

DIAGONAL COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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Diagonal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Monte Starlin	President	2005
Phil Mason	Vice President	2003
Melinda England	Board Member	2004
Becky Stamps	Board Member	2004
Pam Grace	Board Member	2005
Board of Education (After September 2003 Election)		
Monte Starlin	President	2005
Phil Mason	Vice President	2006
Melinda England	Board Member	2004
Becky Stamps	Board Member	2004
Pam Grace	Board Member	2005
School Officials		
Karleen Stephens	Superintendent	2004
Tricia Holmes	District Secretary/ Treasurer	2004
Ahlers and Cooney, P.C.	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Diagonal Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Diagonal Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Diagonal Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Diagonal Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

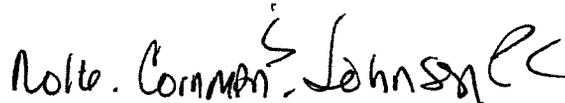
In accordance with Government Auditing Standards, we have also issued our reports dated February 2, 2005 on our consideration of the Diagonal Community School District's internal control over

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financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Diagonal Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Diagonal Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$1,835,065 in fiscal 2003 to \$1,798,792 fiscal 2004, while General Fund expenditures decreased from \$1,804,721 in fiscal 2003 to \$1,787,708 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$296,399 in fiscal 2003 to \$307,483 in fiscal 2004, a 3.74% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state and federal grant revenue in fiscal 2004. The decrease in expenditures was due primarily to a decrease in restricted grant expenditures.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$5,700 in fiscal year 2003 to \$2,655 in fiscal year 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Diagonal Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Diagonal Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Diagonal Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

