

**DECORAH COMMUNITY  
SCHOOL DISTRICT**

**DECORAH, IOWA**

**FINANCIAL REPORT**

**JUNE 30, 2012**

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DECORAH COMMUNITY SCHOOL DISTRICT  
BOARD OF EDUCATION AND SCHOOL OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2011 Election)</b>			
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

<b>Board of Education (After September 2011 Election)</b>			
Melanie Tietz	President	Decorah, Iowa	September 2015
Ronald Fadness	Vice-President	Decorah, Iowa	September 2013
John Hjelle	Member	Decorah, Iowa	September 2015
Brian Petersburg	Member	Decorah, Iowa	September 2015
Richard Valley	Member	Decorah, Iowa	September 2013

School Officials for 2011-12

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

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, 2012, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 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 31 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
December 28, 2012

DECORAH COMMUNITY SCHOOL DISTRICT  
DECORAH, IOWA

Management's Discussion and Analysis  
For the Fiscal Year Ending June 30, 2012

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, 2012.

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 2012 fiscal year include the following:

In total, net assets increased by \$2,687,294 or 14.58% from fiscal 2011. Net assets in governmental activities increased \$2,706,685, which represented a 14.91% increase from fiscal year 2011 which is a larger increase than what was reported for fiscal year ending June 30, 2011. The District is receiving more in revenues than they have in expense. Net assets in the business-type activity, which represents the District's food service operations, decreased \$19,391 which represented a 7.17% decrease from fiscal year 2011. An increase in program expenses is the primary reasons for the decrease. Unrestricted net assets increased by \$1,540,000.

General fund revenues (which include the instructional support fund) accounted for \$17,254,478 in revenue or 77.48% of all revenues. General fund expenses (which include the instructional support fund) accounted for \$16,436,345 in expenditures or 50.19% 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 nonmajor 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 2012 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 accounts 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 2012 are the general fund, capital projects funds: statewide sales, services and use tax, physical plant and equipment levy, and High School capital projects 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.

**Reporting the School District's Most Significant Funds (Continued)**

**Enterprise Fund**

The enterprise fund uses the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

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 2012 totaled \$21,112,547, an increase of 14.58% from the previous fiscal year.

Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change
	2012	2011	2012	2011	2012	2011	
Current and other assets	\$ 26,022	\$ 27,206	\$ 253	\$ 241	\$ 26,275	\$ 27,447	-4.27%
Capital assets	33,362	22,482	77	101	33,439	22,583	48.07%
<b>Total assets</b>	<b>59,384</b>	<b>49,688</b>	<b>330</b>	<b>342</b>	<b>59,714</b>	<b>50,030</b>	
Long-term debt outstanding	24,735	21,697	-	-	24,735	21,697	14.00%
Other liabilities	13,788	9,836	79	72	13,867	9,908	39.96%
<b>Total liabilities</b>	<b>38,523</b>	<b>31,533</b>	<b>79</b>	<b>72</b>	<b>38,602</b>	<b>31,605</b>	
<b>Net assets</b>							
Invested in capital assets, net of related debt	16,532	16,286	77	101	16,609	16,387	1.35%
Restricted	2,808	1,883	-	-	2,808	1,883	49.12%
Unrestricted	1,521	(14)	174	169	1,695	155	993.55%
<b>Total net assets</b>	<b>\$ 20,861</b>	<b>\$ 18,155</b>	<b>\$ 251</b>	<b>\$ 270</b>	<b>\$ 21,112</b>	<b>\$ 18,425</b>	

## Reporting the School District's Most Significant Funds (Continued)

The following analysis shows the change in net assets for the year ending June 30, 2012:

	Changes in Net Assets (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2012	2011	2012	2011	2012	2011		
<b>Revenues:</b>								
Program revenue								
Charges for service	\$ 4,396	\$ 4,321	\$ 552	\$ 561	\$ 4,948	\$ 4,882		1.35%
Operating grants	2,219	2,383	310	308	2,529	2,691		6.41%
General revenue								
Property taxes	8,033	7,377	-	-	8,033	7,377		8.89%
Sales tax and surtax	1,655	1,569	-	-	1,655	1,569		5.48%
Unrestricted state grants	5,736	4,845	-	-	5,736	4,845		18.39%
Unrestricted investment earnings	39	443	-	-	39	443		-91.20%
Other revenue	231	72	-	-	231	72		220.83%
Total revenues	<u>22,309</u>	<u>21,010</u>	<u>862</u>	<u>869</u>	<u>23,171</u>	<u>21,879</u>		
<b>Program expenses:</b>								
Instruction	11,728	11,701	-	-	11,728	11,701		0.23%
Student support	509	525	-	-	509	525		-3.05%
Instructional staff services	898	571	-	-	898	571		57.27%
Administration services	1,612	1,374	-	-	1,612	1,374		17.32%
Operation and maintenance services	1,517	1,368	-	-	1,517	1,368		10.89%
Transportation services	913	841	-	-	913	841		8.56%
Non-instructional programs	-	38	-	-	-	38		100.00%
Long term debt interest	570	799	-	-	570	799		-28.66%
General obligation bond discount	-	153	-	-	-	153		100.00%
Bond issuance cost	3	92	-	-	3	92		100.00%
Facilities acquisition	734	368	-	-	734	368		99.46%
AEA flow through	548	596	-	-	548	596		-8.05%
Non-instructional programs	-	-	881	851	881	851		3.53%
Depreciation (unallocated)	571	566	-	-	571	566		0.88%
Total expenses	<u>19,603</u>	<u>18,992</u>	<u>881</u>	<u>851</u>	<u>20,484</u>	<u>19,843</u>		
Increase (decrease) in net assets	2,706	2,018	(19)	18	2,687	2,036		31.97%
Net assets Beginning of Year	<u>18,155</u>	<u>16,137</u>	<u>270</u>	<u>252</u>	<u>18,425</u>	<u>16,389</u>		12.42%
Net assets End of Year	<u>\$ 20,861</u>	<u>\$ 18,155</u>	<u>\$ 251</u>	<u>\$ 270</u>	<u>\$ 21,112</u>	<u>\$ 18,425</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 \$14,731,294, a \$2,825,224 decrease from the 2011 fiscal year end balance of \$17,556,518.

- The general fund revenues increased during fiscal year 2012 for state sources while expenditures also increased for regular instruction and also special instruction. The ending fund balance showed an increase of \$939,880 from the prior year.
- The capital projects fund statewide sales, services and use tax ending fund balance showed an increase primarily due to the borrowing of \$7,410,000 and the renovation of the High School project. The ending fund balances showed an increase from the prior year of \$4,434,836.

Financial Analysis of the District's Funds (Continued)

- The capital projects fund physical plant and equipment levy ending fund balance showed a decrease primarily due to the renovation of the High School project. The ending fund balances showed a decrease from prior year of \$4,557,924.
- The High School capital projects ending fund balance showed a decrease primarily due to the ongoing renovation of the High School. The ending fund balances showed a decrease from prior year of \$3,725,599.
- The debt service fund ending fund balance showed an increase of \$1,141 for fiscal year 2012. This increase is mainly due to the local property tax revenue sources increasing while other local revenue sources decreased.

