments. Claims in excess of the deductible are insured through the purchase of insurance. The District may be contingently liable for any claims in excess of funds available at June 30, 2011, 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, 2011 was unavailable as of January 4, 2012. The District contributions to the trust for the years ended June 30, 2011, 2010, and 2009 were \$1,830,257, \$1,644,804 and \$1,176,960, respectively, which equaled the required contributions each year. The employees paid \$20,032 in dental insurance for the year ended June 30, 2011.

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, 2011, no liability has been recorded in the District's financial statements. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage.

11. Risk Management

Decorah Community School District is exposed to various risks of loss related to torts; theft; damage to an 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.

12. 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 \$596,148 for the year ended June 30, 2011 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

13. 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 \$608 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, 2011.

14. 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, 2011, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

b. Insurance Plan

As discussed in Note 10, the District is contingently liable for any unreported claim or assessment in excess of their balance in the insurance pool.

15. Commitments

The total outstanding construction and other commitments of the District at June 30, 2011 amounted to \$20,322,444 of this \$19,227,436 is for the renovation of the high school, which bond proceeds will be used to finance.

16. Related Party Transaction

During the year ended June 30, 2011, the District entered into business transactions with a District official, Board member Brian Petersburg. The transactions consisted of insurance policies with total payments to A&J Petersburg Insurance Agency of \$194,454 and to Specialty Underwriters of \$48,523. Mr. Petersburg is a principal of A&J Petersburg Insurance Agency and handles the District's insurance policy with Specialty Underwriters.

17. Accounting Change

Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions was implemented during fiscal year 2011.

18. Subsequent Events

On August 6, 2011 the District entered into a rental agreement for three years to purchase computer equipment totaling \$205,633.

On November 21, 2011 the District accepted a bid of \$7,410,000 School Infrastructure Sales, Services and Use Tax Revenue Bonds, Series 2012 for the Thomas Roberts High School renovation project.

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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, 2011

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
REVENUES			
Local sources	\$ 14,291,248	\$ 561,137	\$ 14,852,385
State sources	6,622,061	6,921	6,628,982
Federal sources	734,645	301,736	1,036,381
Total revenues	21,647,954	869,794	22,517,748
EXPENDITURES/EXPENSES			
Instruction	11,995,465		11,995,465
Support services	5,035,576		5,035,576
Non-instructional	38,160	851,384	889,544
Other	9,515,288		9,515,288
Total expenditures/expenses	26,584,489	851,384	27,435,873
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	(4,936,535)	18,410	(4,918,125)
OTHER FINANCING SOURCES, NET	19,632,584		19,632,584
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES	14,696,049	18,410	14,714,459
FUND BALANCE, beginning of year	2,860,469	251,992	3,112,461
FUND BALANCE, end of year	\$ 17,556,518	\$ 270,402	\$ 17,826,920

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Amended Final	
\$ 13,800,146	\$ 13,800,146	\$ 1,052,239
7,132,566	7,132,566	(503,584)
1,074,557	1,074,557	(38,176)
<u>22,007,269</u>	<u>22,007,269</u>	<u>510,479</u>
12,951,057	12,951,057	955,592
6,546,738	6,546,738	1,511,162
975,000	975,000	85,456
2,887,594	10,500,000	984,712
<u>23,360,389</u>	<u>30,972,795</u>	<u>3,536,922</u>
(1,353,120)	(8,965,526)	4,047,401
	<u>7,612,406</u>	<u>12,020,178</u>
(1,353,120)	(1,353,120)	16,067,579
<u>1,811,421</u>	<u>1,811,421</u>	<u>1,301,040</u>
<u>\$ 458,301</u>	<u>\$ 458,301</u>	<u>\$ 17,368,619</u>

DECORAH COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2011

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. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$7,612,406.

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%
2011	July 1, 2010	-	\$ 1,429	\$ 1,429	0.0%	\$ 8,606	16.6%

See Note 9 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

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INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION

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

Our report on our audit of the financial statements of Decorah Community School District as of and for the year ended June 30, 2011 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 2010 (none of which is presented herein). We expressed unqualified opinions on the 2004 through 2010 financial statements. In our opinion, the information set forth in the required supplementary information for each of the seven years in the period ended June 30, 2011, appearing on page 38, 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
January 4, 2012

