

**DECORAH COMMUNITY
SCHOOL DISTRICT**

DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2013

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DECORAH COMMUNITY SCHOOL DISTRICT
BOARD OF EDUCATION AND SCHOOL OFFICIALS

Name	Title	Address	Term Expires
Board of Education			
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

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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 pages 5 through 5g and pages 33 through 35 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Decorah Community School District's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of governmental funds' revenues and expenditures for 2013 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedule of governmental funds' revenues and expenditures for 2013 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining and individual nonmajor fund financial statements, schedule of governmental funds' revenues and expenditures for 2013 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

We also have previously audited, in accordance with U.S. generally accepted auditing standards, the basic financial statements of Decorah Community School District as of and for the years ending June 30, 2004 through 2012 (none of which is presented herein), and we expressed unmodified opinions on those basic financial statements. Those audits were conducted for purposes of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The schedule of revenues and expenditures of governmental funds for the years 2004 through 2012 on page 42 is presented for purposes of additional analysis and is not a required part of the basic 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 2004 through 2012 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 2004 through 2012 on page 42 is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013, 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* in considering Decorah Community School District's internal control over financial reporting and compliance.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
December 6, 2013

DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA

Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2013

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, 2013.

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 2013 fiscal year include the following:

In total, net position increased by \$867,822 or 3.59% from fiscal 2012. Net position in governmental activities increased \$919,582, which represented a 4.41% increase from fiscal year 2012. The District received less revenue from federal and state sources. Net position in the business-type activity, which represents the District's food service operations, decreased \$51,760 which represented a 20.62% decrease from fiscal year 2012. An increase in program expenses is the primary reason for the decrease.

General fund revenues (which include the instructional support fund) accounted for \$17,055,520 in revenue or 77.85% of all revenues. General fund expenses (which include the instructional support fund) accounted for \$16,630,594 in expenditures or 57.69% 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 position 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 Position 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 2013 fiscal year. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash was received or paid.

These statements report the District's net position and changes in the position. This change in net position 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 position 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 2013 are the general fund, capital projects funds: statewide sales, services and use tax 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 position 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 position of the District as a whole. The Decorah Community School District's net position at the end of fiscal year 2013 totaled \$21,980,369, an increase of 4.41% from the previous fiscal year.

	Condensed Statement of Net Position						
	(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
2013	2012	2013	2012	2013	2012		
Current and other assets	\$ 19,541	\$ 26,022	\$ 201	\$ 253	\$ 19,742	\$ 26,275	-24.86%
Capital assets	39,105	33,362	77	77	39,182	33,439	17.17%
Total assets	58,646	59,384	278	330	58,924	59,714	
Long-term debt outstanding	23,065	24,735			23,065	24,735	-6.75%
Other liabilities	13,800	13,788	79	79	13,879	13,867	0.09%
Total liabilities	36,865	38,523	79	79	36,944	38,602	
Net position							
Invested in capital assets, net of related debt	17,429	16,532	77	77	17,506	16,609	5.40%
Restricted	2,391	2,808			2,391	2,808	-14.85%
Unrestricted	1,961	1,521	122	174	2,083	1,695	22.89%
Total net position	\$ 21,781	\$ 20,861	\$ 199	\$ 251	\$ 21,980	\$ 21,112	

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

The following analysis shows the change in net position for the years ending June 30, 2013 and 2012:

	Changes in Net Position (Expressed in Thousands)						Percent Change
	Governmental Activities		Business-type Activities		Total		
	2013	2012	2013	2012	2013	2012	
Revenues:							
Program revenue							
Charges for service	\$ 4,783	\$ 4,396	\$ 553	\$ 552	\$ 5,336	\$ 4,948	7.84%
Operating grants	1,862	2,219	343	310	2,205	2,529	14.69%
General revenue							
Property taxes	8,526	8,033			8,526	8,033	6.14%
Sales tax and surtax	1,212	1,655			1,212	1,655	-26.77%
Unrestricted state grants	5,500	5,736			5,500	5,736	-4.11%
Unrestricted investment earnings	34	39			34	39	-12.82%
Other revenue	(5)	231			(5)	231	-102.16%
Total revenues	21,912	22,309	896	862	22,808	23,171	
Program expenses:							
Instruction	12,448	11,728			12,448	11,728	6.14%
Student support	5,702	5,448			5,702	5,448	4.66%
Non-instructional programs			948	881	948	881	7.60%
Other expenses	2,842	2,427			2,842	2,427	17.10%
Total expenses	20,992	19,603	948	881	21,940	20,484	
Increase (decrease) in net position	920	2,706	(52)	(19)	868	2,687	-67.70%
Net position Beginning of Year	20,861	18,155	251	270	21,112	18,425	14.58%
Net position End of Year	\$ 21,781	\$ 20,861	\$ 199	\$ 251	\$ 21,980	\$ 21,112	

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 \$7,753,570, a \$6,977,724 decrease from the 2012 fiscal year end balance of \$14,731,294.

- The general fund revenues decreased during fiscal year 2013 for federal and state sources while expenditures also increased for other instruction, administration and operations and maintenance. The ending fund balance showed an increase of \$397,715 from the prior year.
- The capital projects fund statewide sales, services and use tax ending fund balance showed a decrease primarily due to the renovation of the high school project. The ending fund balances showed a decrease from the prior year of \$3,706,153.

Financial Analysis of the District's Funds (Continued)

- 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 \$3,530,662.
- The debt service fund ending fund balance showed an increase of \$484 for fiscal year 2013. This increase is mainly due to transfers from the capital projects fund statewide sales, services and use tax fund to cover debt payments.

Budgeting Highlights

The District's Board of Education annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. State statute requires approval of the budget on or before April 15th of each year. The budget document presents functional disbursements by fund and the legal level of control is at the expenditure level by total instruction, total support services, total non-instructional programs, total other expenditures and total expenditures. The District amends the budget, as allowed by Iowa law, to reflect the additional revenues and expenditures that may occur during the school year.