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 15<sup>th</sup> 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 2012 as well as the actual revenue and expenditures for the year:

		Budgetary Comparison Schedule (Expressed in Thousands)			
		Budget Amounts			
		Actual	Original	Final	Variance
<b>Revenues</b>					
Local sources	\$	14,867	\$ 15,861	\$ 15,861	\$ (994)
State sources		7,246	7,503	7,503	(257)
Federal sources		1,018	860	860	158
<b>Total revenues</b>	<b>\$</b>	<b>23,131</b>	<b>\$ 24,224</b>	<b>\$ 24,224</b>	<b>\$ (1,093)</b>
<b>Expenditures</b>					
Instruction	\$	12,323	\$ 13,025	\$ 13,500	\$ 1,177
Student support		5,133	6,050	6,050	917
Non-instructional programs		881	975	975	94
Other expenses		15,295	15,864	17,000	1,705
<b>Total expenditures</b>	<b>\$</b>	<b>33,632</b>	<b>\$ 35,914</b>	<b>\$ 37,525</b>	<b>\$ 3,893</b>

## Capital Assets and Debt Administration

### Capital Assets

At the end of the 2012 fiscal year, the District had invested \$33,438,891 (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 \$1,177,953 for fiscal 2012 and total accumulated depreciation of \$12,651,450 as of June 30, 2012. The following chart shows the comparison in capital assets for 2012 and 2011:

	Capital Assets (net of depreciation)							
	(Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2012	2011	2012	2011	2012	2011		
Land	\$ 280	\$ 280	\$ -	\$ -	\$ 280	\$ 280	0.00%	
Construction in progress	12,915	1,484			12,915	1,484	770.28%	
Land improvements	1,322	1,241			1,322	1,241	6.53%	
Buildings	17,019	17,499			17,019	17,499	-2.74%	
Furniture and equipment	1,826	1,978	77	101	1,903	2,079	-8.47%	
<b>Total</b>	<b>\$ 33,362</b>	<b>\$ 22,482</b>	<b>\$ 77</b>	<b>\$ 101</b>	<b>\$ 33,439</b>	<b>\$ 22,583</b>		

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

### Debt

As of June 30, 2012 the District had \$26,795,149 in long-term debt outstanding compared to \$21,359,787 on June 30, 2011. The following chart shows the debt comparison between 2012 and 2011:

	Long-term Debt Obligations			
	Balance			Balance
	June 30, 2011	Additions	Reductions	June 30, 2012
<b>Bonds/Capital Loan Notes</b>				
General obligation	\$ 10,405,000	-	-	\$ 10,405,000
General obligation refunding	3,050,000	-	\$ 835,000	2,215,000
Local option sales and service	-	\$ 7,410,000	200,000	7,210,000
Capital loan notes	6,330,000	-	400,000	5,930,000
<b>Total Bonds/Capital Loan Notes</b>	<b>19,785,000</b>	<b>7,410,000</b>	<b>1,435,000</b>	<b>25,760,000</b>
<b>Other Liabilities</b>				
Capital leases	340,798	205,634	253,590	292,842
Compensated absences	42,112	54,906	42,112	54,906
Notes payable	333,333	-	166,667	166,666
Early retirement	858,544	-	337,809	520,735
<b>Total Other Liabilities</b>	<b>1,574,787</b>	<b>260,540</b>	<b>800,178</b>	<b>1,035,149</b>
<b>Total Long-term Debt</b>	<b>\$ 21,359,787</b>	<b>\$ 7,670,540</b>	<b>\$ 2,235,178</b>	<b>\$ 26,795,149</b>

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 set the allowable growth rates for FY2013 at 2%. The Iowa Legislature dismissed and did not set the allowable growth for FY2014. This makes it hard for the District to make future year projections.
- Before the first day of school, the anticipated enrollment at John Cline and Carrie Lee were to increase. Based on those projected enrollment figures, the District hired 2 long-term substitutes for Second Grade and Third Grade. When the official headcount in October was taken, the District had an increase of 25.52 for Actual Enrollment and 40.22 for Served Enrollment. With the addition of an additional section of Third Grade at Carrie Lee, the staff was moved to accommodate a 6-section 3<sup>rd</sup> grade. Current Second Graders are served in 6 sections and will push the enrollment at Carrie Lee building to 2 grades at 6 sections each. This building was remodeled to house 2 – 5 section classes. The District is working on minor building/remodeling plans for the summer of 2013 to accommodate these sections in 2013-14.
- The District discontinued a Library-Media sharing agreement with North Winneshiek. The District hired a Library-Media Instructor for the John Cline Elementary and Carrie Lee Elementary. Therefore, the District now has two Library-Media instructors to provide services to the District.
- The District determined the need for a Reading Instructor at the Middle School and increased the ELL/Reading to full-time reading. The District hired a full-time ELL Instructor for the District at the beginning of the school year.
- The District has experienced a cumulative increase in taxable assessed valuation of 21.09% in the last five years. The District's assessed valuation in 2011-12 increased by \$18,245,849.
- Revenue received from the one-cent local option sales tax increased by \$64,403.36 to \$1,219,715.60 for 2011-2012. The Estimated Local Option Sales Tax or SAVE monthly re-estimated distribution from the State of Iowa received on August 10, 2012, states that the District will receive an estimated \$1,151,250.18 from August 2012 to July 2013. This year's projected distribution is up \$301.43 from the previous years' projected payments. The distribution is 95% of the estimated Local Option Collections. The District received the annual reconciliation payment in November 2012 of \$60,601.99.
- The Board approved the purchase of a bus tracking and monitoring software at the June 11, 2012, board meeting. The District worked with the company to install the equipment on all buses in the District. In November, that was accomplished and put on-line with Verizon. The District is continuing the process to put the system in full effect with bus routes, student cards and full access to the transportation director and administrative assistants.
- The District had their Comprehensive School Improvement Site Visit on October 30-31, 2012, with the Iowa Department of Education Consultants. The report to the District was dated December 26, 2012 and will be reviewed by the Administrative Staff. Along with the Comprehensive School Improvement Site Visit, the Iowa Quality Preschool Program Standards Verification Visit was also completed. This included verification of teacher associate standards within the program.
- In the 2012 legislative session, changes were made to the distribution of preschool foundation aide applicable to The Statewide Voluntary Preschool Program districts and community partners. Districts must distribute funding to the community partner that equals 95 percent of the total per-child allocation based on the number of partner children included in the District's certified enrollment count from the prior year. Documentation must be provided to the District for appropriate expenditures. Any portion of the fund not expended must be refunded to the District annually.

### Current Issues (Continued)

- The District is currently remodeling the Thomas Roberts High School building. The new additions to the building we put in service just before the end of the 2011-12 school year. The graduating class of 2012 was able to hold their Commencement exercises in the new gymnasium. During the summer of 2012, the construction crew started demolition and remodeling to the current structure. All indicators point to the completion of the project by August 2013. The District will then turn attention to both the John Cline Elementary and West Side Early Childhood facilities. Neither buildings are currently air conditioned and both have other issues as well, including ventilation, electrical service, roofing, spatial issues, accessibility and traffic flow/parking.

