

**DECORAH COMMUNITY
SCHOOL DISTRICT**

DECORAH, IOWA

FINANCIAL REPORT

JUNE 30, 2014

TABLE OF CONTENTS

		<u>Page</u>
BOARD OF EDUCATION AND SCHOOL OFFICIALS		1
INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS		2-4
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)		5-5h
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
District-Wide Financial Statements		
Statement of Net Position	A	6
Statement of Activities	B	7
Governmental Funds Financial Statements		
Balance Sheet	C	8-9
Statement of Revenues, Expenditures, and Changes in Fund Balances	D	10-11
Proprietary Funds Financial Statements		
Statement of Net Position	E	12
Statement of Revenues, Expenses, and Changes in Net Position	F	13
Statement of Cash Flows	G	14
Notes to Financial Statements		15-31
Required Supplementary Information		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses, and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds		32
Notes to Required Supplementary Information-Budgetary Reporting		33
Schedule of Funding Progress for the Retiree Health Plan		34
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Nonmajor Governmental Funds		
Combining Balance Sheet	1	35
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	2	36
Nonmajor Special Revenue Funds		
Combining Balance Sheet	3	37
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	4	38
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	39-40
Nonmajor Capital Project Funds		
Combining Balance Sheet	6	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	7	42
Comparative Schedule of Revenues and Expenditures	8	43
Schedule of Findings and Questioned Costs	9	44-45
Schedule of Expenditures of Federal Awards	10	46
Notes to the Schedule of Expenditures of Federal Awards		47
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		48-49
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133		50-51
MANAGEMENT LETTER		52-55

DECORAH COMMUNITY SCHOOL DISTRICT
BOARD OF EDUCATION AND SCHOOL OFFICIALS

Name	Title	Address	Term Expires
<u>Board of Education</u> (Before September 2013 Election)			
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

<u>Board of Education</u> (After September 2013 Election)			
Ronald Fadness	President	Decorah, Iowa	September 2017
Melanie Tietz	Vice-President	Decorah, Iowa	September 2015
John Hjelle	Member	Decorah, Iowa	September 2015
Brian Petersburg	Member	Decorah, Iowa	September 2015
Cindy Schissel	Member	Decorah, Iowa	September 2017

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, 2014, 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, 2014, 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 5h and pages 32 through 34 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 2014 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 2014 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 2014 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, 2005 through 2013 (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 2005 through 2013 on page 43 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 2005 through 2013 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 2005 through 2013 on page 43 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 January 12, 2015, 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
January 12, 2015

DECORAH COMMUNITY SCHOOL DISTRICT
DECORAH, IOWA

Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2014

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, 2014.

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 2014 fiscal year include the following:

- In total, net position decreased by \$744,986 or 3.30% from fiscal 2013. Net position in governmental activities decreased \$1,191,513, which represented a 5.33% decrease from fiscal year 2013. The District had more expenses in support services and received less revenue from charges from services. Net position in the business-type activities, which represents the District's food service operations and Viking Café, increased \$446,527 which represented a 224.10% increase from fiscal year 2013. The increase is due to transfer from high school capital project fund for the capital assets purchased in this fund for the business-type activities.
- General fund revenues (which include the instructional support fund) accounted for \$17,622,707 in revenue or 72.59% of all revenues. General fund expenses (which include the instructional support fund) accounted for \$18,002,617 in expenditures or 67.72% of all expenses.
- Net investment in capital assets was restated due to reclassifications of assets as of June 30, 2014 in the amount of \$584,574.

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 2014 fiscal year. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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, and administration), custodial, building operations and maintenance, and pupil transportation.

Business-type activities: 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 and the Viking Café are reported as business activities.

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 2014 are the general fund 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 2014 totaled \$21,819,955, a decrease of 3.30% from the previous fiscal year.

	Condensed Statement of Net Position (Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2014	2013	2014	2013	2014	2013	
Current and other assets	\$ 16,247	\$ 19,541	\$ 163	\$ 201	\$ 16,410	\$ 19,742	-16.88%
Capital assets	40,406	39,105	577	77	40,983	39,182	4.60%
Total assets	56,653	58,646	740	278	57,393	58,924	
Long-term debt outstanding	23,842	24,434			23,842	24,434	-2.42%
Other liabilities	2,851	3,685	82	66	2,933	3,751	-21.81%
Total liabilities	26,693	28,119	82	66	26,775	28,185	
Deferred inflows of resources	8,786	8,746	12	13	8,798	8,759	0.45%
Net position							
Net investment in capital assets	17,614	17,429	577	77	18,191	17,506	3.91%
Restricted	2,718	2,391			2,718	2,391	13.68%
Unrestricted	842	1,961	69	122	911	2,083	-56.27%
Total net position	\$ 21,174	\$ 21,781	\$ 646	\$ 199	\$ 21,820	\$ 21,980	

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS (Continued)

The following analysis shows the change in net position for the years ending June 30, 2014 and 2013:

	Changes in Net Position (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2014	2013	2014	2013	2014	2013		
Revenues:								
Program revenue								
Charges for service	\$ 4,622	\$ 4,783	\$ 616	\$ 553	\$ 5,238	\$ 5,336		-1.84%
Operating grants	2,135	1,862	343	343	2,478	2,205		12.38%
General revenue								
Property taxes	8,725	8,526			8,725	8,526		2.33%
Sales tax and surtax	1,234	1,212			1,234	1,212		1.82%
Unrestricted state grants	5,608	5,500			5,608	5,500		1.96%
Unrestricted investment earnings	18	34			18	34		-47.06%
Other revenue	(442)	(5)	597		155	(5)		-3200.00%
Total revenues	<u>21,900</u>	<u>21,912</u>	<u>1,556</u>	<u>896</u>	<u>23,456</u>	<u>22,808</u>		
Program expenses:								
Instruction	13,837	12,448			13,837	12,448		11.16%
Student support	6,806	5,702			6,806	5,702		19.36%
Non-instructional programs			1,109	948	1,109	948		16.98%
Other expenses	2,449	2,842			2,449	2,842		-13.83%
Total expenses	<u>23,092</u>	<u>20,992</u>	<u>1,109</u>	<u>948</u>	<u>24,201</u>	<u>21,940</u>		
(Decrease) increase in net position	(1,192)	920	447	(52)	(745)	868		-185.83%
Net position Beginning of Year, restated	<u>22,366</u>	<u>20,861</u>	<u>199</u>	<u>251</u>	<u>22,565</u>	<u>21,112</u>		6.88%
Net position End of Year	<u>\$ 21,174</u>	<u>\$ 21,781</u>	<u>\$ 646</u>	<u>\$ 199</u>	<u>\$ 21,820</u>	<u>\$ 21,980</u>		

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

The District's governmental funds reported combined fund balances of \$5,448,130, a \$2,305,439 decrease from the 2013 fiscal year end balance of \$7,753,569.

- The general fund expenditures increased during fiscal year 2014 for instructional, administration services and operational and maintenance plant services while revenues increased for state sources and local taxes. The ending fund balance showed a decrease of \$379,910 from the prior year.
- The debt service fund ending fund balance showed an increase of \$1,852 for fiscal year 2014. This increase is mainly due to lower amount of debt payments made during the year.