The following chart shows the amended budget for fiscal 2013 as well as the actual revenue and expenditures for the year:

		Budgetary Comparison Schedule (Expressed in Thousands)			
		Budget Amounts			
		Actual	Original	Final	Variance
Revenues					
Local sources	\$	15,139	\$ 14,761	\$ 15,861	\$ (722)
State sources		7,022	7,162	7,503	(481)
Federal sources		684	860	860	(176)
Total revenues	\$	22,845	\$ 22,783	\$ 24,224	\$ (1,379)
Expenditures					
Instruction	\$	12,597	\$ 13,006	\$ 14,500	\$ 1,903
Student support		5,572	6,495	6,050	478
Non-instructional programs		948	910	950	2
Other expenses		10,773	13,147	17,000	6,227
Total expenditures	\$	29,890	\$ 33,558	\$ 38,500	\$ 8,610

Capital Assets and Debt Administration

Capital Assets

At the end of the 2013 fiscal year, the District had invested \$39,182,041 (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 \$1,256,460 for fiscal 2013 and total accumulated depreciation of \$13,609,172 as of June 30, 2013. The following chart shows the comparison in capital assets for 2013 and 2012:

	Capital Assets (net of depreciation)						Percent Change
	(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		
	2013	2012	2013	2012	2013	2012	
Land	\$ 280	\$ 280			\$ 280	\$ 280	0.00%
Construction in progress	18,798	12,915			18,798	12,915	45.55%
Land improvements	1,366	1,322			1,366	1,322	3.33%
Buildings	16,702	17,019			16,702	17,019	-1.86%
Furniture and equipment	1,959	1,826	\$ 77	\$ 77	2,036	1,903	6.99%
Total	\$ 39,105	\$ 33,362	\$ 77	\$ 77	\$ 39,182	\$ 33,439	

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

Debt

As of June 30, 2013 the District had \$24,432,382 in long-term debt outstanding compared to \$26,795,149 on June 30, 2012. The following chart shows the debt comparison between 2013 and 2012:

	Long-term Debt Obligations			
	Balance		Balance	
	June 30, 2012	Additions	Reductions	June 30, 2013
Bonds/Capital Loan Notes				
General obligation	\$ 10,405,000		\$ 255,000	\$ 10,150,000
General obligation refunding	2,215,000		715,000	1,500,000
Local option sales and service	7,210,000		330,000	6,880,000
Capital loan notes	5,930,000		445,000	5,485,000
Total Bonds/Capital Loan Notes	25,760,000	\$ -	1,745,000	24,015,000
Other Liabilities				
Capital leases	292,842		210,503	82,339
Compensated absences	54,906	66,991	54,906	66,991
Notes payable	166,666		166,666	-
Early retirement	520,735		252,683	268,052
Total Other Liabilities	1,035,149	66,991	684,758	417,382
Total Long-term Debt	\$ 26,795,149	\$ 66,991	\$ 2,429,758	\$ 24,432,382

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 FY 2014 at 2% (Plus 2%). The additional 2% (the Plus 2%) is not part of the on-going school foundation aid formula. Districts cannot count the Plus 2% as continuing funding for FY 2015.
- Before the first day of school, the anticipated enrollment at Carrie Lee was to increase and at John Cline to decrease. There was anticipation of six sections of third graders and six sections of fourth graders. Therefore, the availability of classrooms was researched and minor remodeling was completed the summer of 2013-14. The music room on third floor was divided into a larger classroom and a smaller classroom for the sixth section of fourth graders and a special education classroom. The weight room on first floor was also reconfigured to a larger classroom and a smaller classroom. The larger classroom is for music and the smaller one for special education. The weight room equipment will be stored under the Carrie Lee gymnasium.
- The District was anticipating the enrollment to be flat and consistent. The October 2014 headcount showed a decrease of 25 District students.
- The District will be working on trying to improve reading scores within the elementary buildings. The District hired a reading literacy coach for the 2013-14 school year and also replaced a retiring .75 title instruction with a full-time instructor.
- The District had a resignation of the middle school math and TAG instructor. This position was replaced with a math instructor and a TAG instructor. The TAG instructor will also help with the middle school reading program.
- The high school sections of Spanish and Language Arts were too many for the current instructors. The District hired a full-time foreign language and language arts instructor for the 2013-14 school year.
- The District was experiencing major problems with two of our newer buses purchased from School Bus Company in which they would completely shut down. They were working with the company and Cummins to get this corrected. The District made the decision to replace these two buses with International buses that were bid from Hogle Bus Company. This will enhance the District's fleet by having a more reliable bus fleet.
- The District has experienced a cumulative increase in taxable assessed valuation of 22.48% in the last five years. The District's assessed valuation in 2013-14 increased by \$18,739,825.
- The District entered into two sharing agreements with neighboring school districts to be funded through the Operational Sharing Incentive. This included a 50% curriculum specialist from Allamakee Community School and a 20% nurse from North Winneshiek Community School. The legislature is still working on issues surrounding the implementation of the revised Operation Sharing provisions passed last session in HF 472. Conflicts of interpretation and implementation still exist.
- The District is working towards a Digital Learning Environment. Before the end of the 2012-13 school year, each teacher was issued a District iPad. The District also worked on the installation of new coax cabling at middle school and the installation of Smartboards, televisions, and projectors to each classroom. In the first semester of 2013-14, the District will be piloting MacBook Airs and iPads for a potential one-to-one initiative.

Current Issues (Continued)

- The Decorah Foundation has been working on the solicitation of donations towards the remodeling of the Carrie Lee auditorium to the authentic 1922 time period. The renovation will include painting, auditorium seating, theatrical lighting, and flooring. Other smaller additions will be to recapture authentic looking lighting fixtures, wallpaper skyscrapers, and wallpaper window boxes.
- The North Winneshiek Community School had a feasibility study done and it concluded that North Winneshiek could not operate in a financially sound way beyond 2017. The North Winneshiek school board identified four courses of action at this time: Status quo, let the state dissolve the district and have the district divided up into the neighboring school districts, increase realistic whole grade sharing options, or reorganize (consolidation). The Decorah Community School and the North Winneshiek Community School had a joint board meeting presenting this information. The Decorah Community School board members have also toured the North Winneshiek facilities. Two appointed board members from each district have been appointed to a long-term planning committee.
- The District has substantial completion of the high school remodeling project. The high school was at full occupancy when school started in fall 2013. The contract is still working on punch list items. There are issues with the heating and cooling systems as they are not all up and running. With the envelope of the building addressing loss of heat, the systems in place are working to maintain room temperatures however there are not consistent temperatures at this time.
- The Shareholders are now tasked with what to do with our lower elementary buildings. Struxtures Architects completed a facility assessment for the PK-2 Program which will be shared with the Shareholders group. This group toured the West Side and John Cline facilities on November 25, 2013. They will be reporting to the Board on January 13, 2014, on discussing the next steps with updating the public on the facility issues.