### 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, 2012

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments			
Other	\$ 16,509,004	\$ 227,699	\$ 16,736,703
Receivables			
Property tax			
Delinquent	51,817		51,817
Succeeding year	8,033,237		8,033,237
Accounts	522,132	342	522,474
Accrued interest	72		72
Due from other governments	905,897		905,897
Inventories		24,584	24,584
Capital assets, non-depreciable	13,194,803		13,194,803
Capital assets, net of accumulated depreciation	20,167,082	77,006	20,244,088
	<u>\$ 59,384,044</u>	<u>\$ 329,631</u>	<u>\$ 59,713,675</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,016,571	\$ 1,519	\$ 1,018,090
Salaries and benefits payable	1,657,058	62,683	1,719,741
Accrued interest payable	66,726		66,726
Deferred revenue			
Succeeding year property tax	8,033,237		8,033,237
Other	583,999	14,418	598,417
Long-term liabilities			
Portion due within one year			
Bonds payable	1,745,000		1,745,000
Capital leases	210,503		210,503
Notes payable	166,666		166,666
Compensated absences	54,906		54,906
Early retirement	252,682		252,682
Portion due after one year			
Bonds payable	24,015,000		24,015,000
Capital leases	82,339		82,339
Early retirement	268,053		268,053
OPEB obligation	369,768		369,768
	<u>38,522,508</u>	<u>78,620</u>	<u>38,601,128</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	16,532,234	77,006	16,609,240
Restricted for			
Debt service	59,195		59,195
School infrastructure	1,213,665		1,213,665
Management levy purposes	560,363		560,363
Student activities	176,015		176,015
Physical plant and equipment	453,743		453,743
Categorical funding	345,382		345,382
Unrestricted	1,520,939	174,005	1,694,944
	<u>20,861,536</u>	<u>251,011</u>	<u>21,112,547</u>
Total net assets	<u>\$ 59,384,044</u>	<u>\$ 329,631</u>	<u>\$ 59,713,675</u>
Total liabilities and net assets	<u>\$ 59,384,044</u>	<u>\$ 329,631</u>	<u>\$ 59,713,675</u>

See Notes to Financial Statements.

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DECORAH COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
<b>Governmental activities</b>			
<b>Instruction</b>			
Regular instruction	\$ 6,934,493	\$ 893,911	\$ 1,450,700
Special instruction	3,281,543	3,432,367	97,476
Other instruction	1,512,411		5,364
	<u>11,728,447</u>	<u>4,326,278</u>	<u>1,553,540</u>
<b>Support services</b>			
Student services	509,240	56,472	
Instructional staff services	897,355		
Administration services	1,612,229	12,969	
Operation and maintenance plant services	1,516,387		
Transportation services	913,019		24,125
	<u>5,448,230</u>	<u>69,441</u>	<u>24,125</u>
<b>Other</b>			
Long-term debt interest	570,016		
Bond issuance cost	3,000		
Facilities acquisition	734,254		93,490
AEA flowthrough	548,284		548,284
Depreciation (unallocated)	570,681		
	<u>2,426,235</u>	<u>-</u>	<u>641,774</u>
<b>Total governmental activities</b>	<b>19,602,912</b>	<b>4,395,719</b>	<b>2,219,439</b>
<b>Business-type activities</b>			
<b>Non-instructional programs</b>			
Nutrition services	881,432	552,424	309,553
<b>Total</b>	<u>\$ 20,484,344</u>	<u>\$ 4,948,143</u>	<u>\$ 2,528,992</u>
<b>General revenues</b>			
Property taxes levied for			
General purposes			
Management			
PPEL			
Debt service			
Statewide sales, services and use tax			
Unrestricted state grants			
Unrestricted investment earnings			
Loss on sale of capital assets			
Other			
<b>Total general revenues</b>			
Change in net assets			
Net assets, beginning of year			
Net assets, end of year			

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (4,589,882)		\$ (4,589,882)
248,300		248,300
(1,507,047)		(1,507,047)
(5,848,629)		(5,848,629)
(452,768)		(452,768)
(897,355)		(897,355)
(1,599,260)		(1,599,260)
(1,516,387)		(1,516,387)
(888,894)		(888,894)
(5,354,664)		(5,354,664)
(570,016)		(570,016)
(3,000)		(3,000)
(640,764)		(640,764)
-		-
(570,681)		(570,681)
(1,784,461)	\$ -	(1,784,461)
(12,987,754)		(12,987,754)
	(19,455)	(19,455)
(12,987,754)	(19,455)	(13,007,209)
5,291,688		5,291,688
649,938		649,938
814,776		814,776
1,276,780		1,276,780
1,654,925		1,654,925
5,735,812		5,735,812
38,944	64	39,008
(400)		(400)
231,976		231,976
15,694,439	64	15,694,503
2,706,685	(19,391)	2,687,294
18,154,851	270,402	18,425,253
\$ 20,861,536	\$ 251,011	\$ 21,112,547

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DECORAH COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	General	Capital Projects	
		Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy
<b>ASSETS</b>			
Cash and pooled investments			
Other	\$ 4,079,613	\$ 4,713,352	\$ 448,565
Receivables			
Property tax			
Delinquent	34,310		5,178
Succeeding year	5,292,185		814,581
Accounts	521,757	165	
Accrued interest	72		
Due from other governments	627,538	265,435	
<b>Total assets</b>	<b>\$ 10,555,475</b>	<b>\$ 4,978,952</b>	<b>\$ 1,268,324</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 192,679		
Salaries and benefits payable	1,657,058		
Deferred revenue			
Succeeding year property tax	5,292,185		\$ 814,581
Other	535,097	\$ 48,902	
<b>Total liabilities</b>	<b>7,677,019</b>	<b>48,902</b>	<b>814,581</b>
Fund balances			
Restricted for			
Debt service			
Categorical funding	345,382		
Management levy purposes			
Student activities			
Physical plant and equipment			453,743
School infrastructure		4,930,050	
Unassigned	2,533,074		
<b>Total fund balances</b>	<b>2,878,456</b>	<b>4,930,050</b>	<b>453,743</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,555,475</b>	<b>\$ 4,978,952</b>	<b>\$ 1,268,324</b>

See Notes to Financial Statements.