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 2014 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	\$ 15,395	\$ 15,083	\$ 15,083	\$ 312
State sources	7,389	7,692	7,692	(303)
Federal sources	697	525	525	172
Total revenues	\$ 23,481	\$ 23,300	\$ 23,300	\$ 181
Expenditures				
Instruction	\$ 13,328	\$ 13,026	\$ 14,500	\$ 1,172
Student support	6,510	10,270	10,270	3,760
Non-instructional programs	1,109	936	1,020	(89)
Other expenses	4,892	3,057	3,790	(1,102)
Total expenditures	\$ 25,839	\$ 27,289	\$ 29,580	\$ 3,741

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2014 fiscal year, the District's governmental activities had invested \$40,405,893 (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 \$2,232,609 for fiscal 2014 and total accumulated depreciation of \$15,192,623 as of June 30, 2014. The District's business-type activities had invested \$576,927 (net of accumulated depreciation) in capital assets of equipment. The District had depreciation expense of \$102,385 for fiscal year 2014 and total accumulated depreciation of \$391,024 as of June 30, 2014. The following chart shows the comparison in capital assets for 2014 and 2013:

Capital Assets (net of depreciation)
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2014	2013	2014	2013	2014	2013	
Land	\$ 280	\$ 280			\$ 280	\$ 280	0.00%
Construction in progress		18,798				18,798	-100.00%
Land improvements	934	1,366			934	1,366	-31.63%
Buildings	36,242	16,702			36,242	16,702	116.99%
Furniture and equipment	2,950	1,959	\$ 577	\$ 77	3,527	2,036	73.23%
Total	\$ 40,406	\$ 39,105	\$ 577	\$ 77	\$ 40,983	\$ 39,182	

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

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt

As of June 30, 2014 the District had \$23,909,463 in long-term debt outstanding compared to \$24,432,382 on June 30, 2013. The following chart shows the debt comparison between 2014 and 2013:

	Long-term Debt Obligations			Balance June 30, 2014
	Balance June 30, 2013	Additions	Reductions	
Bonds/Capital Loan Notes				
General obligation	\$ 10,150,000		\$ 240,000	\$ 9,910,000
General obligation refunding	1,500,000		740,000	760,000
Local option sales and service	6,880,000		335,000	6,545,000
Capital loan notes	5,485,000		450,000	5,035,000
Total Bonds/Capital Loan Notes	24,015,000	\$ -	1,765,000	22,250,000
Other Liabilities				
Capital leases	82,339		40,571	41,768
Compensated absences	66,991	67,638	66,991	67,638
Notes payable		500,000		500,000
Early retirement	268,052	893,320	111,315	1,050,057
Total Other Liabilities	417,382	1,460,958	218,877	1,659,463
Total Long-term Debt	\$ 24,432,382	\$ 1,460,958	\$ 1,983,877	\$ 23,909,463

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 has not set the funding yet for 2015-16. This makes it very hard for school districts to plan for the next school year. For the 2014-15 school budget year, school districts across the state certified their budgets without knowing how much state aid they could count on. This seems to be an ongoing process in legislature.
- Midyear in 2013-14, the District hired a Dean of Students at semester time. This individual assists the Principal and the Assistant Principal at the high school with monitoring/management of academic interventions, attendance, truancy, tardiness, discipline, and assist with activities supervision. This was turned into a full time position for 2014-15.
- The Board implemented a Digital Learning Environment with the purchase of Smartboards and TV's for classrooms along with iPads for teachers. The District also piloted iPads and MacBook Airs at the middle school. The District has committed to rolling out one-to-one devices in the second semester of the 2014-15 school year. The groundwork was being laid for a smooth transition with the infrastructure and putting the correct device into the student's hands by grade or building level.
- The District offered an early retirement package for the certified and non-certified staff. There were 17 certified staff and 2 non-certified staff who requested this incentive. The transition of new staff at the beginning of the school year was another reason to hold off on the one-to-one rollout until second semester to acclimate the teaching staff to our Digital Learning Environment.

CURRENT ISSUES (Continued)

- The District hired a Technology Integration Specialist for the 2014-15 school year. This individual will collaborate with teachers and help teachers integrate technology into the curriculum, provide assistance and training for staff, and provide leadership in developing and implementing technology plans.
- Along with Technology Integration Specialist, the District also lengthened the contract for the Apple Certified Macintosh Technician and the Computer/Network Technician to full-time to maintain the infrastructure and one-to-one student devices in the future.
- The District went before the School Budget Review Committee in 2013-14 for additional allowable growth for asbestos abatement expenses incurred of \$226,938.50 along with the remodel of the high school.
- The high school remodel project was 99% complete at the end of the 2013-14 school year. The final punch list and paperwork will be completed during the 2014-15 school year.
- In 2013-14, 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 finalized the incentives after much debate and the District only received \$19,140. The District expected \$177,472.80 with HF472; however HF2271 altered HF472 retroactively with a reduced operational sharing amount.
- The School District had to decide on hours versus days for the 2014-15 school year. The District needs to have 6 hours per day or 30 hours per week of instruction (the school day subtracting the longest lunch period). The District set a one-hour late start for every Wednesday for professional development. This schedule allows more consistency for staff development and for family planning.
- John Cline Elementary was determined to be a Title I SINA (School In Need of Assistance) school via a “back-mapping” process established by the Iowa Department of Education.
- The Iowa Support System for Schools and Districts in Need of Assistance (SINA and DINA) has been developed in response to state and federal legislation described above. Within three months following identification by the Iowa Department of Education, No Child Left Behind requires that a School in Need of Assistance develop a two-year plan that:
 - addresses core academic subjects;
 - utilizes scientifically researched strategies;
 - implements new teacher mentoring;
 - includes parent involvement activities; and
 - provides for a peer review of the plan.
- A building identified as a school in need of assistance will receive Title I allocations based on the federal guidelines. A two-year action plan that has been reviewed by peers is required before allocations are distributed. All Title I buildings and districts identified must allocate 10% of their Title I funding to professional development in the area for which the school/district is identified.
- The District approved a Procurement Card Program for the District on May 12, 2014. This program will bring additional dollars in the form of a rebate to the District based on total charges on the card.
- The District received \$10,264.75 from the State for a local planning process for a Teacher Leadership and Compensation System (TLC) for the 2013-14 school year. The District decided not to apply for the TLC grant for the 2014-15 school year. The District wrote a grant for the 2015-16 school year and was approved in December of 2014 for a \$430,402.43. The District will be working on the implementation and new teacher leadership positions and hiring to be in place for the 2015-16 school year.
- The Shareholders made a recommendation to the Board on January 13, 2014, regarding the elementary facilities of the District. Their recommendation was to further research the building of a new PreK-Grade 2 facility. This will be an on-going project in the future.

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, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 6,425,521	\$ 147,825	\$ 6,573,346
Receivables			
Property tax			
Delinquent	39,663		39,663
Succeeding year	8,786,035		8,786,035
Accounts	668,249	563	668,812
Due from other governments	327,880		327,880
Inventories		14,588	14,588
Capital assets, non-depreciable	280,200		280,200
Capital assets, net of accumulated depreciation	40,125,693	576,927	40,702,620
	<u>\$ 56,653,241</u>	<u>\$ 739,903</u>	<u>\$ 57,393,144</u>
LIABILITIES			
Accounts payable	\$ 381,168	\$ 150	\$ 381,318
Salaries and benefits payable	1,632,015	67,578	1,699,593
Due to other governments		13,920	13,920
Accrued interest payable	56,782		56,782
Long-term liabilities			
Portion due within one year			
Bonds payable	1,790,000		1,790,000
Capital leases	41,768		41,768
Notes payable	248,146		248,146
Compensated absences	67,638		67,638
Early retirement	319,957		319,957
Portion due after one year			
Bonds payable	20,460,000		20,460,000
Notes payable	251,854		251,854
Early retirement	730,100		730,100
Net OPEB obligation	713,601		713,601
	<u>26,693,029</u>	<u>81,648</u>	<u>26,774,677</u>
DEFERRED INFLOWS OF RESOURCES			
Succeeding year property tax	8,786,035		8,786,035
Unspent hot lunch proceeds		12,477	12,477
	<u>8,786,035</u>	<u>12,477</u>	<u>8,798,512</u>
NET POSITION			
Net investment in capital assets	17,614,122	576,927	18,191,049
Restricted for			
Debt service	4,749		4,749
School infrastructure	1,516,718		1,516,718
Management levy purposes	469,102		469,102
Student activities	178,426		178,426
Physical plant and equipment	326,093		326,093
Categorical funding	223,362		223,362
Unrestricted	841,605	68,851	910,456
	<u>21,174,177</u>	<u>645,778</u>	<u>21,819,955</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 56,653,241</u>	<u>\$ 739,903</u>	<u>\$ 57,393,144</u>

See Notes to Financial Statements.