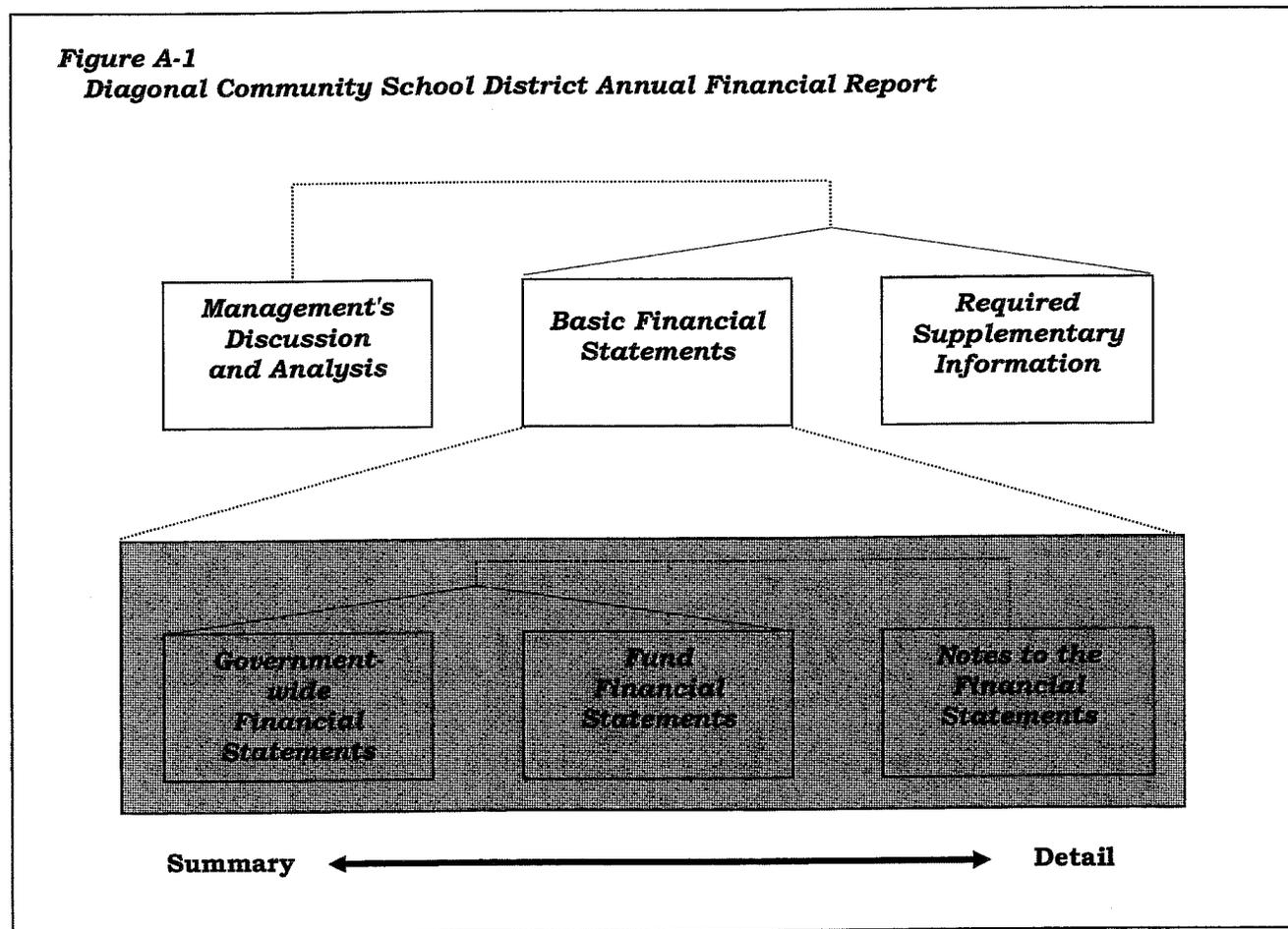


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 1,294,158	8,594	1,302,752
Capital assets	243,949	4,305	248,254
Total assets	<u>1,538,107</u>	<u>12,899</u>	<u>1,551,006</u>
Long-term obligations	893	0	893
Other liabilities	819,096	0	819,096
Total liabilities	<u>819,989</u>	<u>0</u>	<u>819,989</u>
Net assets:			
Invested in capital assets, net of related debt	243,949	4,305	248,254
Restricted	132,533	0	132,533
Unrestricted	341,636	8,594	350,230
Total net assets	<u>\$ 718,118</u>	<u>12,899</u>	<u>731,017</u>

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 174,490	23,761	198,251
Operating grants and contributions and restricted interest	922,520	37,499	960,019
General revenues:			
Property tax	520,125	0	520,125
Local option sales and services tax	24,531	0	24,531
Unrestricted state grants	307,509	0	307,509
Other	12,955	18	12,973
Total revenues	<u>1,962,130</u>	<u>61,278</u>	<u>2,023,408</u>
Program expenses:			
Governmental activities:			
Instructional	1,456,633	0	1,456,633
Support services	396,691	0	396,691
Non-instructional programs	36,781	60,607	97,388
Other expenditures	48,748	0	48,748
Total expenses	<u>1,938,853</u>	<u>60,607</u>	<u>1,999,460</u>
Changes in net assets	<u>\$ 23,277</u>	<u>671</u>	<u>23,948</u>

Property tax, local option sales and services tax and unrestricted state grants account for 42% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 93% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$1,962,130 and expenses were \$1,938,853.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,456,633	433,729
Support services	396,691	358,145
Non-instructional programs	36,781	36,781
Other expenditures	48,748	13,188
Totals	<u>\$ 1,938,853</u>	<u>841,843</u>

- The cost financed by users of the District's programs was \$174,490.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$922,520.
- The net cost of governmental activities was financed with \$520,125 in property tax, \$24,531 in local option sales and services tax, \$307,509 in state foundation aid, \$2,655 in interest income and \$10,300 as a gain on sale of capital assets.

Business-Type Activities

Revenues of the District's business-type activities were \$61,278 and expenses were \$60,607. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Diagonal Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$439,985, above last year's ending fund balances of a \$432,380. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to the District receiving Local Option Sales and Services Tax for the first time.