EXHIBIT C

<u>Capital Projects</u>				
<u>High School</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>	
\$ 6,481,634	\$ 51,080	\$ 734,760	\$ 16,509,004	
	8,115	4,214	51,817	
	1,276,472	649,999	8,033,237	
		210	522,132	
			72	
12,924			905,897	
<u>\$ 6,494,558</u>	<u>\$ 1,335,667</u>	<u>\$ 1,389,183</u>	<u>\$ 26,022,159</u>	
\$ 821,086		\$ 2,806	\$ 1,016,571	
			1,657,058	
	\$ 1,276,472	649,999	8,033,237	
			583,999	
<u>821,086</u>	<u>1,276,472</u>	<u>652,805</u>	<u>11,290,865</u>	
	59,195		59,195	
			345,382	
		560,363	560,363	
		176,015	176,015	
5,673,472			453,743	
			10,603,522	
			2,533,074	
<u>5,673,472</u>	<u>59,195</u>	<u>736,378</u>	<u>14,731,294</u>	
<u>\$ 6,494,558</u>	<u>\$ 1,335,667</u>	<u>\$ 1,389,183</u>	<u>\$ 26,022,159</u>	

DECORAH COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$ 14,731,294
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 \$ 12,365,488	33,361,885
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	(25,760,000)
Capital leases	(292,842)
Notes payable	(166,666)
Accrued interest	(66,726)
Compensated absences	(54,906)
Early retirement	(520,735)
OPEB obligation	(369,768)
Net assets of governmental activities per Exhibit A	<u>\$ 20,861,536</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, 2012

	General	Capital Projects	
		Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy
<b>REVENUES</b>			
Local sources			
Local property tax	\$ 5,726,898		\$ 814,776
Tuition	3,545,106		
Other	122,069	\$ 1,352,696	4,169
State sources	7,238,097		402
Federal sources	622,308	93,490	
Total revenues	17,254,478	1,446,186	819,347
<b>EXPENDITURES</b>			
Current			
Instruction			
Regular instruction	6,295,962		
Special instruction	3,258,636		
Other instruction	1,644,787		5,744
	11,199,385	-	5,744
Support services			
Student services	349,583		
Instructional staff services	848,783	28,704	
Administration services	1,383,951	166,364	
Operation and maintenance plant services	1,330,517		
Transportation services	775,842		
	4,688,676	195,068	
Other			
Long-term debt			
Principal			
Interest and fiscal charges			
Bond issuance cost			1,000
Facilities acquisition		421,679	6,398
AEA flowthrough	548,284		
	548,284	421,679	7,398
Total expenditures	16,436,345	616,747	13,142
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	818,133	829,439	806,205
<b>OTHER FINANCING SOURCES (USES)</b>			
SILO bond issued		7,410,000	
SILO bond premium		40,670	
Capital lease issued	205,634		
Operating transfers in		817,075	320,000
Operating transfers (out)	(83,887)	(4,662,348)	(5,684,129)
	121,747	3,605,397	(5,364,129)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	939,880	4,434,836	(4,557,924)
FUND BALANCE, beginning of year	1,938,576	495,214	5,011,667
FUND BALANCE, end of year	\$ 2,878,456	\$ 4,930,050	\$ 453,743

See Notes to Financial Statements.

EXHIBIT D

Capital Projects			
High School	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
	\$ 1,276,780	\$ 649,938	\$ 8,468,392
			3,545,106
\$ 22,348	203	799,093	2,300,578
	629	325	7,239,453
			715,798
22,348	1,277,612	1,449,356	22,269,327
		1,094,753	7,390,715
		23,067	3,281,703
			1,650,531
-	-	1,117,820	12,322,949
			349,583
		19,868	897,355
		4,855	1,555,170
		186,812	1,517,329
		37,559	813,401
		249,094	5,132,838
	1,855,257		1,855,257
	691,199		691,199
50	1,950		3,000
11,769,251			12,197,328
			548,284
11,769,301	2,548,406	-	15,295,068
11,769,301	2,548,406	1,366,914	32,750,855
(11,746,953)	(1,270,794)	82,442	(10,481,528)
			7,410,000
			40,670
			205,634
8,518,429	1,271,935		10,927,439
(497,075)			(10,927,439)
8,021,354	1,271,935	-	7,656,304
(3,725,599)	1,141	82,442	(2,825,224)
9,399,071	58,054	653,936	17,556,518
\$ 5,673,472	\$ 59,195	\$ 736,378	\$ 14,731,294

DECORAH COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balances - total governmental funds	\$	(2,825,224)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.</p>		
Depreciation	\$	(1,152,586)
Capital outlays	12,033,039	10,880,453
<p>Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.</p>		
		1,601,667
<p>Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of activities.</p>		
		(7,615,634)
<p>The net effect of disposal capital assets</p>		
		(400)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		121,183
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Capital leases	253,590	
Compensated absences	(12,794)	
Early retirement	337,809	
OPEB obligation	(33,965)	544,640
Change in net assets of governmental activities per Exhibit B	\$	2,706,685

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2012

	School Nutrition Fund
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 227,699
Accounts receivable	342
Inventories	24,584
<b>Total current assets</b>	<b>252,625</b>
<b>NONCURRENT ASSETS</b>	
Furniture and equipment	362,968
Less accumulated depreciation	(285,962)
<b>Total noncurrent assets</b>	<b>77,006</b>
<b>Total assets</b>	<b>\$ 329,631</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 1,519
Salaries and benefits payable	62,683
Deferred revenue	14,418
<b>Total liabilities</b>	<b>78,620</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	77,006
Unrestricted	174,005
<b>Total net assets</b>	<b>251,011</b>
<b>Total liabilities and net assets</b>	<b>\$ 329,631</b>

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, 2012

	<u>School Nutrition Fund</u>
<b>OPERATING REVENUES</b>	
Local sources	
Charges for services	\$ 552,424
<b>OPERATING EXPENSES</b>	
Non-instructional programs	
Food service operations	
Salaries and benefits	384,605
Purchased services	9,511
Supplies	461,949
Depreciation	25,367
Total operating expenses	881,432
Operating loss	(329,008)
<b>NONOPERATING REVENUES</b>	
Interest income	64
State sources	6,806
Federal sources	302,747
Total nonoperating revenues	309,617
Change in net assets	(19,391)
Net assets, beginning of year	270,402
Net assets, end of year	<u>\$ 251,011</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended June 30, 2012

	School Nutrition Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from sale of lunches and breakfasts	\$ 547,090
Cash received from miscellaneous operating activities	9,817
Cash payments to employees for services	(382,404)
Cash payments to suppliers for goods and services	(396,832)
Cash payments paid on employees' behalf	625
Other payments	(9,511)
	(231,215)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State grants and federal grants received	248,020
	(1,298)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of equipment	(1,298)
	(1,298)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	64
	15,571
CASH, beginning of year	212,128
CASH, end of year	\$ 227,699
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (329,008)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	25,367
Commodities used	61,533
(Decrease) in accounts receivable	1,828
(Decrease) in inventories	2,248
Increase in accounts payable	3,991
Increase in salaries and benefits payable	2,826
	(231,215)
<b>Non-cash, noncapital financing activities:</b>	
During the year ended June 30, 2012, the District received commodities valued at \$61,533	

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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, physical plant and equipment levy, and High School capital projects.

*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 Procedures 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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2011.

*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, 2012 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 and customer credit balances in the school nutrition fund.