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 POSITION
June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	\$ 9,859,965	\$ 176,284	\$ 10,036,249
Receivables			
Property tax			
Delinquent	44,122		44,122
Succeeding year	8,745,758		8,745,758
Accounts	518,461		518,461
Due from other governments	372,434		372,434
Inventories		25,308	25,308
Capital assets, non-depreciable	19,078,115		19,078,115
Capital assets, net of accumulated depreciation	20,027,173	76,761	20,103,934
	<u>\$ 58,646,028</u>	<u>\$ 278,353</u>	<u>\$ 58,924,381</u>
LIABILITIES			
Accounts payable	\$ 1,309,194	\$ 600	\$ 1,309,794
Salaries and benefits payable	1,708,316	65,917	1,774,233
Accrued interest payable	53,213		53,213
Deferred revenue			
Succeeding year property tax	8,745,758		8,745,758
Other		12,585	12,585
Long-term liabilities			
Portion due within one year			
Bonds payable	1,765,000		1,765,000
Capital leases	40,571		40,571
Compensated absences	66,991		66,991
Early retirement	111,315		111,315
Portion due after one year			
Bonds payable	22,250,000		22,250,000
Capital leases	41,768		41,768
Early retirement	156,737		156,737
OPEB obligation	616,047		616,047
	<u>36,864,910</u>	<u>79,102</u>	<u>36,944,012</u>
NET POSITION			
Invested in capital assets, net of related debt	17,428,986	76,761	17,505,747
Restricted for			
Debt service	59,679		59,679
School infrastructure	969,572		969,572
Management levy purposes	476,987		476,987
Student activities	169,085		169,085
Physical plant and equipment	404,941		404,941
Categorical funding	311,355		311,355
Unrestricted	1,960,513	122,490	2,083,003
	<u>21,781,118</u>	<u>199,251</u>	<u>21,980,369</u>
Total net position	<u>\$ 58,646,028</u>	<u>\$ 278,353</u>	<u>\$ 58,924,381</u>
Total liabilities and net position	<u>\$ 58,646,028</u>	<u>\$ 278,353</u>	<u>\$ 58,924,381</u>

See Notes to Financial Statements.

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DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
Governmental activities			
Instruction			
Regular instruction	\$ 6,582,935	\$ 1,579,418	\$ 1,196,462
Special instruction	2,968,798	2,106,734	76,770
Other instruction	2,896,792	1,004,232	5,545
	<u>12,448,525</u>	<u>4,690,384</u>	<u>1,278,777</u>
Support services			
Student services	460,317	55,280	
Instructional staff services	868,333		
Administration services	1,666,213	13,675	
Operation and maintenance plant services	1,815,123	23,902	
Transportation services	892,383		35,500
	<u>5,702,369</u>	<u>92,857</u>	<u>35,500</u>
Other			
Long-term debt interest	630,865		
Facilities acquisition	970,675		
AEA flowthrough	547,753		547,753
Depreciation (unallocated)	692,413		
	<u>2,841,706</u>		<u>547,753</u>
Total governmental activities	20,992,600	4,783,241	1,862,030
Business-type activities			
Non-instructional programs			
Nutrition services	947,907	552,699	343,407
Total	\$ 21,940,507	\$ 5,335,940	\$ 2,205,437
General revenues			
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			
Total general revenues			
Change in net position			
Net position, beginning of year			
Net position, end of year			

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
\$ (3,807,055)		\$ (3,807,055)
(785,294)		(785,294)
(1,887,015)		(1,887,015)
(6,479,364)		(6,479,364)
(405,037)		(405,037)
(868,333)		(868,333)
(1,652,538)		(1,652,538)
(1,791,221)		(1,791,221)
(856,883)		(856,883)
(5,574,012)		(5,574,012)
(630,865)		(630,865)
(970,675)		(970,675)
(692,413)		-
(692,413)		(692,413)
(2,293,953)		(2,293,953)
(14,347,329)	\$ -	(14,347,329)
	(51,801)	(51,801)
(14,347,329)	(51,801)	(14,399,130)
5,906,690		5,906,690
499,689		499,689
842,308		842,308
1,274,642		1,274,642
1,211,842		1,211,842
5,500,280		5,500,280
34,049	41	34,090
(60,765)		(60,765)
58,176		58,176
15,266,911	41	15,266,952
919,582	(51,760)	867,822
20,861,536	251,011	21,112,547
\$ 21,781,118	\$ 199,251	\$ 21,980,369

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DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General	Capital Projects	
		Statewide Sales, Services and Use Tax	Thomas Roberts High School
ASSETS			
Cash and pooled investments			
Other	\$ 4,439,753	\$ 1,053,051	\$ 3,270,133
Receivables			
Property tax			
Delinquent	29,930		
Succeeding year	6,098,617		
Accounts	518,461		
Due from other governments	131,723	240,711	
Total assets	\$ 11,218,484	\$ 1,293,762	\$ 3,270,133
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 135,380	\$ 45,963	\$ 1,127,323
Salaries and benefits payable	1,708,316		
Deferred revenue			
Succeeding year property tax	6,098,617		
Other		23,902	
Total liabilities	7,942,313	69,865	1,127,323
Fund balances			
Restricted for			
Debt service			
Categorical funding	311,355		
Management levy purposes			
Student activities			
Physical plant and equipment			
School infrastructure		1,223,897	2,142,810
Unassigned	2,964,816		
Total fund balances	3,276,171	1,223,897	2,142,810
Total liabilities and fund balances	\$ 11,218,484	\$ 1,293,762	\$ 3,270,133

See Notes to Financial Statements.

EXHIBIT C

Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ 52,787	\$ 1,044,241	\$ 9,859,965
6,892	7,300	44,122
1,274,653	1,372,488	8,745,758
		518,461
		372,434
<u>\$ 1,334,332</u>	<u>\$ 2,424,029</u>	<u>\$ 19,540,740</u>
	\$ 528	\$ 1,309,194
		1,708,316
\$ 1,274,653	1,372,488	8,745,758
		23,902
<u>1,274,653</u>	<u>1,373,016</u>	<u>11,787,170</u>
59,679		59,679
		311,355
	476,987	476,987
	169,085	169,085
	404,941	404,941
		3,366,707
		2,964,816
<u>59,679</u>	<u>1,051,013</u>	<u>7,753,570</u>
<u>\$ 1,334,332</u>	<u>\$ 2,424,029</u>	<u>\$ 19,540,740</u>

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET POSITION

Total governmental fund balances	\$ 7,753,570
Amounts reported for governmental activities in the statement of net position 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 \$ 13,305,613	39,105,288
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	23,902
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	(24,015,000)
Capital leases	(82,339)
Accrued interest	(53,213)
Compensated absences	(66,991)
Early retirement	(268,052)
OPEB obligation	(616,047)
Net position of governmental activities per Exhibit A	<u>\$ 21,781,118</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, 2013

	General	Capital Projects	
		Statewide Sales, Services and Use Tax	Thomas Roberts High School
REVENUES			
Local sources			
Local property tax	\$ 5,906,690		
Tuition	3,686,152		
Other	101,772	\$ 1,242,373	\$ 20,715
State sources	7,013,833		
Federal sources	347,073		
Total revenues	17,055,520	1,242,373	20,715
EXPENDITURES			
Current			
Instruction			
Regular instruction	6,284,883	8,570	
Special instruction	3,028,581		
Other instruction	1,963,446		
	11,276,910	8,570	
Support services			
Student services	306,552		
Instructional staff services	808,529	75,043	
Administration services	1,461,401	156,300	
Operation and maintenance plant services	1,572,909		
Transportation services	656,540		
	4,805,931	231,343	
Other			
Long-term debt			
Principal			
Interest and fiscal charges			
Facilities acquisition		845,753	6,551,377
AEA flowthrough	547,753		
	547,753	845,753	6,551,377
Total expenditures	16,630,594	1,085,666	6,551,377
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	424,926	156,707	(6,530,662)
OTHER FINANCING SOURCES (USES)			
Operating transfers in			3,000,000
Operating transfers (out)	(43,000)	(3,862,860)	
Sale of capital assets	15,789		
	(27,211)	(3,862,860)	3,000,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	397,715	(3,706,153)	(3,530,662)
FUND BALANCE, beginning of year	2,878,456	4,930,050	5,673,472
FUND BALANCE, end of year	\$ 3,276,171	\$ 1,223,897	\$ 2,142,810

See Notes to Financial Statements.