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DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
Governmental activities			
Instruction			
Regular instruction	\$ 7,423,101	\$ 2,165,052	\$ 1,385,734
Special instruction	3,682,790	1,550,402	168,113
Other instruction	2,731,111	831,038	7,711
	<u>13,837,002</u>	<u>4,546,492</u>	<u>1,561,558</u>
Support services			
Student services	314,671	61,129	
Instructional staff services	1,767,791		
Administration services	1,636,391	14,719	
Operation and maintenance plant services	1,892,439		
Transportation services	1,194,939		
	<u>6,806,231</u>	<u>75,848</u>	
Other			
Long-term debt interest	619,834		
Facilities acquisition	336,870		
AEA flowthrough	573,136		573,136
Depreciation (unallocated)	918,952		
	<u>2,448,792</u>		<u>573,136</u>
Total governmental activities	<u>23,092,025</u>	<u>4,622,340</u>	<u>2,134,694</u>
Business-type activities			
Non-instructional programs			
Nutrition services	1,092,877	611,927	343,383
Viking Café	16,699	3,780	
	<u>1,109,576</u>	<u>615,707</u>	<u>343,383</u>
Total	<u>\$ 24,201,601</u>	<u>\$ 5,238,047</u>	<u>\$ 2,478,077</u>
General revenues			
Property taxes levied for			
General purposes			
Management			
PPEL			
Debt service			
Statewide sales, services and use tax			
Unrestricted state grants			
Unrestricted investment earnings			
Transfer in (out)			
Other			
Total general revenues			
Change in net position			
Net position, beginning of year, restated			
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
\$ (3,872,315)		\$ (3,872,315)
(1,964,275)		(1,964,275)
(1,892,362)		(1,892,362)
<u>(7,728,952)</u>		<u>(7,728,952)</u>
(253,542)		(253,542)
(1,767,791)		(1,767,791)
(1,621,672)		(1,621,672)
(1,892,439)		(1,892,439)
(1,194,939)		(1,194,939)
<u>(6,730,383)</u>		<u>(6,730,383)</u>
(619,834)		(619,834)
(336,870)		(336,870)
-		-
<u>(918,952)</u>		<u>(918,952)</u>
(1,875,656)		(1,875,656)
<u>(16,334,991)</u>		<u>(16,334,991)</u>
	\$ (137,567)	(137,567)
	(12,919)	(12,919)
	<u>(150,486)</u>	<u>(150,486)</u>
<u>(16,334,991)</u>	<u>(150,486)</u>	<u>(16,485,477)</u>
6,076,012		6,076,012
500,414		500,414
874,250		874,250
1,275,768		1,275,768
1,233,615		1,233,615
5,607,797		5,607,797
17,753	38	17,791
(596,975)	596,975	-
154,844		154,844
<u>15,143,478</u>	<u>597,013</u>	<u>15,740,491</u>
(1,191,513)	446,527	(744,986)
<u>22,365,690</u>	<u>199,251</u>	<u>22,564,941</u>
<u>\$ 21,174,177</u>	<u>\$ 645,778</u>	<u>\$ 21,819,955</u>

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and pooled investments	\$ 3,850,074	\$ 55,372	\$ 2,520,075	\$ 6,425,521
Receivables				
Property tax				
Delinquent	26,831	6,159	6,673	39,663
Succeeding year	5,889,442	1,277,253	1,619,340	8,786,035
Accounts	652,061		16,188	668,249
Due from other funds			36,873	36,873
Due from other governments	108,781		219,099	327,880
	<u>10,527,189</u>	<u>1,338,784</u>	<u>4,418,248</u>	<u>16,284,221</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 109,472		\$ 271,696	\$ 381,168
Salaries and benefits payable	1,632,015			1,632,015
Due to other funds			36,873	36,873
	<u>1,741,487</u>	<u>\$ -</u>	<u>308,569</u>	<u>2,050,056</u>
Deferred inflows of resources				
Unavailable revenues				
Succeeding year property tax	5,889,442	1,277,253	1,619,340	8,786,035
	<u>5,889,442</u>	<u>1,277,253</u>	<u>1,619,340</u>	<u>8,786,035</u>
Fund balances				
Restricted for				
Debt service		61,531		61,531
Categorical funding	223,362			223,362
Management levy purposes			469,102	469,102
Student activities			178,426	178,426
Physical plant and equipment			326,093	326,093
School infrastructure			1,516,718	1,516,718
Unassigned	2,672,898			2,672,898
	<u>2,896,260</u>	<u>61,531</u>	<u>2,490,339</u>	<u>5,448,130</u>
	<u>\$ 10,527,189</u>	<u>\$ 1,338,784</u>	<u>\$ 4,418,248</u>	<u>\$ 16,284,221</u>
Total liabilities, deferred inflows of resources and fund balances				

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET POSITION	
Total governmental fund balances	\$ 5,448,130
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 \$ 15,192,623	40,405,893
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	(22,250,000)
Capital leases	(41,768)
Notes payable	(500,000)
Accrued interest	(56,782)
Compensated absences	(67,638)
Early retirement	(1,050,057)
Net OPEB obligation	(713,601)
Net position of governmental activities per Exhibit A	<u>\$ 21,174,177</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local sources				
Local property tax	\$ 6,076,012	\$ 1,275,768	\$ 1,374,664	\$ 8,726,444
Tuition	3,715,454			3,715,454
Other	89,975	150	2,246,876	2,337,001
State sources	7,380,832	588	637	7,382,057
Federal sources	360,434			360,434
Total revenues	17,622,707	1,276,506	3,622,177	22,521,390
EXPENDITURES				
Current				
Instruction				
Regular instruction	7,065,643		151,706	7,217,349
Special instruction	3,554,260		7,296	3,561,556
Other instruction	1,727,516		821,847	2,549,363
	12,347,419		980,849	13,328,268
Support services				
Student services	321,967			321,967
Instructional staff services	899,673		801,711	1,701,384
Administration services	1,557,783		66,836	1,624,619
Operation and maintenance plant services	1,603,552		337,525	1,941,077
Transportation services	656,087		264,715	920,802
	5,039,062		1,470,787	6,509,849
Other				
Long-term debt				
Principal		1,805,572		1,805,572
Interest and fiscal charges		616,265		616,265
Facilities acquisition			1,896,764	1,896,764
AEA flowthrough	573,136			573,136
	573,136	2,421,837	1,896,764	4,891,737
Total expenditures	17,959,617	2,421,837	4,348,400	24,729,854
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(336,910)	(1,145,331)	(726,223)	(2,208,464)
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease			500,000	500,000
Operating transfers in		1,147,183	110,000	1,257,183
Operating transfers (out)	(43,000)		(1,811,158)	(1,854,158)
	(43,000)	1,147,183	(1,201,158)	(96,975)
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) OVER EXPENDITURES AND FINANCING USES	(379,910)	1,852	(1,927,381)	(2,305,439)
FUND BALANCE, beginning of year	3,276,170	59,679	4,417,720	7,753,569
FUND BALANCE, end of year	\$ 2,896,260	\$ 61,531	\$ 2,490,339	\$ 5,448,130