Governmental Fund Highlights

- The District's improving General Fund financial position from \$296,399 to \$307,483 is the product of many factors:
 - Decreases in state and federal grants during the year resulted in a decrease in revenues.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, were offset by a decrease in restricted grant expenditures. Overall, the expenditures decreased by \$17,013.

- The change in revenues and expenditures resulted in a net increase of \$11,084.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$12,228 at June 30, 2003 to \$12,899 at June 30, 2004, representing an increase of 5.49%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$273,093 less than budgeted revenues, a variance of 11.98%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$248,254, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$33,553.

The original cost of the District's capital assets was \$994,159. Governmental funds account for \$967,465 with the remainder of \$26,694 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvement category. The District's land improvement totaled \$23,438 at June 30, 2004, compared to \$0 reported at June 30, 2003. This increase resulted from the District paving the parking lot less current depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Land	\$ 7,230	0	7,230
Buildings	172,903	0	172,903
Land improvements	23,438	0	23,438
Machinery and equipment	40,378	4,305	44,683
Total	\$ 243,949	4,305	248,254

Long-Term Debt

At June 30, 2004, the District had \$893 in other long-term debt outstanding. This represents a decrease of 94.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding Capital Loan Notes payable from the Special Revenue - Physical Plant and Equipment Levy Fund of \$893 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
Capital Loan Notes	\$ 893	16,599	-94.6%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of Ringgold County passed the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment. The funding began in January 2004.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marci Johnson, Board Secretary, Diagonal Community School District, 403 W 2nd, P.O. Box 94, Diagonal, Iowa, 50845-0094.

BASIC FINANCIAL STATEMENTS

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 242,930	6,655	249,585
Other	502,883	0	502,883
Receivables:			
Property tax:			
Delinquent	7,126	0	7,126
Succeeding year	476,337	0	476,337
Income surtax	35,077	0	35,077
Accrued interest	299	0	299
Due from other governments	29,506	0	29,506
Inventories	0	1,939	1,939
Capital assets, net of accumulated depreciation(Note 5)	243,949	4,305	248,254
TOTAL ASSETS	1,538,107	12,899	1,551,006
LIABILITIES			
Salaries and benefits payable	97,759	0	97,759
ISCAP warrants payable(Note 4)	245,000	0	245,000
Deferred revenue:			
Succeeding year property tax	476,337	0	476,337
Long-term liabilities(Note 6):			
Portion due within one year:			
Capital loan notes payable	893	0	893
TOTAL LIABILITIES	819,989	0	819,989
NET ASSETS			
Investment in capital assets, net of related debt	243,949	4,305	248,254
Restricted for:			
Talented and gifted	924	0	924
Management levy	31,008	0	31,008
Physical plant and equipment levy	49,933	0	49,933
Capital projects	24,531	0	24,531
Other special revenue purposes	26,137	0	26,137
Unrestricted	341,636	8,594	350,230
TOTAL NET ASSETS	\$ 718,118	12,899	731,017

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,113,131	51,087	882,606
Special instruction	256,790	0	4,354
Other instruction	86,712	84,857	0
	<u>1,456,633</u>	<u>135,944</u>	<u>886,960</u>
Support services:			
Instructional staff services	8,856	0	0
Administration services	167,842	0	0
Operation and maintenance of plant services	168,676	0	0
Transportation services	51,317	38,546	0
	<u>396,691</u>	<u>38,546</u>	<u>0</u>
Non-instructional programs:			
Community service and education operations	36,781	0	0
	<u>36,781</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Long-term debt interest and fiscal charges	1,550	0	0
AEA flowthrough	35,560	0	35,560
Depreciation(unallocated)*	11,638	0	0
	<u>48,748</u>	<u>0</u>	<u>35,560</u>
Total governmental activities	1,938,853	174,490	922,520
Business-Type activities:			
Non-instructional programs:			
Nutrition services	60,607	23,761	37,499
Total business-type activities	<u>60,607</u>	<u>23,761</u>	<u>37,499</u>
Total	<u>\$ 1,999,460</u>	<u>198,251</u>	<u>960,019</u>
General Revenues:			
Local tax for:			
General purposes			
Capital outlay			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Gain on sale of capital assets			
Total general revenues			
Changes in net assets			
Net assets beginning of year, as restated(Note 10)			
Net assets end of year			