EXHIBIT D

Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,274,642	\$ 1,341,997	\$ 8,523,329
		3,686,152
149	1,012,245	2,377,254
683	721	7,015,237
		347,073
<u>1,275,474</u>	<u>2,354,963</u>	<u>21,949,045</u>
	293,035	6,586,488
	7,296	3,035,877
	<u>1,011,310</u>	<u>2,974,756</u>
	<u>1,311,641</u>	<u>12,597,121</u>
		306,552
	17,353	900,925
	5,313	1,623,014
	242,383	1,815,292
	<u>270,162</u>	<u>926,702</u>
	<u>535,211</u>	<u>5,572,485</u>
2,122,169		2,122,169
644,378		644,378
	61,522	7,458,652
		547,753
<u>2,766,547</u>	<u>61,522</u>	<u>10,772,952</u>
<u>2,766,547</u>	<u>1,908,374</u>	<u>28,942,558</u>
<u>(1,491,073)</u>	<u>446,589</u>	<u>(6,993,513)</u>
1,491,557		4,491,557
	(585,697)	(4,491,557)
		15,789
<u>1,491,557</u>	<u>(585,697)</u>	<u>15,789</u>
484	(139,108)	(6,977,724)
<u>59,195</u>	<u>1,190,121</u>	<u>14,731,294</u>
<u>\$ 59,679</u>	<u>\$ 1,051,013</u>	<u>\$ 7,753,570</u>

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

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	\$	(6,977,724)
<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 position 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	\$	(1,230,399)
Capital outlays		7,050,356
		5,819,957
<p>Some revenues not collected for several years, therefore not available to pay current expenditures, they were deferred in the governmental funds in the prior year.</p>		
		23,902
<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 position and does not affect the statement of activities.</p>		
		2,122,169
<p>The net effect of disposal capital assets</p>		
		(76,554)
<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>		
		13,513
<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>		
Compensated absences		(12,085)
Early retirement		252,683
OPEB obligation		(246,279)
		(5,681)
Change in net position of governmental activities per Exhibit B	\$	919,582

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2013

	School Nutrition Fund
ASSETS	
CURRENT ASSETS	
Cash	\$ 176,284
Inventories	25,308
Total current assets	201,592
NONCURRENT ASSETS	
Furniture and equipment	380,320
Less accumulated depreciation	(303,559)
Total noncurrent assets	76,761
Total assets	\$ 278,353
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	\$ 600
Salaries and benefits payable	65,917
Deferred revenue	12,585
Total liabilities	79,102
NET POSITION	
Invested in capital assets, net of related debt	76,761
Unrestricted	122,490
Total net position	199,251
Total liabilities and net position	\$ 278,353

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2013

	<u>School Nutrition Fund</u>
OPERATING REVENUES	
Local sources	
Charges for services	\$ 552,699
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	446,220
Purchased services	2,568
Supplies	473,058
Depreciation	26,061
Total operating expenses	947,907
Operating loss	(395,208)
NONOPERATING REVENUES	
Interest income	41
State sources	6,751
Federal sources	336,656
Total nonoperating revenues	343,448
Change in net position	(51,760)
Net position, beginning of year	251,011
Net position, end of year	<u>\$ 199,251</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2013

	School Nutrition Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	\$ 544,686
Cash received from miscellaneous operating activities	6,522
Cash payments to employees for services	(299,375)
Cash payments to suppliers for goods and services	(394,135)
Cash payments paid on employees' behalf	(143,611)
Other payments	(2,568)
	(288,481)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State grants and federal grants received	262,841
	(25,816)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(25,816)
	41
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	41
	(51,415)
CASH, beginning of year	227,699
CASH, end of year	\$ 176,284
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (395,208)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	26,061
Commodities used	80,566
Decrease in accounts receivable	342
(Increase) in inventories	(724)
(Decrease) in accounts payable	(2,752)
Increase in salaries and benefits payable	3,234
	(288,481)

Non-cash, noncapital financing activities:

During the year ended June 30, 2013, the District received commodities valued at \$80,566.

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The Decorah Community School District is a political subdivision of the State of Iowa. The District's primary purpose is to provide education from grades kindergarten through twelve, including special education and pre-kindergarten. It is supported financially by local property taxes, state aid and state and federal grants for special projects. The District is governed by a five-member Board of Education whose members are elected on a non-partisan basis. The District has taxing authority and fund raising capabilities of its own. Final approval of the District's annual program and budget plans rests with the Board of Education.

b. Significant Accounting Policies

Scope of Reporting Entity

For financial reporting purposes, Decorah Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature or significance of their relationship with the District should be included in the financial statements as component units. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Venture

The District participates in a jointly governed organization that provides services to the District and meets the criteria of a joint venture since there is ongoing financial interest or responsibility by the participating governments. The District is a member of the Northeast Iowa Conference Schools 28E Retention Pool Trust and Metronet.

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 position (previously referred to as 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 high school-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 funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds. The major funds in this category are statewide sales, services and use tax and 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 position 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 District-wide statements and proprietary fund financial statements are accounted for on economic resources measurement focus. This means that all assets and liabilities, whether current or non-current, associated with its activity are included on the statement of net position. In reporting the financial activity on the proprietary fund statements, the District applies all applicable GASB pronouncements.

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).

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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 District-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, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2012.

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 position. 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, 2013 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 other receivables not collected within 60 days from year-end. Deferred revenue on the statement of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied 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 position. 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 Position

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 position consists of net position 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 position is used first when an expense is incurred for purposes for both restricted and unrestricted net position.

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, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments (Continued)

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	Amortized Cost
Diversified portfolio	\$ 756,206
Direct government obligations portfolio	56,919
Total	\$ 813,125

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

Credit risk. The investments in the Iowa School Joint Investments Trust were rated AAAM by Standard & Poor's Financial Services.