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds		\$ (2,305,439)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net 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.		
Depreciation	\$ (2,232,609)	
Capital outlays	<u>2,948,640</u>	716,031
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.		(23,902)
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.		1,805,571
Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of activities.		(500,000)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		(3,568)
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.		
Compensated absences	(647)	
Early retirement	(782,005)	
Net OPEB obligation	<u>(97,554)</u>	<u>(880,206)</u>
Change in net position of governmental activities per Exhibit B		<u>\$ (1,191,513)</u>

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	School Nutrition Fund	Viking Café Fund	Total Proprietary Funds
ASSETS			
CURRENT ASSETS			
Cash	\$ 146,233	\$ 1,592	\$ 147,825
Accounts receivable	313	250	563
Inventories	14,588		14,588
Total current assets	161,134	1,842	162,976
NONCURRENT ASSETS			
Furniture and equipment	862,662	105,289	967,951
Less accumulated depreciation	(376,263)	(14,761)	(391,024)
Total noncurrent assets	486,399	90,528	576,927
Total assets	\$ 647,533	\$ 92,370	\$ 739,903
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	\$ 150		\$ 150
Salaries and benefits payable	67,578		67,578
Due to other governments	13,920		13,920
Total liabilities	81,648	\$ -	81,648
DEFERRED INFLOWS OF RESOURCES			
Unspent hot lunch proceeds	12,477		12,477
NET POSITION			
Net investment in capital assets	486,399	90,528	576,927
Unrestricted	67,009	1,842	68,851
Total net position	553,408	92,370	645,778
Total liabilities, deferred inflows of resources and net position	\$ 647,533	\$ 92,370	\$ 739,903

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	School Nutrition Fund	Viking Café Fund	Total Proprietary Funds
OPERATING REVENUES			
Local sources			
Charges for services	\$ 611,927	\$ 3,780	\$ 615,707
OPERATING EXPENSES			
Non-instructional programs			
Food service operations			
Salaries and benefits	494,879		494,879
Purchased services	9,269	1,761	11,030
Supplies	501,105	177	501,282
Depreciation	87,624	14,761	102,385
Total operating expenses	1,092,877	16,699	1,109,576
Operating loss	(480,950)	(12,919)	(493,869)
NONOPERATING REVENUES			
Interest income	38		38
State sources	7,044		7,044
Federal sources	336,339		336,339
Transfers in	491,686	105,289	596,975
Total nonoperating revenues	835,107	105,289	940,396
Change in net position	354,157	92,370	446,527
Net position, beginning of year	199,251		199,251
Net position, end of year	\$ 553,408	\$ 92,370	\$ 645,778

See Notes to Financial Statements.

DECORAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	School Nutrition Fund	Viking Café Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from sale of lunches and breakfasts	\$ 596,680		\$ 596,680
Cash received from miscellaneous operating activities	14,826	\$ 3,530	18,356
Cash payments to employees for services	(336,784)		(336,784)
Cash payments to suppliers for goods and services	(414,453)	(1,938)	(416,391)
Cash payments paid on employees' behalf	(156,434)		(156,434)
Other payments	(9,269)		(9,269)
Net cash (used in) provided by operating activities	<u>(305,434)</u>	<u>1,592</u>	<u>(303,842)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer in	491,686	105,289	596,975
State grants and federal grants received	280,921		280,921
Net cash provided by noncapital financing activities	<u>772,607</u>	<u>105,289</u>	<u>877,896</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of equipment	(497,262)	(105,289)	(602,551)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	38		38
Net (decrease) increase in cash	(30,051)	1,592	(28,459)
CASH, beginning of year	176,284		176,284
CASH, end of year	<u>\$ 146,233</u>	<u>\$ 1,592</u>	<u>\$ 147,825</u>
Reconciliation of operating loss to net cash (used in) provided by operating activities			
Operating loss	\$ (480,950)	\$ (12,919)	\$ (493,869)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities			
Depreciation	87,624	14,761	102,385
Commodities used	76,382		76,382
(Increase) in accounts receivable	(313)	(250)	(563)
Decrease in inventories	10,720		10,720
(Decrease) in accounts payable	(558)		(558)
Increase in salaries and benefits payable	1,661		1,661
Net cash (used in) provided by operating activities	<u>\$ (305,434)</u>	<u>\$ 1,592</u>	<u>\$ (303,842)</u>

Non-cash, noncapital financing activities:

During the year ended June 30, 2014, the District received commodities valued at \$76,382.

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 and the statement of activities report information on all non-fiduciary activities of the District. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

b. Significant Accounting Policies (Continued)

Fund Financial Statements

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The general fund and the debt service 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.

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 Funds

Enterprise Funds

The District's proprietary funds are the enterprise, school nutrition fund, and Viking Café fund. These funds are used to account for the food service operations and catering program 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.
- b. The District-wide statements and proprietary funds 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 funds statements, the District applies all applicable GASB pronouncements.

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

b. Significant Accounting Policies (Continued)

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District-wide and proprietary funds 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 enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds 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, Deferred Inflows of Resources and Equity

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

Cash, Pooled Investments

The District maintains one primary demand deposit account for each fund through which the cash resources are processed. All investment activity is carried on by the District in each individual fund. Investments are stated at fair value, except for 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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2013.

Interfund Transactions

During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2014, balances of interfund amounts receivable or payable have been recorded in the financial statements. Most of the interfund transactions have been eliminated on the District-wide statements.

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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Equity (Continued)

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 funds are capitalized in the fund in which they are utilized. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years:

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

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, 2014 was used to calculate the salaries payable.

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.

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.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Equity (Continued)

Deferred Inflows of Resources

In the fund financial statements certain revenues are measurable, however they are not available. Deferred inflows of resources 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 inflows of resources consist of the succeeding year property tax receivable and other receivables not collected within 60 days from year end. Deferred inflows of resources 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.

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

Net investment in capital assets, 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 acquisitions, construction, or improvement of those assets.

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

Unrestricted net positions represent the difference between assets and liabilities and deferred inflows of resources that are not restricted and can be used for future obligations of the District.

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.

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments

The District's deposits in banks at June 30, 2014 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; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	Amortized Cost
Diversified portfolio	\$ 336,314
Direct government obligations portfolio	6,864
Total	\$ 343,178

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, 2014:

Governmental	
General fund	
Title IIA	\$ 19,261
Title I	35,163
Non-public transportation	44,425
Other	9,932
	108,781
Nonmajor governmental	
Statewide sales, services and use tax	219,099
	\$ 327,880

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Governmental activities				
Land	\$ 280,200			\$ 280,200
Construction in progress	18,797,915		\$ 18,797,915	None
Total capital assets not being depreciated	19,078,115	\$ None	18,797,915	280,200
Capital assets being depreciated				
Land improvements	1,682,231	15,393		1,697,624
Buildings	25,437,243	20,429,311		45,866,554
Furniture and equipment	6,583,809	1,301,852	131,523	7,754,138
Total capital assets being depreciated	33,703,283	21,746,556	131,523	55,318,316
Less accumulated depreciation for				
Land improvements	647,416	116,005		763,421
Buildings	8,709,629	915,676		9,625,305
Furniture and equipment	3,734,492	1,200,928	131,523	4,803,897
Total accumulated depreciation	13,091,537	2,232,609	131,523	15,192,623
Total capital assets being depreciated, net	20,611,746	19,513,947	None	40,125,693
Governmental activities				
Capital assets, net	\$ 39,689,861	\$ 19,513,947	\$ 18,797,915	\$ 40,405,893
Business-type activities				
Furniture and equipment	\$ 380,320	\$ 602,551	\$ 14,920	\$ 967,951
Less accumulated depreciation	303,559	102,385	14,920	391,024
Business-type activities				
Capital assets, net	\$ 76,761	\$ 500,166	\$ None	\$ 576,927