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(179,438)	0	(179,438)
(252,436)	0	(252,436)
(1,855)	0	(1,855)
<u>(433,729)</u>	<u>0</u>	<u>(433,729)</u>
(8,856)	0	(8,856)
(167,842)	0	(167,842)
(168,676)	0	(168,676)
(12,771)	0	(12,771)
<u>(358,145)</u>	<u>0</u>	<u>(358,145)</u>
<u>(36,781)</u>	<u>0</u>	<u>(36,781)</u>
(1,550)	0	(1,550)
0	0	0
<u>(11,638)</u>	<u>0</u>	<u>(11,638)</u>
<u>(13,188)</u>	<u>0</u>	<u>(13,188)</u>
(841,843)	0	(841,843)
0	653	653
0	653	653
<u>(841,843)</u>	<u>653</u>	<u>(841,190)</u>
\$ 471,566	0	471,566
48,559	0	48,559
24,531	0	24,531
307,509	0	307,509
2,655	18	2,673
10,300	0	10,300
<u>865,120</u>	<u>18</u>	<u>865,138</u>
23,277	671	23,948
<u>694,841</u>	<u>12,228</u>	<u>707,069</u>
<u>\$ 718,118</u>	<u>12,899</u>	<u>731,017</u>

DIAGONAL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 4)	\$ 242,930	0	242,930
Other	381,223	121,660	502,883
Receivables:			
Property tax			
Delinquent	6,240	886	7,126
Succeeding year	407,619	68,718	476,337
Income surtax	35,077	0	35,077
Accrued interest	219	80	299
Due from other governments	19,630	9,876	29,506
TOTAL ASSETS	\$ 1,092,938	201,220	1,294,158
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 97,759	0	97,759
ISCAP warrants payable(Note 4)	245,000	0	245,000
Deferred revenue:			
Succeeding year property tax	407,619	68,718	476,337
Income surtax	35,077	0	35,077
Total liabilities	<u>785,455</u>	<u>68,718</u>	<u>854,173</u>
Fund balances:			
Reserved for:			
Talented and gifted	924	0	924
Unreserved:			
Undesignated:			
General	306,559	0	306,559
Management levy	0	31,008	31,008
Physical plant and equipment levy	0	50,826	50,826
Capital projects	0	24,531	24,531
Other special revenue purposes	0	26,137	26,137
Total fund balances	<u>307,483</u>	<u>132,502</u>	<u>439,985</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,092,938	201,220	1,294,158

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 16)	\$	439,985
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		243,949
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		35,077
Long-term liabilities, including capital loan notes, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(893)
Net assets of governmental activites (page 13)	\$	<u>718,118</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Other Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 459,260	85,396	544,656
Tuition	51,087	0	51,087
Other	58,456	67,602	126,058
State sources	548,596	40	548,636
Federal sources	681,393	0	681,393
Total revenues	<u>1,798,792</u>	<u>153,038</u>	<u>1,951,830</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,099,966	8,192	1,108,158
Special instruction	256,790	0	256,790
Other instruction	23,729	64,190	87,919
	<u>1,380,485</u>	<u>72,382</u>	<u>1,452,867</u>
Support services:			
Instructional staff services	8,197	0	8,197
Administration services	167,842	0	167,842
Operation and maintenance of plant services	118,629	74,719	193,348
Transportation services	40,214	2,460	42,674
	<u>334,882</u>	<u>77,179</u>	<u>412,061</u>
Non-instructional programs:			
Community service and education operations	36,781	0	36,781
Other expenditures:			
Long-term debt:			
Principal	0	15,706	15,706
Interest and fiscal charges	0	1,550	1,550
AEA flowthrough	35,560	0	35,560
	<u>35,560</u>	<u>17,256</u>	<u>52,816</u>
Total expenditures	<u>1,787,708</u>	<u>166,817</u>	<u>1,954,525</u>
Excess (deficiency) of revenues over (under) expenditures	11,084	(13,779)	(2,695)
OTHER FINANCING SOURCES (USES):			
Transfer in	0	17,256	17,256
Transfer out	0	(17,256)	(17,256)
Sale of property	0	10,300	10,300
TOTAL OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>10,300</u>	<u>10,300</u>
Net change in fund balances	11,084	(3,479)	7,605
Fund balance beginning of year	296,399	135,981	432,380
Fund balance end of year	<u>\$ 307,483</u>	<u>132,502</u>	<u>439,985</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (page 18) \$ 7,605