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2013:

Governmental	
General fund	
Title IIA	\$ 45,041
Title I	35,539
Non-public transportation	35,500
Other	15,643
	131,723
Capital projects	
Other	48,902
Statewide sales, services and use tax	191,809
	240,711
	\$ 372,434

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Governmental activities				
Land	\$ 280,200			\$ 280,200
Construction in progress	12,914,603	\$ 5,914,123	\$ 30,811	18,797,915
Total capital assets not being depreciated	13,194,803	5,914,123	30,811	19,078,115
Capital assets being depreciated				
Land improvements	1,990,512	145,329		2,135,841
Buildings	25,215,340	221,903		25,437,243
Furniture and equipment	5,326,718	799,812	366,828	5,759,702
Total capital assets being depreciated	32,532,570	1,167,044	366,828	33,332,786
Less accumulated depreciation for				
Land improvements	668,671	101,645		770,316
Buildings	8,195,682	538,980		8,734,662
Furniture and equipment	3,501,135	589,774	290,274	3,800,635
Total accumulated depreciation	12,365,488	1,230,399	290,274	13,305,613
Total capital assets being depreciated, net	20,167,082	(63,355)	76,554	20,027,173
Governmental activities				
Capital assets, net	\$ 33,361,885	\$ 5,850,768	\$ 107,365	\$ 39,105,288
Business-type activities				
Furniture and equipment	\$ 362,968	\$ 25,816	\$ 8,464	\$ 380,320
Less accumulated depreciation	285,962	26,061	8,464	303,559
Business-type activities				
Capital assets, net	\$ 77,006	\$ (245)	\$ None	\$ 76,761

NOTES TO FINANCIAL STATEMENTS

4. **Capital Assets (Continued)**

Depreciation expense for the year ended June 30, 2013 was charged to the governmental functions of the District as follows:

Governmental activities	
Instruction	
Regular	\$ 59,077
Special	2,312
Other	77,145
Support services	
Instructional staff	161,061
Administration	37,022
Operation and maintenance of plant	14,968
Transportation	186,401
Unallocated depreciation	692,413
	\$ 1,230,399
Business-type activities	
Food services	\$ 26,061

5. **Long-term Debt Obligations**

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 10,405,000		\$ 255,000	\$ 10,150,000	\$ 240,000
Tax revenue bonds	7,210,000		330,000	6,880,000	335,000
General obligation refunding bond	2,215,000		715,000	1,500,000	740,000
Capital loan notes	5,930,000		445,000	5,485,000	450,000
Total bonds	25,760,000	\$ None	1,745,000	24,015,000	1,765,000
Other liabilities					
Capital leases	292,842		210,503	82,339	40,571
Notes payable	166,666		166,666	None	
Compensated absences	54,906	66,991	54,906	66,991	66,991
Early retirement	520,735		252,683	268,052	111,315
Total other liabilities	1,035,149	66,991	684,758	417,382	218,877
Governmental activities					
Long-term liabilities	\$ 26,795,149	\$ 66,991	\$ 2,429,758	\$ 24,432,382	\$ 1,983,877

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 \$503 and \$608 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, 2013.

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, 2013, the District has obligations to 22 participants with a total liability of \$268,052. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$252,683.

Bond Indebtedness

\$10,150,000 General Obligation Bond, Series 2010A, due annually in varying installments June 1, 2014 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.

\$1,500,000 General Obligation School Refunding Bonds, Series 2010B, with principal due June 1, 2014 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.

\$5,485,000 2010B General Obligation School Capital Loan Notes, due annually in varying installments June 1, 2014 through June 1, 2024 plus interest semi-annually with interest rates of the bonds varying from 1.15% to 3.3%. Bonds maturing after June 1, 2019 are callable upon terms of par plus accrued interest to date of call.

\$6,880,000 2012 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due June 1, 2014 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 matured on September 15, 2012.

NOTES TO FINANCIAL STATEMENTS

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

Interest costs incurred and charged to expenses was \$630,865 for the year ended June 30, 2013. A summary of the bond principal and interest maturities is as follows:

Year Ending June 30,	Governmental Activities					
	Refunding		Capital Notes			
	General Obligation Bond		General Obligation Bond		General Obligation Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 740,000	\$ 17,280	\$ 240,000	\$ 276,372	\$ 450,000	\$ 136,638
2015	760,000	9,880	230,000	273,373	455,000	131,463
2016			1,005,000	269,922	460,000	124,638
2017			1,025,000	249,822	470,000	116,128
2018			1,045,000	229,322	480,000	106,258
2019-2023			5,650,000	720,009	2,600,000	335,461
2024-2028			955,000	49,302	570,000	18,810
2029						
Total	\$ 1,500,000	\$ 27,160	\$ 10,150,000	\$ 2,068,122	\$ 5,485,000	\$ 969,396

Year Ending June 30,	Governmental Activities			
	Tax Revenue Bond		Total	
	Principal	Interest	Principal	Interest
2014	\$ 335,000	\$ 181,545	\$ 1,765,000	\$ 611,835
2015	345,000	174,845	1,790,000	589,561
2016	355,000	167,945	1,820,000	562,505
2017	360,000	160,845	1,855,000	526,795
2018	370,000	153,645	1,895,000	489,225
2019-2023	2,055,000	640,721	10,305,000	1,696,191
2024-2028	2,495,000	339,950	4,020,000	408,062
2029	565,000	19,210	565,000	19,210
Total	\$ 6,880,000	\$ 1,838,706	\$ 24,015,000	\$ 4,903,384

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, 2013. The required reserve account was established by the District and no transfers were made to the sinking account.

At June 30, 2013, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 504,655,074
Debt limit – 5% of total assessed valuation	\$ 25,232,754
Debt applicable to debt limit	
General obligation	
Capital loan notes	(5,485,000)
Refunding	(1,500,000)
Bonded debt outstanding	(10,150,000)
Capital lease-teacher computers	(82,339)
Legal debt margin	\$ 8,015,415

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, 2013. The following is a schedule of future minimum lease payments under capital leases as of June 30, 2013:

Year ending June 30,	
2014	\$ 43,000
2015	43,000
	86,000
Less imputed interest	(3,661)
Present value of minimum lease payments	\$ 82,339

6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

	Transfers In	Transfers Out
High school capital projects	\$ 3,000,000	
Statewide sales, services and use tax fund		\$ 3,862,860
Debt service fund	1,491,557	
General fund		43,000
Physical plant and equipment levy fund		585,697
	\$ 4,491,557	\$ 4,491,557

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.

NOTES TO FINANCIAL STATEMENTS

7. Leases

The District has entered into various rental agreements during the year from the following under the terms as described below.

- Bruening Rock Products, Inc. for the present bus garage facility for \$3,400 per month for the year ending June 30, 2013. This lease expired on June 30, 2013. A new agreement was entered into for the next three years with payments of \$3,450 per month for the first year, \$3,475 per month for the second year and \$3,530 for the third year. The new agreement expires June 2016.
- Performance Edge for installation of energy efficient lights throughout the various buildings in the District. The agreement requires monthly payments of \$2,252. The lease expires January 2018.
- CSI Leasing for computer equipment with monthly payments of \$785. The agreement expires May 2017.
- Delage Landen for a copier with monthly rental payments of \$204. The lease expires June 2017.