*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, 2012 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

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2. Deposits and Investments (Continued)

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	Amortized Cost
Diversified portfolio	\$ 242,397
Direct government obligations portfolio	4,849,265
Total	\$ 5,091,662

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, 2012:

Governmental	
General fund	
Title IIA	\$ 42,103
Title I	31,236
Non-public transportation	24,125
Income surtax	521,980
Other	8,094
	627,538
Capital projects	
Other	12,924
Statewide sales, services and use tax	265,435
	\$ 905,897

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b>Governmental activities</b>				
Land	\$ 280,200			\$ 280,200
Construction in progress	1,483,669	\$ 11,566,540	\$ 135,606	12,914,603
<b>Total capital assets not being depreciated</b>	<b>1,763,869</b>	<b>11,566,540</b>	<b>135,606</b>	<b>13,194,803</b>
<b>Capital assets being depreciated</b>				
Land improvements	1,816,610	173,902		1,990,512
Buildings	25,165,402	49,938		25,215,340
Furniture and equipment	5,045,956	378,265	97,503	5,326,718
<b>Total capital assets being depreciated</b>	<b>32,027,968</b>	<b>602,105</b>	<b>97,503</b>	<b>32,532,570</b>
<b>Less accumulated depreciation for</b>				
Land improvements	575,716	92,955		668,671
Buildings	7,666,220	529,462		8,195,682
Furniture and equipment	3,068,069	530,169	97,103	3,501,135
<b>Total accumulated depreciation</b>	<b>11,310,005</b>	<b>1,152,586</b>	<b>97,103</b>	<b>12,365,488</b>
<b>Total capital assets being depreciated, net</b>	<b>20,717,963</b>	<b>(550,481)</b>	<b>400</b>	<b>20,167,082</b>
<b>Governmental activities</b>				
Capital assets, net	\$ 22,481,832	\$ 11,016,059	\$ 136,006	\$ 33,361,885
<b>Business-type activities</b>				
Furniture and equipment	\$ 361,670	\$ 1,298		\$ 362,968
Less accumulated depreciation	260,595	25,367		285,962
<b>Business-type activities</b>				
Capital assets, net	\$ 101,075	\$ (24,069)	\$ None	\$ 77,006

NOTES TO FINANCIAL STATEMENTS

4. **Capital Assets (Continued)**

Depreciation expense for the year ended June 30, 2012 was charged to the governmental functions of the District as follows:

<b>Governmental activities</b>	
<b>Instruction</b>	
Regular	\$ 68,061
Special	2,312
Other	72,785
<b>Support services</b>	
Instructional staff	159,657
Administration	47,463
Operation and maintenance of plant	8,613
Transportation	223,014
Unallocated depreciation	570,681
	<u>\$ 1,152,586</u>
 <b>Business-type activities</b>	
Food services	\$ 25,367
	<u>\$ 25,367</u>

5. **Long-term Debt Obligations**

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
<b>Governmental activities</b>					
<b>Bonds</b>					
General obligation	\$ 10,405,000			\$ 10,405,000	\$ 255,000
Tax revenue bonds		\$ 7,410,000	\$ 200,000	7,210,000	330,000
General obligation refunding bond	3,050,000		835,000	2,215,000	715,000
Capital loan notes	6,330,000		400,000	5,930,000	445,000
<b>Total bonds</b>	<b>19,785,000</b>	<b>7,410,000</b>	<b>1,435,000</b>	<b>25,760,000</b>	<b>1,745,000</b>
 <b>Other liabilities</b>					
Capital leases	340,798	205,634	253,590	292,842	210,503
Notes payable	333,333		166,667	166,666	166,666
Compensated absences	42,112	54,906	42,112	54,906	54,906
Early retirement	858,544		337,809	520,735	252,682
<b>Total other liabilities</b>	<b>1,574,787</b>	<b>260,540</b>	<b>800,178</b>	<b>1,035,149</b>	<b>684,757</b>
 <b>Governmental activities</b>					
<b>Long-term liabilities</b>	<b>\$ 21,359,787</b>	<b>\$ 7,670,540</b>	<b>\$ 2,235,178</b>	<b>\$ 26,795,149</b>	<b>\$ 2,429,757</b>

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 not offered during the year ended June 30, 2012.

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, 2012, the District has obligations to 28 participants with a total liability of \$520,735. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$337,809.

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, 2013 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, 2013 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.

\$7,410,000 2012 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due June 1, 2013 through June 1, 2029 plus interest semi-annually with interest rate of the bonds varying from 2.00% to 3.40%. The local option sales and services tax revenue bonds were issued for the purpose of providing funds for the items listed within the revenue purpose statement. Bonds maturing after June 1, 2020 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, 2012.

NOTES TO FINANCIAL STATEMENTS

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

Interest costs incurred and charged to expenses was \$570,016 for the year ended June 30, 2012. A summary of the bond principal and interest maturities is as follows:

Year Ending June 30,	Governmental Activities					
	Refunding					
	General Obligation Bond		Notes Payable		General Obligation Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 715,000	\$ 24,430	\$ 166,666	\$ 15,107	\$ 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					1,025,000	249,822
2018-2022					5,495,000	874,028
2023-2027					2,155,000	124,604
2028-2029						
<b>Total</b>	<b>\$ 2,215,000</b>	<b>\$ 51,590</b>	<b>\$ 166,666</b>	<b>\$ 15,107</b>	<b>\$ 10,405,000</b>	<b>\$ 2,347,681</b>

Year Ending June 30,	Governmental Activities					
	Capital Notes					
	General Obligation Bond		Tax Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 445,000	\$ 140,198	\$ 330,000	\$ 188,145	\$ 1,911,666	\$ 647,440
2014	450,000	136,638	335,000	181,545	1,765,000	611,835
2015	455,000	131,463	345,000	174,845	1,790,000	589,561
2016	460,000	124,638	355,000	167,945	1,820,000	562,505
2017	470,000	116,128	360,000	160,845	1,855,000	526,795
2018-2022	2,530,000	405,309	1,985,000	686,176	10,010,000	1,965,513
2023-2027	1,120,000	55,220	2,390,000	410,945	5,665,000	590,769
2028-2029			1,110,000	56,405	1,110,000	56,405
<b>Total</b>	<b>\$ 5,930,000</b>	<b>\$ 1,109,594</b>	<b>\$ 7,210,000</b>	<b>\$ 2,026,851</b>	<b>\$ 25,926,666</b>	<b>\$ 5,550,823</b>

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, 2012. The required reserve account was established by the District and no transfers were made to the sinking account.

At June 30, 2012, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 487,772,929
Debt limit – 5% of total assessed valuation	\$ 24,388,646
Debt applicable to debt limit	
General obligation	
Capital loan notes	(5,930,000)
Refunding	(2,215,000)
Bonded debt outstanding	(10,405,000)
Capital lease-teacher computers	(121,747)
Capital lease-general computers	(171,095)
Notes payable	(166,666)
Legal debt margin	\$ 5,379,138

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 \$301,498 at June 30, 2012. The following is a schedule of future minimum lease payments under capital leases as of June 30, 2012:

	Year ending June 30,	
	2013	\$ 215,498
	2014	43,000
	2015	43,000
		301,498
Less imputed interest		(8,656)
Present value of minimum lease payments		\$ 292,842

6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

	Transfers In	Transfers Out
High School capital projects	\$ 8,518,429	\$ 497,075
Statewide sales, services and use tax fund	817,075	4,662,348
Debt service fund	1,271,935	
General fund		83,887
Physical plant and equipment levy fund	320,000	5,684,129
	\$ 10,927,439	\$ 10,927,439

Transfers from the general fund, physical plant and equipment levy fund and the capital projects fund to the debt service fund were to move resources to help pay bond expenses. Transfers into the High School capital projects fund were to pay for the High School renovation project.