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2011

SCHEDULE 1

	Special Revenue Management Levy	Special Revenue Student Activity	Total Nonmajor Funds
ASSETS			
Cash and pooled investments	\$ 487,394	\$ 162,295	\$ 649,689
Receivables			
Property tax			
Delinquent	4,337		4,337
Succeeding year	372,223		372,223
Accounts		260	260
Total assets	\$ 863,954	\$ 162,555	\$ 1,026,509
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable		\$ 350	\$ 350
Deferred revenue			
Succeeding year property tax	\$ 372,223		372,223
Total liabilities	372,223	350	372,573
Fund balances			
Restricted for			
Management levy	491,731		491,731
Student activities		162,205	162,205
	491,731	162,205	653,936
Total liabilities and fund balances	\$ 863,954	\$ 162,555	\$ 1,026,509

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, 2011

	Special Revenue Management Levy	Special Revenue Student Activity	Total Nonmajor Funds
REVENUES			
Local sources			
Property taxes	\$ 549,746		\$ 549,746
Other	20,519	\$ 708,107	728,626
State sources	293		293
Total revenues	570,558	708,107	1,278,665
EXPENDITURES			
Current			
Instruction			
Regular instruction	352,103	727,362	1,079,465
Special instruction	23,067		23,067
Support services			
Instructional staff services	23,389		23,389
Administration services	10,154		10,154
Operation and maintenance plant services	173,108		173,108
Transportation services	37,592		37,592
Total expenditures	619,413	727,362	1,346,775
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(48,855)	(19,255)	(68,110)
FUND BALANCE, beginning of year	540,586	181,460	722,046
FUND BALANCE, end of year	\$ 491,731	\$ 162,205	\$ 653,936

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, 2011

	Balance June 30, 2010	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2011
High School Football	\$ 5,262	\$ 63,115	\$ 62,033	\$ 6,344
High School Basketball	999	23,824	22,947	1,876
High School Wrestling	93	14,629	13,524	1,198
High School Baseball	2,433	15,224	15,782	1,875
High School Golf	2,224	8,988	7,406	3,806
High School Track	2,527	16,312	17,665	1,174
High School Softball	4,822	8,079	9,922	2,979
High School Volleyball	1,278	8,546	8,057	1,767
High School Tennis	6,418	4,411	5,022	5,807
High School Cross Country	3,157	12,930	13,636	2,451
High School Student Council	2,489	871	1,271	2,089
High School Community Club	1,204	555	1,539	220
High School Swimming	521	9,816	9,422	915
High School Choir	49			49
High School Soccer	3,863	15,953	16,214	3,602
SADD Chapter	200			200
"D" Club	1,959	3,099	3,438	1,620
Art Club	2,310	7,573	5,777	4,106
Culture Club	11	1,223	1,145	89
Science Club	1,809		553	1,256
Future Farmers of America	19,548	77,274	66,609	30,213
Horticulture Club	702	69	156	615
DECA	(2)			(2)
Student Assistance	3,266	2,820	1,468	4,618
High School Music	(15,037)	28,370	13,473	(140)
High School Orchestra	-	378	378	-
High School Instrumental Music	(336)	3,382	3,046	-
High School Yearbook	36,083	28,753	52,048	12,788
High School Speech	3,264	29,101	28,985	3,380
High School Dramatics	8,597	4,664	12,561	700
High School Madrigal	2,562	5,938	6,616	1,884
Sub-totals	102,275	395,897	400,693	97,479