Future minimum lease payments required under the operating leases are as follows:

Year ended June 30,		
2014	\$	80,294
2015		80,594
2016		81,254
2017		38,108
2018		15,762
	\$	296,012

Total lease expense for the year ended June 30, 2013 was \$76,694.

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 5.78%, 5.38%, and 4.50% of their annual covered salary and the District is required to contribute 8.67%, 8.07%, and 6.95% of annual covered payroll for the years ended June 30, 2013, 2012, and 2011, respectively. Contribution requirements are established by state statute.

The District's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$866,373, \$788,655 and \$643,354, 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 202 active and 22 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.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	164,908
Interest on net OPEB obligation		12,937
Adjustment to annual required contribution		101,185
Annual OPEB cost		279,030
Contributions made		(32,751)
Increase in net OPEB obligation		246,279
Net OPEB obligation beginning of year		369,768
Net OPEB obligation end of year	\$	616,047

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year end June 30, 2013.

For the year ended June 30, 2013, the District contributed \$32,751 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, 2013 are summarized below as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 73,042	54.52%	\$ 335,803
June 30, 2012	76,771	55.76%	369,768
June 30, 2013	279,030	11.74%	616,047

9. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$1,454,349, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,454,349. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9.024 million, and the ratio of the UAAL to covered payroll was 16.1%. As of June 30, 2013, 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.

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, 2012 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, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

Projected claim costs of the medical plan are \$543 to \$747, 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, 2013, 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, 2013 was unavailable as of December 6, 2013. The District contributions to the trust for the years ended June 30, 2013, 2012, and 2011 were \$1,917,273, \$1,825,521 and \$1,830,257, respectively, which equaled the required contributions each year. The employees paid \$20,269 in dental insurance for the year ended June 30, 2013.

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, 2013, no liability has been recorded in the District's financial statements. As of June 30, 2013, 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 \$547,753 for the year ended June 30, 2013 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 45 participants in the plan for the year ended June 30, 2013.

14. Joint Venture

The District participates in the Metronet, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. The District appoints a member to the Metronet board and has access to the broadband service provided by Metronet. Metronet's audited financial statements are included in the City of Decorah financial statements and are available from the City of Decorah at City Hall, Decorah, IA 52101.

15. 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, 2013, 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.

16. Commitments

The total outstanding construction and other commitments of the District at June 30, 2013 amounted to \$2,250,262 most of which is for the renovation of the high school, for which unspent bond proceeds will be used to finance.

17. Related Party Transaction

During the year ended June 30, 2013, 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 \$294,844 and to Specialty Underwriters of \$58,013. Mr. Petersburg is a principal of A&J Petersburg Insurance Agency and handles the District's insurance policy with Specialty Underwriters.

18. Categorical Funding

The District's ending balances for categorical funding by project as of June 30, 2013 are as follows:

Project	Amount
Four-year old preschool state aid	\$ 106,078
Teacher salary supplement	146,623
Professional development for model core curriculum	15,313
Home school assistance program	33,380
Market factor incentive	5,809
Quality Rating System	3,200
Professional development	952
	\$ 311,355

19. Subsequent Events

Management has evaluated subsequent events through December 6, 2013, the date on which the financial statements were available to be issued.

20. New Governmental Accounting Standards Board (GASB) Standards

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

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.

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

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.

21. Accounting Change

Governmental Accounting Standards Board Statements No. 61 *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 3*; No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* were implemented during fiscal year 2013.

Required Supplementary Information

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, 2013

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
REVENUES			
Local sources	\$ 14,586,735	\$ 552,740	\$ 15,139,475
State sources	7,015,237	6,751	7,021,988
Federal sources	347,073	336,656	683,729
Total revenues	21,949,045	896,147	22,845,192
EXPENDITURES/EXPENSES			
Instruction	12,597,121		12,597,121
Support services	5,572,485		5,572,485
Non-instructional		947,907	947,907
Other	10,772,952		10,772,952
Total expenditures/expenses	28,942,558	947,907	29,890,465
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	(6,993,513)	(51,760)	(7,045,273)
OTHER FINANCING SOURCES, NET	15,789		15,789
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES	(6,977,724)	(51,760)	(7,029,484)
FUND BALANCE, beginning of year	14,731,294	251,011	14,982,305
FUND BALANCE, end of year	\$ 7,753,570	\$ 199,251	\$ 7,952,821

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Amended Final	
\$ 14,761,278	\$ 15,861,309	\$ (721,834)
7,162,011	7,502,846	(480,858)
860,000	860,000	(176,271)
<u>22,783,289</u>	<u>24,224,155</u>	<u>(1,378,963)</u>
13,005,500	14,500,000	1,902,879
6,495,000	6,050,000	477,515
910,000	950,000	2,093
13,147,389	17,000,000	6,227,048
<u>33,557,889</u>	<u>38,500,000</u>	<u>8,609,535</u>
(10,774,600)	(14,275,845)	7,230,572
		<u>15,789</u>
(10,774,600)	(14,275,845)	7,246,361
<u>14,503,115</u>	<u>21,113,313</u>	<u>(6,131,008)</u>
<u>\$ 3,728,515</u>	<u>\$ 6,837,468</u>	<u>\$ 1,115,353</u>

DECORAH COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2013

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards 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 \$4,942,111.

See Independent Auditor's Report.

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%
2013	July 1, 2012	-	\$ 1,454	\$ 1,454	0.0%	\$ 9,024	16.1%

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.

Other Supplementary Information

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2013

SCHEDULE 1

	Special Revenue	Capital Projects Physical Plant and Equipment Levy	Total Nonmajor Funds
ASSETS			
Cash and pooled investments	\$ 643,854	\$ 400,387	\$ 1,044,241
Receivables			
Property tax			
Delinquent	2,746	4,554	7,300
Succeeding year	500,000	872,488	1,372,488
Total assets	\$ 1,146,600	\$ 1,277,429	\$ 2,424,029
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 528		\$ 528
Deferred revenue			
Succeeding year property tax	500,000	\$ 872,488	1,372,488
Total liabilities	500,528	872,488	1,373,016
Fund balances			
Restricted for			
Management levy	476,987		476,987
Student activities	169,085		169,085
Physical plant and equipment		404,941	404,941
	646,072	404,941	1,051,013
Total liabilities and fund balances	\$ 1,146,600	\$ 1,277,429	\$ 2,424,029

See Independent Auditor's Report.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2013