***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, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 32,783	
Depreciation expense	<u>(32,817)</u>	(34)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

15,706

Changes in net assets of governmental activities (page 15)

\$ 23,277

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

		School Nutrition
ASSETS		
Cash and pooled investments	\$	6,655
Inventories		1,939
Capital assets, net of accumulated depreciation (Note 5)		4,305
TOTAL ASSETS		12,899
 TOTAL LIABILITIES		 0
 NET ASSETS		
Investment in capital assets, net of related debt		4,305
Unrestricted		8,594
TOTAL NET ASSETS	\$	12,899

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 23,761
TOTAL OPERATING REVENUES	23,761
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	22,927
Benefits	8,612
Services	4,170
Supplies	24,162
Depreciation	736
TOTAL OPERATING EXPENSES	60,607
OPERATING LOSS	(36,846)
NON-OPERATING REVENUES:	
State sources	753
Federal sources	36,746
Interest income	18
TOTAL NON-OPERATING REVENUES	37,517
Change in net assets	671
Net assets beginning of year, as restated (Note 10)	12,228
Net assets end of year	\$ 12,899

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 23,761
Cash payments to employees for services	(31,539)
Cash payments to suppliers for goods or services	(24,289)
Net cash used in operating activities	(32,067)
Cash flows from non-capital financing activities:	
State grants received	753
Federal grants received	33,184
Net cash provided by non-capital financing activities	33,937
Cash flows from capital financing activities:	
Acquisition of assets	(2,481)
Net cash used in capital financing activities	(2,481)
Cash flows from investing activities:	
Interest on investments	18
Net cash provided by investing activities	18
Net decrease in cash and cash equivalents	(593)
Cash and cash equivalents at beginning of year	7,248
Cash and cash equivalents at end of year	\$ 6,655
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (36,846)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	3,562
Depreciation	736
Decrease in inventories	481
Net cash used in operating activities	\$ (32,067)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 6,655
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2004, the District received Federal commodities valued at \$3,562.	

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The Diagonal Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Diagonal, Iowa, and the predominate agricultural territory in Ringgold County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Diagonal 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. The Diagonal Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do 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 Ringgold County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. 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.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of

related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter 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.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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 Fund is charges to customers for sales and services. Operating expenses for 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.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash 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, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds 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 the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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 valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. 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.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations

are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 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.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$3,446 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment trust is not subject to risk categorization.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue - Physical Plant and Equipment Levy	\$ 17,255