NOTES TO FINANCIAL STATEMENTS

4. **Capital Assets (Continued)**

Depreciation expense for the year ended June 30, 2014 was charged to the governmental functions of the District as follows:

Governmental activities	
Instruction	
Regular	\$ 604,203
Other	188,397
Support services	
Instructional staff	21,021
Administration	41,210
Operation and maintenance of plant	13,483
Transportation	445,343
Unallocated depreciation	918,952
	\$ 2,232,609
 Business-type activities	
Food services	\$ 102,385

5. **Long-term Debt Obligations**

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 10,150,000		\$ 240,000	\$ 9,910,000	\$ 230,000
Tax revenue bonds	6,880,000		335,000	6,545,000	345,000
General obligation refunding bond	1,500,000		740,000	760,000	760,000
Capital loan notes	5,485,000		450,000	5,035,000	455,000
Total bonds	24,015,000	\$ None	1,765,000	22,250,000	1,790,000
 Other liabilities					
Capital leases	82,339		40,571	41,768	41,768
Notes payable		500,000		500,000	248,146
Compensated absences	66,991	67,638	66,991	67,638	67,638
Early retirement	268,052	893,320	111,315	1,050,057	319,957
Total other liabilities	417,382	1,460,958	218,877	1,659,463	677,509
 Governmental activities					
Long-term liabilities	\$ 24,432,382	\$ 1,460,958	\$ 1,983,877	\$ 23,909,463	\$ 2,467,509

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 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, 2014. Employees must complete an application, which is required to be approved by the Board of Education. The early retirement incentive for each eligible certified employee ages 55 through 62 is 50% of the employee's current regular salary schedule. The District is obligated to pay between \$559 and \$625 a month of health insurance for five years or until the employee reaches the age 65, whichever comes first. The early retirement incentive for each eligible classified employee ages 55 or over is 35% of the employee's current regular salary schedule. The District is not obligated to pay for health insurance for classified employees.

Early retirement benefits will be paid in three equal installments beginning in January following the start of retirement and the next two January's thereafter.

At June 30, 2014, the District has obligations to 32 participants with a total liability of \$1,050,057. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$111,315.

Bond Indebtedness

\$9,910,000 General Obligation Bond, Series 2010A, due annually in varying installments June 1, 2015 through June 1, 2025 plus interest semi-annually with interest rates of the bonds varying from 1.50% 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.

\$760,000 General Obligation School Refunding Bonds, Series 2010B, with principal due June 1, 2015, plus interest semi-annually with an interest rate of 1.30%. Series 2010B bonds are not subject to early redemption.

\$5,035,000 2010B General Obligation School Capital Loan Notes, due annually in varying installments June 1, 2015 through June 1, 2024 plus interest semi-annually with interest rates of the bonds varying from 1.50% to 3.3%. Bonds maturing after June 1, 2019 are callable upon terms of par plus accrued interest to date of call.

\$6,545,000 2012 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due June 1, 2015 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

Decorah Bank & Trust

In September 2013, the District entered into an agreement with Decorah Bank & Trust to finance the digital project in the high school. The note was for \$500,000 at 1.57% interest and matures on September 15, 2015.

NOTES TO FINANCIAL STATEMENTS

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

Interest costs incurred and charged to expenses was \$619,834 for the year ended June 30, 2014. A summary of the bond principal and interest maturities is as follows:

Year Ending June 30,	Governmental Activities					
	Refunding		General Obligation Bond		Capital Notes	
	General Obligation Bond Principal	Interest	General Obligation Bond Principal	Interest	General Obligation Bond Principal	Interest
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			1,070,000	205,288	490,000	94,978
2020-2024			5,135,000	549,223	2,680,000	259,293
2025-2029			400,000	14,800		
Total	\$ 760,000	\$ 9,880	\$ 9,910,000	\$ 1,791,750	\$ 5,035,000	\$ 832,758

Year Ending June 30,	Governmental Activities					
	Tax Revenue Bond		Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 345,000	\$ 174,845	\$ 248,146	\$ 7,828	\$ 2,038,146	\$ 597,389
2016	355,000	167,945	251,854	3,954	2,071,854	566,459
2017	360,000	160,845			1,855,000	526,795
2018	370,000	153,645			1,895,000	489,225
2019	385,000	146,245			1,945,000	446,511
2020-2024	2,130,000	590,786			9,945,000	1,399,302
2025-2029	2,600,000	262,850			3,000,000	277,650
Total	\$ 6,545,000	\$ 1,657,161	\$ 500,000	\$ 11,782	\$ 22,750,000	\$ 4,303,331

The District complied with all of the revenue bond provisions during the year ended June 30, 2014. The required reserve account was established by the District and no transfers were made to the sinking account.

At June 30, 2014, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	<u>\$ 523,179,341</u>
Debt limit – 5% of total assessed valuation	\$ 26,158,967
Debt applicable to debt limit	
General obligation	
Notes payable	(500,000)
Capital loan notes	(5,035,000)
Refunding	(760,000)
Bonded debt outstanding	(9,910,000)
Capital lease-teacher computers	<u>(41,768)</u>
Legal debt margin	<u>\$ 9,912,199</u>

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

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 \$137,998 at June 30, 2014. The following is a schedule of future minimum lease payments under capital leases as of June 30, 2014:

Year ending June 30, 2015	\$	43,000
Less imputed interest		(1,232)
Present value of minimum lease payments	\$	41,768

6. Due to/from Other Funds

As of June 30, 2014, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
Nonmajor governmental funds		
Statewide sales, services and use tax	\$ 36,873	
Physical plant and equipment levy		\$ 36,873
	\$ 36,873	\$ 36,873

7. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

	Transfers In	Transfers Out
General fund		\$ 43,000
Debt service fund	\$ 1,147,183	
Nonmajor government-capital project fund		
High school capital project	55,000	651,975
Statewide sales, services and use tax fund	25,000	542,045
Physical plant and equipment levy fund	30,000	617,138
Business-type activities		
School nutrition fund	491,686	
Viking Café fund	105,289	
	\$ 1,854,158	\$ 1,854,158

Transfers from the general fund, physical plant and equipment levy fund and the capital project fund to the debt service fund were to move resources to help pay bond expenses. Transfers into the high school capital project fund were to pay for the high school renovation project. Transfer from the high school capital project fund to the enterprise funds were to pay for capital assets for the new Viking Café and upgrade the high school cafeteria.

NOTES TO FINANCIAL STATEMENTS

8. Leases

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

- Bruening Rock Products, Inc. for the present bus garage facility for \$3,450 per month for the year ending June 30, 2014. The agreement expires June 2016 with payments of \$3,475 and \$3,530 per month for the years ended June 30, 2015 and 2016, respectively.
- 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,		
2015	\$	80,594
2016		81,254
2017		38,108
2018		15,762
		215,718
	\$	215,718

Total lease expense for the year ended June 30, 2014 was \$80,292.

9. 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 5.95%, 5.78%, and 5.38% of their annual covered salary and the District is required to contribute 8.93%, 8.67%, and 8.07% of annual covered payroll for the years ended June 30, 2014, 2013, and 2012, respectively. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$951,850, \$866,373, and \$788,655, respectively, equal to the required contributions for each year.

10. Other Postemployment Benefits (OPEB)

Plan Description

As explained in Note 11, 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.