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 one more year and requires monthly payments of \$3,400 from July 1, 2012 through June 30, 2013.

Future minimum lease payment under this lease agreement is as follows:

Year ended June 30,	
2013	\$ 40,800

Total lease expense for the year ended June 30, 2012 was \$39,480.

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 5.38%, 4.50%, and 4.30% of their annual covered salary and the District is required to contribute 8.07%, 6.95%, and 6.65% of annual covered payroll for the years ended June 30, 2012, 2011, and 2010, respectively. Contribution requirements are established by state statute.

The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$788,655, \$643,354 and \$658,164, 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, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 118,052
Interest on net OPEB obligation	8,395
Adjustment to annual required contribution	<u>(49,676)</u>
Annual OPEB cost	76,771
Contributions made	<u>(42,806)</u>
Increase in net OPEB obligation	33,965
Net OPEB obligation beginning of year	<u>335,803</u>
Net OPEB obligation end of year	<u>\$ 369,768</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, 2012.

For the year ended June 30, 2012, the District contributed \$42,806 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, 2012 are summarized below as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
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
June 30, 2012	76,771	55.76%	369,768

*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, 2012, 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 \$8.608 million, and the ratio of the UAAL to covered payroll was 16.2%. As of June 30, 2012, 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.

Projected claim costs of the medical plan are \$685 to \$496, depending on the type of coverage, per month for retirees less than age 65 and the plan coverage terminates upon reaching Medicare eligibility (age 65). The salary increase rate was assumed to be 0% per year. 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, 2012, 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, 2012 was unavailable as of December 28, 2012. The District contributions to the trust for the years ended June 30, 2012, 2011, and 2010 were \$1,825,521, \$1,830,257 and \$1,644,804, respectively, which equaled the required contributions each year. The employees paid \$20,269 in dental insurance for the year ended June 30, 2012.

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, 2012, no liability has been recorded in the District's financial statements. As of June 30, 2012, 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 and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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 \$548,284 for the year ended June 30, 2012 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 \$613 per month for full time staff and \$1,535 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, 2012.

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, 2012, 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, 2012 amounted to \$7,901,656 all of this 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, 2012, 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 \$221,205 and to Specialty Underwriters of \$50,446. Mr. Petersburg is a principal of A&J Petersburg Insurance Agency and handles the District's insurance policy with Specialty Underwriters.

17. New Governmental Accounting Standards Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued six statements not yet implemented by the District. The statements which might impact the District are as follows:

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*; issued November 2010, will be effective for the fiscal year ending June 30, 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity.

17. New Governmental Accounting Standards Board (GASB) Standards (Continued)

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; issued December 2010, will be effective for the fiscal year ending June 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011, will be effective for the fiscal year ending June 30, 2013. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65, *Items Previously Classified as Assets and Liabilities*, issued March 2012, will be effective for the fiscal year ending June 30, 2014. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflow of resources, and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement 66, *Technical Corrections – 2012*, an amendment of GASB Statements 10 and 62, issued March 2012, effective for the fiscal year ending June 30, 2014. The objective of this statement is to improve accounting and financial reporting for governmental entities by resolving conflicting guidance in GASB Statements 54 and 62, on risk financing activities and operating leases.

GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012, will be effective for the fiscal year ended June 30, 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions which are provided by other entities.

The District's management has not yet determined the effect these statements will have on the District's financial statements.

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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, 2012

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
<b>REVENUES</b>			
Local sources	\$ 14,314,076	\$ 552,488	\$ 14,866,564
State sources	7,239,453	6,806	7,246,259
Federal sources	715,798	302,747	1,018,545
<b>Total revenues</b>	<b>22,269,327</b>	<b>862,041</b>	<b>23,131,368</b>
<b>EXPENDITURES/EXPENSES</b>			
Instruction	12,322,949		12,322,949
Support services	5,132,838		5,132,838
Non-instructional		881,432	881,432
Other	15,295,068		15,295,068
<b>Total expenditures/expenses</b>	<b>32,750,855</b>	<b>881,432</b>	<b>33,632,287</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES</b>	<b>(10,481,528)</b>	<b>(19,391)</b>	<b>(10,500,919)</b>
<b>OTHER FINANCING SOURCES, NET</b>	<b>7,656,304</b>		<b>7,656,304</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES</b>	<b>(2,825,224)</b>	<b>(19,391)</b>	<b>(2,844,615)</b>
<b>FUND BALANCE, beginning of year</b>	<b>17,556,518</b>	<b>270,402</b>	<b>17,826,920</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 14,731,294</b>	<b>\$ 251,011</b>	<b>\$ 14,982,305</b>

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Amended Final	
\$ 15,861,309	\$ 15,861,309	\$ (994,745)
7,502,846	7,502,846	(256,587)
860,000	860,000	158,545
<u>24,224,155</u>	<u>24,224,155</u>	<u>(1,092,787)</u>
13,025,500	13,500,000	1,177,051
6,050,000	6,050,000	917,162
975,000	975,000	93,568
15,863,794	17,000,000	1,704,932
<u>35,914,294</u>	<u>37,525,000</u>	<u>3,892,713</u>
(11,690,139)	(13,300,845)	2,799,926
		<u>7,656,304</u>
(11,690,139)	(13,300,845)	10,456,230
<u>21,113,313</u>	<u>21,113,313</u>	<u>(3,286,393)</u>
<u>\$ 9,423,174</u>	<u>\$ 7,812,468</u>	<u>\$ 7,169,837</u>

DECORAH COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2012

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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. These four functions are instruction, support services, non-instructional programs, and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the general fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$1,610,706.

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%
2012	July 1, 2010	-	\$ 1,429	\$ 1,429	0.0%	\$ 8,808	16.2%

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.

INDEPENDENT AUDITOR'S REPORT  
ON THE SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Decorah Community School District as of and for the year ended June 30, 2012, and our report thereon dated December 28, 2012, which expressed an unqualified opinion on the financial statements, appears on pages 2 through 3. Our audit was performed for the purpose of forming opinions on such financial statements as a whole. The combining and individual nonmajor fund financial statements and schedule of governmental funds' revenues and expenditures for 2012 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, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, schedule of governmental funds' revenues and expenditures for 2012 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 also 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, 2003 through 2011 (none of which is presented herein), and we expressed unqualified opinions on those financial statements. Those audits were conducted for purposes of forming an opinion on the financial statements as a whole. The schedule of revenues and expenditures of governmental funds for the years 2003 through 2011 on page 39 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2003 through 2011 financial statements. The information has been subjected to the auditing procedures applied in the audits of those 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 schedule of revenues and expenditures of governmental funds for the years 2003 through 2011 on page 39 is fairly stated, in all material respects in relation to the financial statements from which it has been derived.