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ 242,930	0	245,000	0

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2004.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,230	0	0	7,230
Total capital assets not being depreciated	<u>7,230</u>	<u>0</u>	<u>0</u>	<u>7,230</u>
Capital assets being depreciated:				
Buildings	572,341	0	0	572,341
Land improvements	0	24,672	0	24,672
Machinery and equipment	355,111	8,111	0	363,222
Total capital assets being depreciated	<u>927,452</u>	<u>32,783</u>	<u>0</u>	<u>960,235</u>
Less accumulated depreciation for:				
Buildings	389,034	10,404	0	399,438
Land improvements	0	1,234	0	1,234
Machinery and equipment	301,665	21,179	0	322,844
Total accumulated depreciation	<u>690,699</u>	<u>32,817</u>	<u>0</u>	<u>723,516</u>
Total capital assets being depreciated, net	<u>236,753</u>	<u>(34)</u>	<u>0</u>	<u>236,719</u>
Governmental activities capital assets, net	<u>\$ 243,983</u>	<u>(34)</u>	<u>0</u>	<u>243,949</u>
Business-type activities:				
Machinery and equipment	\$ 24,213	2,481	0	26,694
Less accumulated depreciation	21,653	736	0	22,389
Business-type activities capital assets, net	<u>\$ 2,560</u>	<u>1,745</u>	<u>0</u>	<u>4,305</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 10,525
Other		1,352
Support services:		
Instructional staff		659
Transportation		8,643
		<u>21,179</u>
Unallocated depreciation		<u>11,638</u>
Total governmental activities depreciation expense		<u>\$ 32,817</u>
Business-type activities:		
Food services		\$ 736
Total business-type activities depreciation expense		<u>\$ 736</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Capital Loan Notes	\$ 16,599	0	15,706	893	893

Capital Loan Notes Payable

Details of the District's June 30, 2004 capital loan notes indebtedness are as follows:

Year Ending June 30,	Interest Rates	Issue of July 1, 1998		
		Principal	Interest	Total
2005	5.25 %	\$ 893	23	916

(7) 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 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$69,846, \$62,171 and \$57,492 respectively, equal to the required contributions for each year.

(8) Risk Management

Diagonal 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.

(9) 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 \$35,560 for the year ended June 30, 2004 and is recorded in the General Fund

by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

Governmental Accounting Standards Board(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$906,918 were restated to \$934,682. The restatement primarily added assets to equal current listing of assets.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		
	General	Other Nonmajor Governmental Funds	Total
Net assets, June 30, 2003, as previously reported	\$ 296,399	135,981	432,380
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 296,399</u>	<u>135,981</u>	<u>432,380</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$690,699			243,983
Income surtax			35,077
Long-term liabilities:			
Capital loan notes payable			<u>(16,599)</u>
Net assets, July 1, 2003, as restated			<u>\$ 694,841</u>

	Fund
	School Nutrition
Net assets, June 30, 2003, as previously reported	\$ 9,668
Additional assets not on prior asset listing	7,292
Accumulated depreciation on added assets	<u>(4,732)</u>
Net assets, July 1, 2003, as restated for proprietary funds	<u>\$ 12,228</u>

REQUIRED SUPPLEMENTAL INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 712,511	23,779
State sources	547,626	753
Federal sources	684,145	36,746
Total receipts	<u>1,944,282</u>	<u>61,278</u>
Disbursements:		
Instruction	1,453,047	0
Support services	401,732	0
Non-instructional programs	43,920	61,871
Other expenditures	52,816	0
Total disbursements	<u>1,951,515</u>	<u>61,871</u>
Deficiency of receipts under disbursements	(7,233)	(593)
Other financing sources, net	<u>10,300</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	3,067	(593)
Balance beginning of year	<u>499,816</u>	<u>7,248</u>
Balance end of year	<u>\$ 502,883</u>	<u>6,655</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
736,290	681,093	681,093	55,197
548,379	593,996	593,996	(45,617)
720,891	1,003,564	1,003,564	(282,673)
<u>2,005,560</u>	<u>2,278,653</u>	<u>2,278,653</u>	<u>(273,093)</u>
1,453,047	1,861,968	1,861,968	408,921
401,732	428,368	428,368	26,636
105,791	106,540	106,540	749
52,816	55,371	55,371	2,555
<u>2,013,386</u>	<u>2,452,247</u>	<u>2,452,247</u>	<u>438,861</u>
(7,826)	(173,594)	(173,594)	165,768
<u>10,300</u>	<u>0</u>	<u>0</u>	<u>10,300</u>
2,474	(173,594)	(173,594)	176,068
<u>507,064</u>	<u>319,052</u>	<u>319,052</u>	<u>188,012</u>
<u>509,538</u>	<u>145,458</u>	<u>145,458</u>	<u>364,080</u>