10. Other Postemployment Benefits (OPEB) (Continued)

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 which, 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, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	171,296
Interest on net OPEB obligation		15,401
Adjustment to annual required contribution		<u>(60,903)</u>
Annual OPEB cost		125,794
Contributions made		<u>(28,240)</u>
Increase in net OPEB obligation		97,554
Net OPEB obligation beginning of year		<u>616,047</u>
Net OPEB obligation end of year	\$	<u>713,601</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year end June 30, 2014.

For the year ended June 30, 2014, the District contributed \$28,240 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, 2014 are summarized below as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 76,771	55.76%	\$ 369,768
June 30, 2013	279,030	11.74%	616,047
June 30, 2014	125,794	22.45%	713,601

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, 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 \$9.712 million, and the ratio of the UAAL to covered payroll was 15.0%. As of June 30, 2014, there were no trust fund assets.

10. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the notes to financial statements, presents 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 \$559 to \$762, 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.

11. 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,
- 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, 2014, 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, 2014 was unavailable as of January 12, 2015. The District contributions to the trust for the years ended June 30, 2014, 2013, and 2012 were \$1,857,830, \$1,917,273, and \$1,825,521, respectively, which equaled the required contributions each year. The employees paid \$23,672 in dental insurance for the year ended June 30, 2014.

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, 2014, no liability has been recorded in the District's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance company coverage.

12. 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.

13. 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 \$573,136 for the year ended June 30, 2014 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

14. 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 37 participants in the plan for the year ended June 30, 2014.

15. 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.

16. Contingencies

a. Grant Funding

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2014, 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 11, the District is contingently liable for any unreported claim or assessment in excess of their balance in the insurance pool.

17. Commitments

The total outstanding construction and other commitments of the District at June 30, 2014 amounted to \$326,570.

18. Related Party Transaction

During the year ended June 30, 2014, 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 \$325,996 and to Specialty Underwriters of \$70,006. Mr. Petersburg is a principal of A&J Petersburg Insurance Agency and handles the District's insurance policy with Specialty Underwriters.

NOTES TO FINANCIAL STATEMENTS

19. **Categorical Funding**

The District's ending balances for categorical funding by project as of June 30, 2014 are as follows:

Project	Amount
Four-year old preschool state aid	\$ 44,434
Teacher salary supplement	94,255
Home school assistance program	43,760
Professional development for model core curriculum	4,158
Teach Leadership Grants	9,713
Market factor incentive	4,067
Empowerment Professional Development	3,200
Successful Progression for Early Readers	19,775
	\$ 223,362

20. **Subsequent Events**

Management has evaluated subsequent events through January 12, 2015, the date on which the financial statements were available to be issued.

21. **New Governmental Accounting Standards Board (GASB) Standards**

The Governmental Accounting Standards Board (GASB) has issued one statement not yet implemented by the District. The statement which might impact the District is as follows:

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. In addition, the statement of net position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

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

22. **Accounting Change**

GASB Statement 65, *Items Previously Classified as Assets and Liabilities*; and No. 66 *Technical Corrections – 2012, an amendment of GASB Statements 10 and 62*, were implemented during fiscal year 2014.

23. **Restatement**

Net investment in capital assets was restated due to reclassifications of capital assets as of June 30, 2014 in the amount of \$584,574.

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 FUNDS
For the Year Ended June 30, 2014

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
REVENUES			
Local sources	\$ 14,778,899	\$ 615,745	\$ 15,394,644
State sources	7,382,057	7,044	7,389,101
Federal sources	360,434	336,339	696,773
Total revenues	22,521,390	959,128	23,480,518
EXPENDITURES/EXPENSES			
Instruction	13,328,268		13,328,268
Support services	6,509,849		6,509,849
Non-instructional		1,109,576	1,109,576
Other	4,891,737		4,891,737
Total expenditures/expenses	24,729,854	1,109,576	25,839,430
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES/EXPENSES	(2,208,464)	(150,448)	(2,358,912)
OTHER FINANCING SOURCES, NET	(96,975)	596,975	500,000
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) OVER EXPENDITURES/EXPENSES AND OTHER FINANCING USES	(2,305,439)	446,527	(1,858,912)
FUND BALANCE, beginning of year	7,753,569	199,251	7,952,820
FUND BALANCE, end of year	\$ 5,448,130	\$ 645,778	\$ 6,093,908

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Amended Final	
\$ 15,083,028	\$ 15,083,028	\$ 311,616
7,691,603	7,691,603	(302,502)
525,000	525,000	171,773
<u>23,299,631</u>	<u>23,299,631</u>	<u>180,887</u>
13,025,908	14,500,000	1,171,732
10,270,573	10,270,573	3,760,724
936,000	1,019,500	(90,076)
3,056,823	3,790,000	(1,101,737)
<u>27,289,304</u>	<u>29,580,073</u>	<u>3,740,643</u>
(3,989,673)	(6,280,442)	3,921,530
		<u>500,000</u>
(3,989,673)	(6,280,442)	4,421,530
<u>8,496,279</u>	<u>8,496,279</u>	<u>(543,459)</u>
<u>\$ 4,506,606</u>	<u>\$ 2,215,837</u>	<u>\$ 3,878,071</u>

DECORAH COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2014

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 a GAAP 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 \$2,290,769.

During the year ended June 30, 2014, expenditures in the non-instructional and other function exceeded the amounts budgeted.

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%
2014	July 2, 2012	-	\$ 1,454	\$ 1,454	0.0%	\$ 9,712	15.0%

See Note 10 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See Independent Auditor's Report.

Other Supplementary Information

DECORAH COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Special Revenue	Capital Project	Total Nonmajor Funds
ASSETS			
Cash and pooled investments	\$ 647,848	\$ 1,872,227	\$ 2,520,075
Receivables			
Property tax			
Delinquent	2,452	4,221	6,673
Succeeding year	700,000	919,340	1,619,340
Accounts	16,188		16,188
Due from other funds		36,873	36,873
Due from other governments		219,099	219,099
Total assets	\$ 1,366,488	\$ 3,051,760	\$ 4,418,248
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 18,960	\$ 252,736	\$ 271,696
Due to other funds		36,873	36,873
Total liabilities	18,960	289,609	308,569
Deferred inflows of resources			
Unavailable revenues			
Succeeding year property tax	700,000	919,340	1,619,340
Fund balances			
Restricted for			
Management levy	469,102		469,102
Student activities	178,426		178,426
Physical plant and equipment		326,093	326,093
School infrastructure		1,516,718	1,516,718
Total fund balances	647,528	1,842,811	2,490,339
Total liabilities, deferred inflows of resources and fund balances	\$ 1,366,488	\$ 3,051,760	\$ 4,418,248

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, 2014

	Special Revenue	Capital Project	Total Nonmajor Funds
REVENUES			
Local sources			
Property taxes	\$ 500,414	\$ 874,250	\$ 1,374,664
Other	844,118	1,402,758	2,246,876
State sources	234	403	637
Total revenues	<u>1,344,766</u>	<u>2,277,411</u>	<u>3,622,177</u>
EXPENDITURES			
Current			
Instruction			
Regular instruction	151,706		151,706
Special instruction	7,296		7,296
Other instruction	821,847		821,847
Support services			
Instructional staff services	7,296	794,415	801,711
Administration services	5,725	61,111	66,836
Operation and maintenance plant services	296,125	41,400	337,525
Transportation services	53,315	211,400	264,715
Other			
Facilities acquisition		1,896,764	1,896,764
Total expenditures	<u>1,343,310</u>	<u>3,005,090</u>	<u>4,348,400</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,456</u>	<u>(727,679)</u>	<u>(726,223)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from note payable		500,000	500,000
Operating transfers in		110,000	110,000
Operating transfers out		(1,811,158)	(1,811,158)
Total other financing sources (uses)	<u>-</u>	<u>(1,201,158)</u>	<u>(1,201,158)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	<u>1,456</u>	<u>(1,928,837)</u>	<u>(1,927,381)</u>
FUND BALANCE, beginning of year	<u>646,072</u>	<u>3,771,648</u>	<u>4,417,720</u>
FUND BALANCE, end of year	<u>\$ 647,528</u>	<u>\$ 1,842,811</u>	<u>\$ 2,490,339</u>