*Hacker, Nelson & Co., P.C.*

Decorah, Iowa  
December 28, 2012

DECORAH COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2012

	Special Revenue Management Levy	Special Revenue Student Activity	Total Nonmajor Funds
<b>ASSETS</b>			
Cash and pooled investments	\$ 556,149	\$ 178,611	\$ 734,760
Receivables			
Property tax			
Delinquent	4,214		4,214
Succeeding year	649,999		649,999
Accounts		210	210
Total assets	<u>\$ 1,210,362</u>	<u>\$ 178,821</u>	<u>\$ 1,389,183</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable		\$ 2,806	\$ 2,806
Deferred revenue			
Succeeding year property tax	\$ 649,999		649,999
Total liabilities	<u>649,999</u>	<u>2,806</u>	<u>652,805</u>
<b>Fund balances</b>			
Restricted for			
Management levy	560,363		560,363
Student activities		176,015	176,015
	<u>560,363</u>	<u>176,015</u>	<u>736,378</u>
Total liabilities and fund balances	<u>\$ 1,210,362</u>	<u>\$ 178,821</u>	<u>\$ 1,389,183</u>

See Independent Auditor's Report on the Supplementary Information.

DECORAH COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2012

	Special Revenue Management Levy	Special Revenue Student Activity	Total Nonmajor Funds
<b>REVENUES</b>			
Local sources			
Property taxes	\$ 649,938		\$ 649,938
Other	17,679	\$ 781,414	799,093
State sources	325		325
<b>Total revenues</b>	<b>667,942</b>	<b>781,414</b>	<b>1,449,356</b>
<b>EXPENDITURES</b>			
Current			
Instruction			
Regular instruction	327,149	767,604	1,094,753
Special instruction	23,067		23,067
Support services			
Instructional staff services	19,868		19,868
Administration services	4,855		4,855
Operation and maintenance plant services	186,812		186,812
Transportation services	37,559		37,559
<b>Total expenditures</b>	<b>599,310</b>	<b>767,604</b>	<b>1,366,914</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>68,632</b>	<b>13,810</b>	<b>82,442</b>
<b>FUND BALANCE, beginning of year</b>	<b>491,731</b>	<b>162,205</b>	<b>653,936</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 560,363</b>	<b>\$ 176,015</b>	<b>\$ 736,378</b>

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, 2012

	Balance June 30, 2011	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2012
High School Football	\$ 6,344	\$ 84,580	\$ 82,546	\$ 8,378
High School Basketball	1,876	26,981	26,151	2,706
High School Wrestling	1,198	10,873	11,336	735
High School Baseball	1,875	24,940	20,829	5,986
High School Golf	3,841	8,115	9,198	2,758
High School Track	1,174	26,322	26,587	909
High School Softball	2,977	11,115	12,558	1,534
High School Volleyball	1,767	11,080	11,588	1,259
High School Tennis	5,772	3,371	6,679	2,464
High School Cross Country	2,451	13,051	14,622	880
High School Student Council	2,089		196	1,893
High School Community Club	220	973	1,138	55
High School Swimming	915	12,246	11,683	1,478
High School Choir	49	245	294	-
High School Soccer	3,602	14,836	14,894	3,544
SADD Chapter	200			200
"D" Club	1,620	2,877	1,542	2,955
Art Club	4,106	8,579	7,746	4,939
Culture Club	89			89
Science Club	1,256			1,256
Future Farmers of America	30,213	78,975	84,058	25,130
Horticulture Club	615	2,601	1,063	2,153
DECA	(2)	2		-
Student Assistance	4,618	1,004	1,498	4,124
High School Music	(15,228)	30,356	15,266	(138)
High School Orchestra	-	384	384	-
High School Instrumental Music	-	11,357	7,074	4,283
High School Yearbook	12,788	28,410	32,609	8,589
High School Speech	3,380	4,677	8,057	-
High School Dramatics	9,700	10,968	8,359	12,309
High School Madrigal	3,974	5,238	4,579	4,633
<b>Sub-totals</b>	<b>93,479</b>	<b>434,156</b>	<b>422,534</b>	<b>105,101</b>

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, 2012

	Balance June 30, 2011	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2012
Sub-totals	\$ 93,479	\$ 434,156	\$ 422,534	\$ 105,101
High School Fire Squad	911	22,539	21,553	1,897
High School Cheerleading	3,952	10,923	12,047	2,828
Class 2010	95		95	-
Class 2011	299		299	-
Class 2012	1,821	1,200	2,598	423
Class 2013		2,380	1,472	908
High School General	3,342	201,741	195,601	9,482
Middle School Football		3,335	3,335	-
Middle School Cross Country		413	413	-
Middle School Basketball		3,173	3,173	-
Middle School Wrestling		710	710	-
Middle School Track	285	1,279	1,564	-
Middle School Volleyball		2,555	2,555	-
Middle School Cheerleading		531	321	210
Middle School Music				-
Middle School Library Club	6			6
Middle School Outdoor Ed				-
Middle School Yearbook	8,981	5,860	4,473	10,368
Scholarships	6,100	5,300	5,338	6,062
Middle School General	231	235	115	351
Middle School Fund Raising	4,429	43,595	43,957	4,067
Middle School Student Council	370	355	612	113
Middle School Summer Tag	2,400	7,018	8,190	1,228
Investments	143	242	276	109
Vocational Ag	418			418
Vocational	888	1,202	1,843	247
A/P Exam Testing	1,301	14,729	14,051	1,979
DHS Wall Of Fame				-
DVABC	55	71,689	59,689	12,055
Decorah Craft Show	4,260	10,488	10,481	4,267
Elementary Playground	12,101		9,432	2,669
Wellness		370		370
Youth Marketplace	2,074	2,472	2,606	1,940
W/S Elementary General	14,264	9,668	15,015	8,917
	<u>\$ 162,205</u>	<u>\$ 858,158</u>	<u>\$ 844,348</u>	<u>\$ 176,015</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		
	2012	2011	2010
<b>REVENUES</b>			
Local sources			
Local tax	\$ 8,468,392	\$ 7,791,079	\$ 7,146,214
Tuition	3,545,106	3,545,106	3,161,819
Other	2,300,578	2,955,063	2,130,378
Intermediate sources			
State sources	7,239,453	6,622,061	5,837,879
Federal sources	715,798	734,645	1,141,076
<b>Total revenues</b>	<b>\$ 22,269,327</b>	<b>\$ 21,647,954</b>	<b>\$ 19,417,366</b>
<b>EXPENDITURES</b>			
Current			
Instruction			
Regular instruction	\$ 7,390,715	\$ 6,738,275	\$ 7,066,295
Special instruction	3,281,703	3,548,393	2,740,264
Other instruction	1,650,531	1,708,797	1,725,872
Support services			
Student services	349,583	382,149	323,043
Instructional staff services	897,355	1,092,846	905,746
Administration services	1,555,170	1,345,680	1,436,927
Operation and maintenance plant services	1,517,329	1,354,401	1,325,807
Transportation services	813,401	860,500	797,190
Non-instructional		38,160	
Other			
Facilities acquisition	12,197,328	1,851,684	355,424
Long-term debt			
Principal	1,855,257	6,329,990	1,515,000
Interest and fiscal charges	691,199	645,418	256,139
Bond issuance cost	3,000	92,048	
AEA flowthrough	548,284	596,148	591,775
<b>Total expenditures</b>	<b>\$ 32,750,855</b>	<b>\$ 26,584,489</b>	<b>\$ 19,039,482</b>

See Independent Auditor's Report on the Supplementary Information.