	Special Revenue	Capital Projects Physical Plant and Equipment Levy	Total Nonmajor Funds
REVENUES			
Local sources			
Property taxes	\$ 499,689	\$ 842,308	\$ 1,341,997
Other	1,012,128	117	1,012,245
State sources	270	451	721
Total revenues	1,512,087	842,876	2,354,963
EXPENDITURES			
Current			
Instruction			
Regular instruction	271,696	21,339	293,035
Special instruction	7,296		7,296
Other instruction	1,011,310		1,011,310
Support services			
Instructional staff services	17,353		17,353
Administration services	5,313		5,313
Operation and maintenance plant services	242,383		242,383
Transportation services	47,042	223,120	270,162
Other			
Facilities acquisition		61,522	61,522
Total expenditures	1,602,393	305,981	1,908,374
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(90,306)	536,895	446,589
OTHER FINANCING USES			
Transfers out		(585,697)	(585,697)
	-	(585,697)	(585,697)
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES AND FINANCING USES	(90,306)	(48,802)	(139,108)
FUND BALANCE, beginning of year	736,378	453,743	1,190,121
FUND BALANCE, end of year	\$ 646,072	\$ 404,941	\$ 1,051,013

See Independent Auditor's Report.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2013

	Management Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS			
Cash and pooled investments	\$ 474,241	\$ 169,613	\$ 643,854
Receivables			
Property tax			
Delinquent	2,746		2,746
Succeeding year	500,000		500,000
Total assets	<u>\$ 976,987</u>	<u>\$ 169,613</u>	<u>\$ 1,146,600</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable		\$ 528	\$ 528
Deferred revenue			
Succeeding year property tax	\$ 500,000		500,000
Total liabilities	<u>500,000</u>	<u>528</u>	<u>500,528</u>
Fund balances			
Unreserved	<u>476,987</u>	<u>169,085</u>	<u>646,072</u>
Total liabilities and fund balances	<u>\$ 976,987</u>	<u>\$ 169,613</u>	<u>\$ 1,146,600</u>

See Independent Auditor's Report.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2013

	Management Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES			
Local sources			
Local property tax	\$ 499,689		\$ 499,689
Other	7,748	\$ 1,004,380	1,012,128
State sources	270		270
Total revenues	507,707	1,004,380	1,512,087
EXPENDITURES			
Current			
Instruction			
Regular instruction	271,696		271,696
Special instruction	7,296		7,296
Other instruction		1,011,310	1,011,310
Support services			
Instructional staff services	17,353		17,353
Administration services	5,313		5,313
Operation and maintenance plant services	242,383		242,383
Transportation services	47,042		47,042
Total expenditures	591,083	1,011,310	1,602,393
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(83,376)	(6,930)	(90,306)
FUND BALANCE, beginning of year	560,363	176,015	736,378
FUND BALANCE, end of year	\$ 476,987	\$ 169,085	\$ 646,072

See Independent Auditor's Report.

DECORAH COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 For the Year Ended June 30, 2013

	Balance June 30, 2012	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2013
High School Football	\$ 8,378	\$ 218,678	\$ 208,457	\$ 18,599
High School Basketball	2,706	44,978	43,771	3,913
High School Wrestling	735	15,355	14,718	1,372
High School Baseball	5,986	18,097	18,962	5,121
High School Golf	2,758	6,568	7,023	2,303
High School Track	909	20,022	20,407	524
High School Softball	1,534	5,437	5,190	1,781
High School Volleyball	1,259	8,655	8,399	1,515
High School Tennis	2,464	6,026	5,232	3,258
High School Cross Country	880	13,528	13,939	469
High School Student Council	1,893		100	1,793
High School Community Club	55	573	568	60
High School Swimming	1,478	11,775	11,020	2,233
High School Choir		223	223	
High School Soccer	3,544	15,437	16,160	2,821
SADD Chapter	200			200
"D" Club	2,955	4,158	4,294	2,819
Art Club	4,939	9,080	10,221	3,798
Culture Club	89			89
Science Club	1,256		600	656
Future Farmers of America	25,130	80,877	77,231	28,776
Horticulture Club	2,153	144	1,699	598
Student Assistance	4,124	1,275	1,193	4,206
High School Music	(138)	17,209	17,209	(138)
High School Instrumental Music	4,283	17,340	21,950	(327)
High School Yearbook	8,589	30,925	36,391	3,123
High School Speech		8,039	8,038	1
High School Dramatics	12,309	6,153	10,419	8,043
High School Madrigal	4,633	6,017	5,557	5,093
Sub-totals	<u>105,101</u>	<u>566,569</u>	<u>568,971</u>	<u>102,699</u>

See Independent Auditor's Report.

DECORAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2013

	Balance June 30, 2012	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2013
Sub-totals	\$ 105,101	\$ 566,569	\$ 568,971	\$ 102,699
High School Fire Squad	1,897	28,409	25,146	5,160
High School Cheerleading	2,828	11,937	12,564	2,201
Class 2012	423		423	
Class 2013	908	1,788	2,696	
Class 2014		3,022	3,464	(442)
High School General	9,482	203,638	209,446	3,674
Middle School Football		4,765	4,765	
Middle School Cross Country		397	397	
Middle School Basketball		2,495	2,495	
Middle School Wrestling		650	650	
Middle School Track		1,959	1,959	
Middle School Volleyball		2,031	2,031	
Middle School Cheerleading	210	381	381	210
Middle School Library Club	6			6
Middle School Yearbook	10,368	5,720	133	15,955
Scholarships	6,062		6,062	
Middle School General	351	22	142	231
Middle School Fund Raising	4,067	46,601	42,853	7,815
Middle School Student Council	113	496		609
Middle School Summer Tag	1,228	3,290	944	3,574
Investments	109	148	223	34
Vocational Ag	418		184	234
Vocational	247	1,041	575	713
A/P Exam Testing	1,979	15,648	15,692	1,935
West Side Yearbook		96	72	24
DVABC	12,055	110,642	123,010	(313)
Decorah Craft Show	4,267	3,141	3,323	4,085
Elementary Playground	2,669		315	2,354
Wellness	370			370
Youth Marketplace	1,940	1,465	1,164	2,241
W/S Elementary General	8,917	17,175	10,376	15,716
	<u>\$ 176,015</u>	<u>\$ 1,033,526</u>	<u>\$ 1,040,456</u>	<u>\$ 169,085</u>

See Independent Auditor's Report.