See Independent Auditor's Report.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2014

	Management Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS			
Cash and pooled investments	\$ 466,650	\$ 181,198	\$ 647,848
Receivables			
Property tax			
Delinquent	2,452		2,452
Succeeding year	700,000		700,000
Accounts		16,188	16,188
Total assets	\$ 1,169,102	\$ 197,386	\$ 1,366,488
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ 18,960	\$ 18,960
Deferred inflows of resources			
Unavailable revenues			
Succeeding year property tax	700,000		700,000
Fund balances			
Restricted	469,102	178,426	647,528
Total liabilities, deferred inflows of resources and fund balances	\$ 1,169,102	\$ 197,386	\$ 1,366,488

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, 2014

	Management Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES			
Local sources			
Local property tax	\$ 500,414		\$ 500,414
Other	12,930	\$ 831,188	844,118
State sources	234		234
	<u>513,578</u>	<u>831,188</u>	<u>1,344,766</u>
Total revenues			
EXPENDITURES			
Current			
Instruction			
Regular instruction	151,706		151,706
Special instruction	7,296		7,296
Other instruction		821,847	821,847
Support services			
Instructional staff services	7,296		7,296
Administration services	5,725		5,725
Operation and maintenance plant services	296,125		296,125
Transportation services	53,315		53,315
	<u>521,463</u>	<u>821,847</u>	<u>1,343,310</u>
Total expenditures			
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	(7,885)	9,341	1,456
FUND BALANCE, beginning of year	476,987	169,085	646,072
FUND BALANCE, end of year	<u>\$ 469,102</u>	<u>\$ 178,426</u>	<u>\$ 647,528</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, 2014

	Balance June 30, 2013	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2014
High School Football	\$ 18,599	\$ 76,152	\$ 58,965	\$ 35,786
High School Basketball	3,913	39,829	36,688	7,054
High School Wrestling	1,372	12,159	12,769	762
High School Baseball	5,121	17,215	20,620	1,716
High School Golf	2,303	3,976	5,620	659
High School Track	524	9,593	13,309	(3,192)
High School Softball	1,781	4,534	5,580	735
High School Volleyball	1,515	10,254	9,189	2,580
High School Tennis	3,258	4,172	5,343	2,087
High School Cross Country	469	16,282	17,031	(280)
High School Student Council	1,793			1,793
High School Community Club	60	590	610	40
High School Swimming	2,233	14,498	13,969	2,762
High School Choir		1,297	1,297	-
High School Soccer	2,821	11,080	13,228	673
SADD Chapter	200			200
"D" Club	2,819	3,517	3,635	2,701
Art Club	3,798	11,399	9,785	5,412
Culture Club	89			89
Science Club	656		600	56
Future Farmers of America	28,776	89,777	88,932	29,621
Horticulture Club	598	1,063	1,497	164
Student Assistance	4,206	1,280	1,044	4,442
High School Music	(138)	10,390	15,956	(5,704)
High School Orchestra		636	636	-
High School Instrumental Music	(327)	6,254	6,254	(327)
High School Yearbook	3,123	33,695	28,867	7,951
High School Speech	1	9,887	14,090	(4,202)
High School Dramatics	8,043	9,571	8,446	9,168
High School Madrigal	5,093	5,545	4,810	5,828
Sub-totals	102,699	404,645	398,770	108,574

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, 2014

	Balance June 30, 2013	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2014
Sub-totals	\$ 102,699	\$ 404,645	\$ 398,770	\$ 108,574
High School Fire Squad	5,160	30,582	33,067	2,675
High School Cheerleading Class 2014	2,201	9,311	9,683	1,829
Class 2015	(442)	1,480	1,922	(884)
High School General	3,674	2,131	2,014	117
Middle School Football		181,679	171,238	14,115
Middle School Cross Country		1,565	2,880	(1,315)
Middle School Basketball		439	628	(189)
Middle School Wrestling		714	2,961	(2,247)
Middle School Track		252	768	(516)
Middle School Volleyball		1,090	2,404	(1,314)
Middle School Cheerleading	210	976	2,443	(1,467)
Middle School Library Club	6	350	452	108
Middle School Yearbook Scholarships	15,955	4,320	7,520	12,755
Middle School General	231	6,475		6,475
Middle School Fund Raising	7,815	508	678	61
Middle School Student Council	609	48,674	54,290	2,199
Middle School Summer Tag	3,574	427	649	387
Investments	34	786	325	4,035
Vocational Ag	234	150		184
Vocational	713	625	1,335	234
A/P Exam Testing	1,935	20,066	20,210	3
West Side Yearbook	24			1,791
DVABC	(313)	70,767	70,711	24
Decorah Craft Show	4,085	4,093	4,073	(257)
Elementary Playground	2,354			4,105
Wellness	370	613	252	2,354
Youth Marketplace	2,241	1,490	1,651	731
W/S Elementary General	15,716	20,792	14,735	2,080
	<u>\$ 169,085</u>	<u>\$ 815,000</u>	<u>\$ 805,659</u>	<u>\$ 178,426</u>

See Independent Auditor's Report.

DECORAH COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECT FUNDS
 For the Year Ended June 30, 2014

	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Thomas Roberts High School	Total Nonmajor Capital Project Funds
REVENUES				
Local sources				
Local property tax		\$ 874,250		\$ 874,250
Other	\$ 1,261,683	119,020	\$ 22,055	1,402,758
State sources		403		403
Total revenues	1,261,683	993,673	22,055	2,277,411
EXPENDITURES				
Current				
Support services				
Instructional staff services	794,415			794,415
Administration services	61,111			61,111
Operation and maintenance plant services	41,400			41,400
Transportation services		211,400		211,400
Other				
Facilities acquisition	129,772	273,984	1,493,008	1,896,764
Total expenditures	1,026,698	485,384	1,493,008	3,005,090
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	234,985	508,289	(1,470,953)	(727,679)
OTHER FINANCING SOURCES (USES)				
Proceeds from note payable	500,000			500,000
Operating transfers in	25,000	30,000	55,000	110,000
Operating transfers out	(542,045)	(617,138)	(651,975)	(1,811,158)
Total other financing sources (uses)	(17,045)	(587,138)	(596,975)	(1,201,158)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	217,940	(78,849)	(2,067,928)	(1,928,837)
FUND BALANCE, beginning of year	1,223,897	404,942	2,142,809	3,771,648
FUND BALANCE, end of year	\$ 1,441,837	\$ 326,093	\$ 74,881	\$ 1,842,811

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		
	2014	2013	2012
REVENUES			
Local sources			
Local tax	\$ 8,726,444	\$ 8,523,329	\$ 8,468,392
Tuition	3,715,454	3,686,152	3,545,106
Other	2,337,001	2,377,254	2,300,578
Intermediate sources			
State sources	7,382,057	7,015,237	7,239,453
Federal sources	360,434	347,073	715,798
Total revenues	\$ 22,521,390	\$ 21,949,045	\$ 22,269,327
EXPENDITURES			
Current			
Instruction			
Regular instruction	\$ 7,217,349	\$ 6,586,488	\$ 7,390,715
Special instruction	3,561,556	3,035,877	3,281,703
Other instruction	2,549,363	2,974,756	1,650,531
Support services			
Student services	321,967	306,552	349,583
Instructional staff services	1,701,384	900,925	897,355
Administration services	1,624,619	1,623,014	1,555,170
Operation and maintenance plant services	1,941,077	1,815,292	1,517,329
Transportation services	920,802	926,702	813,401
Non-instructional			
Other			
Facilities acquisition	1,896,764	7,458,652	12,197,328
Long-term debt			
Principal	1,805,572	2,122,169	1,855,257
Interest and fiscal charges	616,265	644,378	691,199
Bond issuance cost			3,000
AEA flowthrough	573,136	547,753	548,284
Total expenditures	\$ 24,729,854	\$ 28,942,558	\$ 32,750,855

See Independent Auditor's Report.