## SCHEDULE 4

## Modified Accrual

2009	2008	2007	2006	2005	2004	2003
\$ 6,786,725	\$ 6,282,222	\$ 6,341,796	\$ 5,998,168	\$ 5,715,624	\$ 4,788,589	\$ 4,900,023
2,990,001	2,553,688	2,624,750	2,533,470	2,114,518	2,051,186	1,687,516
2,151,066	2,432,286	2,339,895	2,703,281	2,009,289	1,751,257	1,610,618
				21,485	12,751	21,228
6,725,885	6,466,649	6,176,068	5,783,248	5,488,689	5,568,314	5,846,787
540,139	285,112	245,963	240,641	252,791	270,532	203,291
\$ 19,193,816	\$ 18,019,957	\$ 17,728,472	\$ 17,258,808	\$ 15,602,396	\$ 14,442,629	\$ 14,269,463
\$ 6,101,214	\$ 5,976,750	\$ 6,195,772	\$ 6,131,923	\$ 5,883,790	\$ 5,005,459	\$ 4,803,271
3,348,391	2,931,951	2,782,024	2,841,924	2,389,212	2,663,282	2,434,213
2,068,116	1,777,746	1,063,206	1,067,063	1,050,483	1,231,424	1,163,182
336,897	327,704	311,136	288,598	308,740	280,259	283,963
725,990	604,581	673,653	540,396	525,972	535,201	504,252
1,423,288	1,439,698	1,254,791	1,093,675	976,645	1,143,570	1,085,423
1,351,740	1,306,620	1,143,162	1,161,498	1,018,698	1,027,393	994,361
748,872	740,015	702,556	660,791	634,698	637,563	575,931
10,234	15,926	37,663	36,350	1,638	3,276	13,435
1,468,459	984,630	4,110,541	4,930,220	6,897,137	1,171,147	66,739
1,465,000	1,415,000	1,375,000	1,319,958	1,180,800	3,080,000	365,000
297,372	334,139	363,645	397,332	273,976	215,231	151,444
530,159	496,088	476,764	453,211	450,267	456,353	488,855
\$ 19,875,732	\$ 18,350,848	\$ 20,489,913	\$ 20,922,939	\$ 21,592,056	\$ 17,450,158	\$ 12,930,069

DECORAH COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

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**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 84.410-Education Jobs Fund
  - Clustered programs
  - CFDA Number 10.553-School Breakfast Program
  - CFDA Number 10.555-National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Decorah Community School District did not qualify as a low-risk auditee.

DECORAH COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

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Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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 and Corrective Action Planned

Management is cognizant of this limitation and will implement additional procedures whenever possible.

Conclusion

Response acknowledged.

II-B-12 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 and Corrective Action Planned

Management is cognizant of this limitation and will implement additional controls where possible.

Conclusion

Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

DECORAH COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

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**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

Department of Education  
Passed through the Iowa Department of Education  
CFDA Number 84.410-Education Jobs Fund  
Federal Award Year: 2012

Department of Agriculture  
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: 2012

See II-A-12 and II-B-12 above.

**Part IV: Other Findings Related to Required Statutory Reporting:**

See management letter dated December 28, 2012

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

Comment Reference	Comment Title	Status	Explanation
II-A-11	Financial report preparation	Not corrected	Management does not have the necessary training to prepare year-end financial statements.
II-B-11	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, 2012

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
<b>Indirect</b>			
Department of Agriculture			
Passed through Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY12	\$ 26,799
National School Lunch Program	10.555	FY12	214,416
			<u>241,215</u>
Food Distribution Program (non-cash)	10.550	FY12	<u>61,533</u>
Total Department of Agriculture			<u>302,748</u>
Department of Education			
Passed through Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY12	124,941
State Grants for Innovative Programs	84.298	FY12	8,694
Rural Education Achievement Program	84.358	FY12	75,623
Tech-Prep Education	84.243A	FY12	10,481
Education Jobs Fund	84.410	FY12	282,165
Improving Teacher Quality State Grants	84.367	FY12	<u>42,103</u>
Total Department of Education			<u>544,007</u>
			<u>\$ 846,755</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, 2012

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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.

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, 2012, which collectively comprise Decorah Community School District's basic financial statements and have issued our report thereon dated December 28, 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

Management of Decorah Community School District is responsible for establishing and maintaining effective 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-12 and II-B-12 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 December 28, 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  
December 28, 2012

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, 2012. 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 and material effect on each of its major federal programs for the year ended June 30, 2012.

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-12 and II-B-12. 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  
December 28, 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, 2012, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control or state statutory compliance matters, accordingly, we provide no such assurance.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 thru 12 below are compliance comments required by the Iowa Auditor of State. A separate report dated December 28, 2012 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated December 28, 2012, on the financial statements of the Decorah Community School District. Comment numbers 4, 7, 13 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, 2012 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, 2012, 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: \$221,205 and \$50,446

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

One student was missed who was attending a juvenile detention center.

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

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

10. Certified Annual Report

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

11. Categorical Funding

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

12. 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, 2012, 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			1,219,716
Expenditures/transfers out:			
School infrastructure:			
Equipment and architect	\$	483,295	
High School Building Renovations:			
Transfer out		108,055	
Debt service for school infrastructure:			
General obligation debt		628,366	1,219,716
Ending balance		\$	<u>None</u>

For the year ended June 30, 2012, 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
Debt service levy	\$ 1.31	\$ 628,366
PPEL levy	1.67	591,350
		<u>\$ 1,219,716</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 (class of 2012).

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 Fund Deficit

As of June 30, 2012, one individual student activity account has a negative account balance.

Recommendation

The District should continue to investigate alternatives to eliminate this deficit in order to return this account to a sound financial condition. The District should reallocate funds to help fund the activity.

Response

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

Conclusion

Response accepted.

15. Outstanding Checks

During our audit, we noted the checkbook reconciliation included five outstanding checks over two years old.

Recommendation

Checks outstanding for two or more years should be filed with the State Treasurer's office. See [http://www.greatiowatreasurehunt.com/compliance\\_reporting/pdffiles/2007\\_holder\\_manual.pdf](http://www.greatiowatreasurehunt.com/compliance_reporting/pdffiles/2007_holder_manual.pdf) for instructions.

Response

We are notifying the vendors and re-issuing the checks.

Conclusion

Response accepted.

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

Other procedural matters were discussed with management and documented in a letter to them.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Decorah Community School District during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
December 28, 2012