DIAGONAL COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

Governmental Fund Types			
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 1,944,282	7,548	1,951,830
Expenses	1,951,515	3,010	1,954,525
Net	(7,233)	4,538	(2,695)
Other financing sources	10,300	0	10,300
Beginning fund balances	499,816	(67,436)	432,380
Ending fund balances	\$ 502,883	(62,898)	439,985

Proprietary Fund Type			
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 61,278	0	61,278
Expenses	61,871	(1,264)	60,607
Net	(593)	1,264	671
Beginning net assets, as restated(Note 10)	7,248	4,980	12,228
Ending net assets	\$ 6,655	6,244	12,899

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis 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 functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTAL INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds					Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 30,828	26,137	50,040	107,005	14,655	121,660
Receivables:						
Property tax:						
Delinquent	180	0	706	886	0	886
Succeeding year property tax	20,000	0	48,718	68,718	0	68,718
Accrued interest	0	0	80	80	0	80
Due from other governments	0	0	0	0	9,876	9,876
TOTAL ASSETS	\$ 51,008	26,137	99,544	176,689	24,531	201,220
LIABILITIES AND FUND EQUITY						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 20,000	0	48,718	68,718	0	68,718
Fund equity:						
Fund balances:						
Unreserved, undesignated	31,008	26,137	50,826	107,971	24,531	132,502
TOTAL LIABILITIES AND FUND EQUITY	\$ 51,008	26,137	99,544	176,689	24,531	201,220

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Project	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 12,306	0	48,559	60,865	24,531	0	85,396
Other	94	67,096	412	67,602	0	0	67,602
State sources	8	0	32	40	0	0	40
TOTAL REVENUES	12,408	67,096	49,003	128,507	24,531	0	153,038
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	8,192	0	0	8,192	0	0	8,192
Other instruction	0	64,190	0	64,190	0	0	64,190
Support services:							
Operation and maintenance of plant services	15,079	0	59,640	74,719	0	0	74,719
Transportation services	2,460	0	0	2,460	0	0	2,460
Other expenditures:							
Long-term debt:							
Principal	0	0	0	0	0	15,706	15,706
Interest and fiscal charges	0	0	0	0	0	1,550	1,550
TOTAL EXPENDITURES	25,731	64,190	59,640	149,561	0	17,256	166,817
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(13,323)	2,906	(10,637)	(21,054)	24,531	(17,256)	(13,779)
OTHER FINANCING SOURCES (USES):							
Transfer in	0	0	0	0	0	17,256	17,256
Transfer out	0	0	(17,256)	(17,256)	0	0	(17,256)
Sale of property	0	0	10,300	10,300	0	0	10,300
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(6,956)	(6,956)	0	17,256	10,300
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(13,323)	2,906	(17,593)	(28,010)	24,531	0	(3,479)
FUND BALANCE BEGINNING OF YEAR	44,331	23,231	68,419	135,981	0	0	135,981
FUND BALANCE END OF YEAR	\$ 31,008	26,137	50,826	107,971	24,531	0	132,502