Modified Accrual						
2011	2010	2009	2008	2007	2006	2005
\$ 7,791,079	\$ 7,146,214	\$ 6,786,725	\$ 6,282,222	\$ 6,341,796	\$ 5,998,168	\$ 5,715,624
3,545,106	3,161,819	2,990,001	2,553,688	2,624,750	2,533,470	2,114,518
2,955,063	2,130,378	2,151,066	2,432,286	2,339,895	2,703,281	2,009,289
						21,485
6,622,061	5,837,879	6,725,885	6,466,649	6,176,068	5,783,248	5,488,689
734,645	1,141,076	540,139	285,112	245,963	240,641	252,791
\$ 21,647,954	\$ 19,417,366	\$ 19,193,816	\$ 18,019,957	\$ 17,728,472	\$ 17,258,808	\$ 15,602,396
\$ 6,738,275	\$ 7,066,295	\$ 6,101,214	\$ 5,976,750	\$ 6,195,772	\$ 6,131,923	\$ 5,883,790
3,548,393	2,740,264	3,348,391	2,931,951	2,782,024	2,841,924	2,389,212
1,708,797	1,725,872	2,068,116	1,777,746	1,063,206	1,067,063	1,050,483
382,149	323,043	336,897	327,704	311,136	288,598	308,740
1,092,846	905,746	725,990	604,581	673,653	540,396	525,972
1,345,680	1,436,927	1,423,288	1,439,698	1,254,791	1,093,675	976,645
1,354,401	1,325,807	1,351,740	1,306,620	1,143,162	1,161,498	1,018,698
860,500	797,190	748,872	740,015	702,556	660,791	634,698
38,160		10,234	15,926	37,663	36,350	1,638
1,851,684	355,424	1,468,459	984,630	4,110,541	4,930,220	6,897,137
6,329,990	1,515,000	1,465,000	1,415,000	1,375,000	1,319,958	1,180,800
645,418	256,139	297,372	334,139	363,645	397,332	273,976
92,048						
596,148	591,775	530,159	496,088	476,764	453,211	450,267
\$ 26,584,489	\$ 19,039,482	\$ 19,875,732	\$ 18,350,848	\$ 20,489,913	\$ 20,922,939	\$ 21,592,056

DECORAH COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2014

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
 - CFDA Number 84.010-Title I Grants to Local Educational Agencies
- (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.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

2014-001 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.

Criteria

A properly designed segregation of duties allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles.

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.

DECORAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

Part II: Findings Related to the Financial Statements (Continued):

INTERNAL CONTROL DEFICIENCIES (Continued):

2014-002 **Nutrition Fund Reimbursement**

The District was reimbursed twice for August meals served from both federal and state sources and was reimbursed \$13,432 too much of federal funds. The District was implementing a new system. The system was not printing new cards at the beginning of the year so the August report was thought to have missed the deadline so it was included in the September report.

Recommendation

We recommend all reports are verified and filed on a timely basis. We also recommend the District to amend their state reports and pay the extra money back.

Response and Corrective Action Planned

The District will repay the State of Iowa the amount that was double claimed and take precautions to eliminate doubling up claims in the future.

Conclusion

Response accepted.

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: 2014
See 2014-001 and 2014-002 above.

Department of Education
Passed through the Iowa Department of Education
CFDA Number 84.010-Title I Grants to Local Educational Agencies
Federal Award Year: 2014
See 2014-001 above.

Part IV: Other Findings Related to Required Statutory Reporting:

See management letter dated January 12, 2015

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

Comment Reference	Comment Title	Status	Explanation
2013-001	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, 2014

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	FY14	\$ 31,599
National School Lunch Program	10.555	FY14	304,740
			<u>336,339</u>
Department of Education			
Passed through Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY14	140,650
Special Education-Grants to States	84.027	FY14	69,362
Career and Technical Education-Basic Grants to States	84.048	FY14	8,632
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	FY14	900
Improving Teacher Quality State Grants	84.367	FY14	43,253
Grants for State Assessments and Related Activities	84.369	FY14	9,108
Total Department of Education			<u>271,905</u>
Department of Health and Human Services			
Passed through Iowa Department of Education			
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	FY14	170
			<u>\$ 608,414</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, 2014

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, 2014. 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 intended 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, 2014, the District had food commodities totaling \$2,405 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, 2014, 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 January 12, 2015.

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 2014-001 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.

Hasher, Nelson & Co., P.C.

Decorah, Iowa
January 12, 2015

**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, 2014. 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, 2014.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be significant deficiencies.

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

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
January 12, 2015

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, 2014, 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 through 12 below are compliance comments required by the Iowa Auditor of State. A separate report dated January 12, 2015 contains our report on the District's internal control over financial reporting. This letter does not affect our report dated January 12, 2015, 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, 2014 exceeded the amended certified budget amounts in the non-instructional and other functions.

Recommendation

The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

When the amended budget was printed, the amount published was only the facilities acquisition and construction amount. The District made an error and forgot to add in the debt service and AEA flowthrough for the total other expenditures. The District will be more diligent in reviewing budgets and amendments when publishing.

Conclusion

Response accepted.

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, 2014, 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: \$325,996 and \$70,006

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

5. **Bond Coverage**

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

6. **Board Minutes**

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

7. **Certified Enrollment**

There were four students reported incorrectly on the certified enrollment for the year ending June 30, 2014. Two homeschooled students were missed on the certified enrollment for the year ending June 30, 2014.

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, 2014, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	1,223,897
Statewide sales, services and use tax	\$	1,261,683	
Proceeds from notes payable		<u>500,000</u>	1,761,683
Expenditures/transfers out:			
School infrastructure:			
Equipment and architect		1,026,698	
Debt service for school infrastructure:			
General obligation debt		<u>517,045</u>	<u>1,543,743</u>
Ending balance			<u><u>\$ 1,441,837</u></u>

For the year ended June 30, 2014, 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	\$ 1.56	\$ 744,638
PPEL levy	1.67	<u>517,045</u>
		<u><u>\$ 1,261,683</u></u>

13. Student Activity Fund Deficits

As of June 30, 2014, thirteen 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. Disbursements

During our audit, we noted the general fund and nutrition fund cashbook reconciliation included outstanding checks over two years old.

Recommendation

Checks outstanding for two or more years should be filed with the State Treasurer's office. See http://www.greatiowatreasurehunt.com/compliance_reporting/pdffiles/2007_holder_manual.pdf for instructions.

Response

We will work on contacting these individual vendors and reissue checks to them.

Conclusion

Response accepted.

15. Receipts

Receipts are not ordered pre-numbered; the receipt numbers are hand written on the receipts, which then allowed duplicate receipt numbers to be used when a number was misread on a receipt on the previous page of receipt book.

Recommendation

The District should order all receipt books with pre-printed receipt numbers and keep a log of receipt books being used.

Response

The District will order pre-numbered receipts and start using them.

Conclusion

Response accepted.

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

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

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

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

Hacher, Nelson & Co., P.C.

Decorah, Iowa
January 12, 2015