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

	Modified Accrual		
	2013	2012	2011
REVENUES			
Local sources			
Local tax	\$ 8,523,329	\$ 8,468,392	\$ 7,791,079
Tuition	3,686,152	3,545,106	3,545,106
Other	2,377,254	2,300,578	2,955,063
Intermediate sources			
State sources	7,015,237	7,239,453	6,622,061
Federal sources	347,073	715,798	734,645
Total revenues	\$ 21,949,045	\$ 22,269,327	\$ 21,647,954
EXPENDITURES			
Current			
Instruction			
Regular instruction	\$ 6,586,488	\$ 7,390,715	\$ 6,738,275
Special instruction	3,035,877	3,281,703	3,548,393
Other instruction	2,974,756	1,650,531	1,708,797
Support services			
Student services	306,552	349,583	382,149
Instructional staff services	900,925	897,355	1,092,846
Administration services	1,623,014	1,555,170	1,345,680
Operation and maintenance plant services	1,815,292	1,517,329	1,354,401
Transportation services	926,702	813,401	860,500
Non-instructional			38,160
Other			
Facilities acquisition	7,458,652	12,197,328	1,851,684
Long-term debt			
Principal	2,122,169	1,855,257	6,329,990
Interest and fiscal charges	644,378	691,199	645,418
Bond issuance cost		3,000	92,048
AEA flowthrough	547,753	548,284	596,148
Total expenditures	\$ 28,942,558	\$ 32,750,855	\$ 26,584,489

See Independent Auditor's Report.

SCHEDULE 6

								Modified Accrual					
2010	2009	2008	2007	2006	2005	2004							
\$	7,146,214	\$	6,786,725	\$	6,282,222	\$	6,341,796	\$	5,998,168	\$	5,715,624	\$	4,788,589
	3,161,819		2,990,001		2,553,688		2,624,750		2,533,470		2,114,518		2,051,186
	2,130,378		2,151,066		2,432,286		2,339,895		2,703,281		2,009,289		1,751,257
											21,485		12,751
	5,837,879		6,725,885		6,466,649		6,176,068		5,783,248		5,488,689		5,568,314
	1,141,076		540,139		285,112		245,963		240,641		252,791		270,532
\$	19,417,366	\$	19,193,816	\$	18,019,957	\$	17,728,472	\$	17,258,808	\$	15,602,396	\$	14,442,629
\$	7,066,295	\$	6,101,214	\$	5,976,750	\$	6,195,772	\$	6,131,923	\$	5,883,790	\$	5,005,459
	2,740,264		3,348,391		2,931,951		2,782,024		2,841,924		2,389,212		2,663,282
	1,725,872		2,068,116		1,777,746		1,063,206		1,067,063		1,050,483		1,231,424
	323,043		336,897		327,704		311,136		288,598		308,740		280,259
	905,746		725,990		604,581		673,653		540,396		525,972		535,201
	1,436,927		1,423,288		1,439,698		1,254,791		1,093,675		976,645		1,143,570
	1,325,807		1,351,740		1,306,620		1,143,162		1,161,498		1,018,698		1,027,393
	797,190		748,872		740,015		702,556		660,791		634,698		637,563
			10,234		15,926		37,663		36,350		1,638		3,276
	355,424		1,468,459		984,630		4,110,541		4,930,220		6,897,137		1,171,147
	1,515,000		1,465,000		1,415,000		1,375,000		1,319,958		1,180,800		3,080,000
	256,139		297,372		334,139		363,645		397,332		273,976		215,231
	591,775		530,159		496,088		476,764		453,211		450,267		456,353
\$	19,039,482	\$	19,875,732	\$	18,350,848	\$	20,489,913	\$	20,922,939	\$	21,592,056	\$	17,450,158

DECORAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

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

- (a) Unmodified 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 unmodified 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:
 - 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, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 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. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation

While we do recognize that 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 procedures 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, 2013

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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: 2013

See II-A-13 above.

Part IV: Other Findings Related to Required Statutory Reporting:

See management letter dated December 6, 2013

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

Comment Reference	Comment Title	Status	Explanation
II-A-12	Financial report preparation	Corrected	Management has the necessary training and experience to accept responsibility for the year-end financial statements.
II-B-12	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, 2013

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
Indirect			
Department of Agriculture			
Passed through Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY13	\$ 26,666
National School Lunch Program	10.555	FY13	309,990
			<u>336,656</u>
Department of Education			
Passed through Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY13	142,155
State Grants for Innovative Programs	84.298	FY13	10,491
Rural Education Achievement Program	84.358	FY13	74,627
Tech-Prep Education	84.367	FY13	480
Improving Teacher Quality State Grants	84.367	FY13	45,041
Total Department of Education			<u>272,794</u>
Department of Health and Human Services			
Passed through Iowa Department of Education			
Temporary Assistance for Needy Families	93.558	FY13	8,000
			<u>\$ 617,450</u>

See Independent Auditor's Report.

DECORAH COMMUNITY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Decorah Community School District under programs of the federal government for the year ended June 30, 2013. 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*. Because the schedule presents only a selected portion of the operations of Decorah Community School District, it is not intend to and does not present the financial position, changes in net position, or cash flows of Decorah Community School District.

Note 2. Summary of Significant Accounting Policies

- a. Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. Pass-through entity identifying numbers are presented where available.

Note 3. Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2013, the District had food commodities totaling \$11,441 in inventory.

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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise Decorah Community School District's basic financial statements and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Decorah Community School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Decorah Community School District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item II-A-13 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Decorah Community School District's financial statements are free from 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*.

Decorah Community School District's Response to Finding

Decorah Community School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Decorah Community School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
December 6, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Decorah Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Decorah Community School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Decorah Community School District complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of Decorah Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Decorah Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item II-A-13 to be a significant deficiency.

Decorah Community School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Decorah Community School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
December 6, 2013

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, 2013, 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 6, 2013 contains our report on the District's internal control over financial reporting. This letter does not affect our report dated December 6, 2013, on the financial statements of the Decorah Community School District. Comment numbers 4, 7 and 13 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the District's responses and, accordingly, we express no opinion on them.

1. Certified Budget
Disbursements for the year ended June 30, 2013 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, 2013, 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: \$294,844 and \$58,013

4. Business Transactions (Continued)

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

5. Bond Coverage

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

6. Board Minutes

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

7. Certified Enrollment

There was one student not reported on the certified enrollment for the year ending June 30, 2013. Another student was reported as CPI on the certified enrollment and should have been reported as a full-time resident student for the year ending June 30, 2013.

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, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	4,930,050
Statewide sales, services and use tax			1,242,373
Expenditures/transfers out:			
School infrastructure:			
Equipment and architect	\$	1,085,666	
Debt service for school infrastructure:			
General obligation debt		3,862,860	4,948,526
			<u>4,948,526</u>
Ending balance		\$	<u>1,223,897</u>

For the year ended June 30, 2013, 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	\$ 1.14	\$ 819,639
PPEL levy	1.67	<u>422,734</u>
		<u>\$ 1,242,373</u>

13. Student Activity Fund Deficits

As of June 30, 2013, four individual student activity accounts have a negative account balance.

Recommendation

The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition. The District should reallocate funds to help fund the activity.

Response

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

Conclusion

Response accepted.

14. School Nutrition Program

During our audit, we noted there was an employee whose children were receiving reduced lunch prices when they were not eligible for the program.

Recommendation

We recommend all employees' applications be reviewed and signed by the Board Secretary prior to receiving benefits.

Response

We have contacted appropriate officials and the issue is resolved and closed.

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 6, 2013