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, 2011

	Balance June 30, 2010	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2011
Sub-totals	\$ 102,275	\$ 395,897	\$ 400,693	\$ 97,479
High School Fire Squad	13,036	23,727	35,852	911
High School Cheerleading	2,167	9,705	7,920	3,952
Class 2009				-
Class 2010	2,998		2,903	95
Class 2011	1,884	980	2,565	299
Class 2012	679	2,879	1,737	1,821
Class 2013				-
High School General	2,753	188,694	188,105	3,342
Middle School Football		3,640	3,640	-
Middle School Cross Country		400	400	-
Middle School Basketball		3,304	3,304	-
Middle School Wrestling		916	916	-
Middle School Track		2,034	1,749	285
Middle School Volleyball		1,575	1,575	-
Middle School Cheerleading		138	138	-
Middle School Music				-
Middle School Library Club	6			6
Middle School Outdoor Ed	3,686	408	4,094	-
Middle School Yearbook	7,000	6,500	4,519	8,981
Scholarships	5,603	6,100	5,603	6,100
Middle School General	231	115	115	231
Middle School Fund Raising	5,928	51,954	53,453	4,429
Middle School Student Council	602	567	799	370
Middle School Summer Tag	2,400			2,400
Investments	74	702	633	143
Vocational Ag	418			418
Vocational	565	1,251	928	888
A/P Exam Testing	1,020	14,253	13,972	1,301
DHS Wall Of Fame	134	88	222	-
DVABC	55	37,755	37,755	55
Decorah Craft Show	3,415	10,343	13,498	260
Elementary Playground	14,968		2,867	12,101
Youth Marketplace	1,742	2,936	2,604	2,074
W/S Elementary General	7,821	22,893	16,450	14,264
	<u>\$ 181,460</u>	<u>\$ 789,754</u>	<u>\$ 809,009</u>	<u>\$ 162,205</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		
	2011	2010	2009
REVENUES			
Local sources			
Local tax	\$ 7,791,079	\$ 7,146,214	\$ 6,786,725
Tuition	3,545,106	3,161,819	2,990,001
Other	2,955,063	2,130,378	2,151,066
Intermediate sources			
State sources	6,622,061	5,837,879	6,725,885
Federal sources	734,645	1,141,076	540,139
Total revenues	\$ 21,647,954	\$ 19,417,366	\$ 19,193,816
EXPENDITURES			
Current			
Instruction			
Regular instruction	\$ 6,738,275	\$ 7,066,295	\$ 6,101,214
Special instruction	3,548,393	2,740,264	3,348,391
Other instruction	1,708,797	1,725,872	2,068,116
Support services			
Student services	382,149	323,043	336,897
Instructional staff services	1,092,846	905,746	725,990
Administration services	1,345,680	1,436,927	1,423,288
Operation and maintenance plant services	1,354,401	1,325,807	1,351,740
Transportation services	860,500	797,190	748,872
Non-instructional	38,160		10,234
Other			
Facilities acquisition	1,851,684	355,424	1,468,459
Long-term debt			
Principal	6,329,990	1,515,000	1,465,000
Interest and fiscal charges	645,418	256,139	297,372
Bond issuance cost	92,048		
AEA flowthrough	596,148	591,775	530,159
Total expenditures	\$ 26,584,489	\$ 19,039,482	\$ 19,875,732

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 4

Modified Accrual				
2008	2007	2006	2005	2004
\$ 6,282,222	\$ 6,341,796	\$ 5,998,168	\$ 5,715,624	\$ 4,788,589
2,553,688	2,624,750	2,533,470	2,114,518	2,051,186
2,432,286	2,339,895	2,703,281	2,009,289	1,751,257
			21,485	12,751
6,466,649	6,176,068	5,783,248	5,488,689	5,568,314
285,112	245,963	240,641	252,791	270,532
<u>\$ 18,019,957</u>	<u>\$ 17,728,472</u>	<u>\$ 17,258,808</u>	<u>\$ 15,602,396</u>	<u>\$ 14,442,629</u>
\$ 5,976,750	\$ 6,195,772	\$ 6,131,923	\$ 5,883,790	\$ 5,005,459
2,931,951	2,782,024	2,841,924	2,389,212	2,663,282
1,777,746	1,063,206	1,067,063	1,050,483	1,231,424
327,704	311,136	288,598	308,740	280,259
604,581	673,653	540,396	525,972	535,201
1,439,698	1,254,791	1,093,675	976,645	1,143,570
1,306,620	1,143,162	1,161,498	1,018,698	1,027,393
740,015	702,556	660,791	634,698	637,563
15,926	37,663	36,350	1,638	3,276
984,630	4,110,541	4,930,220	6,897,137	1,171,147
1,415,000	1,375,000	1,319,958	1,180,800	3,080,000
334,139	363,645	397,332	273,976	215,231
496,088	476,764	453,211	450,267	456,353
<u>\$ 18,350,848</u>	<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, 2011

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 84.391-ARRA-Special Education Grants to States, Recovery Act
 - Clustered programs:
 - CFDA Number 84.010-Title I Grants to Local Educational Agencies
 - CFDA Number 84.389-ARRA-Title I Grants Basic LEA Grant Stabilization, Recovery Act
 - CFDA Number 10.553-School Breakfast Program
 - CFDA Number 10.555-National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Decorah Community School District did not qualify as a low-risk auditee.

DECORAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 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-11 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, 2011

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.391-ARRA-Special Education Grants to States, Recovery Act
CFDA Number 84.010-Title I Grants to Local Educational Agencies
CFDA Number 84.389-ARRA-Title I Grants Basic LEA Grant Stabilization, Recovery Act
Federal Award Year: 2011
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 10.553-School Breakfast Program
CFDA Number 10.555-National School Lunch Program
Federal Award Year: 2011
U.S. Department of Agriculture
Passed through the Iowa Department of Education

See II-A-11 and II-B-11 above.

Part IV: Other Findings Related to Required Statutory Reporting:

See Management Letter dated January 4, 2012

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

Comment Reference	Comment Title	Status	Explanation
II-A-10	Financial report preparation	Not corrected	Management does not have the necessary training to prepare year-end financial statements.
II-B-10	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, 2011

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	FY11	\$ 26,283
National School Lunch Program	10.555	FY11	221,419
			<u>247,702</u>
Food Distribution Program (non-cash)	10.550	FY11	<u>54,034</u>
Total Department of Agriculture			<u>301,736</u>
Department of Education			
Passed Through Iowa Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	FY11	110,680
ARRA-Title I Grants Basic LEA Grant Stabilization, Recovery Act	84.389	FY11	44,856
			<u>155,536</u>
ARRA-State Fiscal Stabilization Fund-Government Services, Recovery Act	84.397	FY11	65,269
State Grants for Innovative Programs	84.298	FY11	10,680
Rural Education Achievement Program	84.358	FY11	75,944
Tech-Prep Education	84.243	FY11	3,125
ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act	84.394	FY11	73,176
ARRA-Special Education Grants to States, Recovery Act	84.391	FY11	156,636
Total Department of Education			<u>540,366</u>
Department of Homeland Security			
Passed Through Iowa Department of Education			
Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036	FY09	17,296
			<u>\$ 859,398</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, 2011

Note 1. Basis of Presentation

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Decorah Community School District as of and for the year ended June 30, 2011, which collectively comprise Decorah Community School District's basic financial statements and have issued our report thereon dated January 4, 2012. 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 entity'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 as items II-A-11 and II-B-11 that we consider to be significant deficiencies in internal control over financial reporting. 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 January 4, 2012.

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
January 4, 2012

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON 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 Decorah Community School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Decorah Community School District's major federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct a material effect on each of its major federal programs for the year ended June 30, 2011.

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 to determine the 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.

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.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items II-A-11 and II-B-11. 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.

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
January 4, 2012

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, 2011, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control or state statutory compliance matters, accordingly, we provide no such assurance.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 thru 12 below are compliance comments required by the Iowa Auditor of State. A separate report dated January 4, 2012 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated January 4, 2012 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, 2011 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, 2011, the District entered into business transactions with a District official. Details are as follows:

Name, Title and Business Connection: Brian Petersburg, Board Member, Principal of A&J Petersburg Insurance Agency and handles the District's insurance policy with Specialty Underwriters.

Transaction Description: Insurance policies.

Amount: \$194,454 and \$48,523

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

There were two students whom were missed, one five years old in prekindergarten and one special education student.

Recommendation

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

Response

The District will contact Iowa Department of Education.

Conclusion

Response accepted.

8. Supplementary Weighting

No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

9. Deposits and Investments

Bank balances were over depository resolution limits at Bank of the West for April and June, 2011.

Recommendation

The District should monitor account balances to insure balances are kept below depository resolution limits and should consider increasing depository resolution in the future.

Response

The District will monitor.

Conclusion

Response accepted.

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. Statewide Sales, Services and Use Tax

No instances of noncompliance with the use of the statewide sales, services and use 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. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	None
Statewide sales, services and use tax			1,155,312
Expenditures/transfers out:			
School infrastructure:			
Equipment	\$	296,989	
Debt service for school infrastructure:			
General obligation debt		858,323	1,155,312
			<hr/>
Ending balance		\$	<u>None</u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
		<hr/>
Debt service levy	\$ 1.22	\$ 858,323
Public educational and recreational levy	1.19	296,989
		<hr/>
		\$ <u>1,155,312</u>

13. Student Activity Fund

In accordance with IAR 281-98.70, upon dissolution of a student activity, such as graduating class, the surplus must be used to support other student activities in the Student Activity Fund. The District has not closed out student activity accounts for graduated classes (classes of 2010 through 2011).

Recommendation

The balances remaining in the graduated class accounts should be transferred to other student activity accounts.

Response

We will look to transfer these account balances to other student activity accounts.

Conclusion

Response accepted.

14. Student Activity Funds Deficits

As of June 30, 2011, 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.

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
January 4, 2012