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 2,621	18,249	19,070	1,800
Concessions	9,699	14,039	11,497	12,241
Class of 2002	29	0	29	0
Class of 2003	631	0	214	417
Class of 2004	4,318	10,188	14,563	(57)
Class of 2005	24	12,967	8,604	4,387
Class of 2006	(2)	356	18	336
Class of 2007	16	0	18	(2)
Annual	2,882	2,904	3,457	2,329
Drama	2,160	610	1,705	1,065
Music	701	748	1,298	151
Industrial Arts	302	236	334	204
Student Council	132	408	99	441
Bookrent	86	0	47	39
Other	(649)	5,976	3,377	1,950
Lil League Boys	0	100	(72)	172
Lil League Girls	0	100	(68)	168
Computers	56	215	0	271
Memorial	225	0	0	225
	<u>\$ 23,231</u>	<u>67,096</u>	<u>64,190</u>	<u>26,137</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 544,656	479,041	431,804	436,744
Tuition	51,087	63,622	56,553	49,093
Other	126,058	128,314	120,003	161,929
State sources	548,636	576,442	678,428	687,857
Federal sources	681,393	706,855	612,787	65,359
Total	<u>\$ 1,951,830</u>	<u>1,954,274</u>	<u>1,899,575</u>	<u>1,400,982</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,108,158	1,175,371	1,138,679	586,551
Special instruction	256,790	230,952	253,868	253,471
Other instruction	87,919	76,823	88,721	77,518
Support services:				
Student services	0	1,765	9,115	10,047
Instructional staff services	8,197	11,168	693	6,675
Administration services	167,842	162,787	169,466	168,428
Operation and maintenance of plant services	193,348	137,459	119,540	131,544
Transportation services	42,674	46,104	43,533	45,392
Non-instructional programs	36,781	29,874	40,823	40,720
Other expenditures:				
Long-term debt:				
Principal	15,706	15,761	14,965	14,210
Interest and fiscal charges	1,550	1,495	2,291	3,046
AEA flow-through	35,560	38,980	39,669	42,182
Total	<u>\$ 1,954,525</u>	<u>1,928,539</u>	<u>1,921,363</u>	<u>1,379,784</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 04	\$ 504,685
RURAL EDUCATION ACHIEVEMENT PROGRAM (REAP)	84.358	FY 04	15,054
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	3,562
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	4,982
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	24,716
SPECIAL MILK PROGRAM	10.556	FY 04	3,486
			<u>33,184</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 04	44,108
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	1,067
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	826
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	8,729
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 04	465
CLEARFIELD COMMUNITY SCHOOL DISTRICT:			
READING FIRST STATE GRANTS	84.357	FY 04	42,517
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)			
	84.027	FY 04	4,354
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)			
	84.027	FY 04	596

DIAGONAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DEPARTMENT OF HUMAN SERVICES:			
CHILD CARE DEVELOPMENT BLOCK GRANTS			
WRAP AROUND GRANT	93.575	FY 04	<u>46,858</u>
LEARN AND SERVE AMERICA - SCHOOL AND			
COMMUNITY BASED PROGRAMS (COMSERV)	94.004	FY 04	<u>4,500</u>
TOTAL			<u>\$ 710,505</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Diagonal Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the
Diagonal Community School District:

We have audited the financial statements of Diagonal Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated February 2, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Diagonal Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance 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 an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Diagonal Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs.

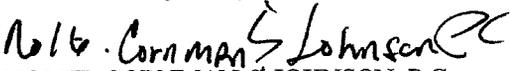
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in

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the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Diagonal Community School District and other parties to whom Diagonal Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Diagonal 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.


NOLTE, CORNMAN & JOHNSON, P.C.

February 2, 2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education of
Diagonal Community School District

Compliance

We have audited the compliance of Diagonal Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Diagonal Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Diagonal Community School District's management. Our responsibility is to express an opinion on Diagonal Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and 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 provisions 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 Diagonal Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Diagonal Community School District's compliance with those requirements.

In our opinion, Diagonal Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Diagonal Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Diagonal Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Diagonal Community School District's ability to administer a major

federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Diagonal Community School District and other parties to whom Diagonal Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

February 2, 2005

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Individual
 - CFDA Number 84.287 - Twenty-First Century Community Learning Centers
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Diagonal Community School District did not qualify as a low-risk auditee.

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-04 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will review our procedures.

Conclusion - Response accepted.

II-C-04 Free and Reduced Lunch Applications - We noted during our audit of the free and reduced lunch applications that one was marked as free, but actually should have been marked as reduced and one was marked as reduced, but actually should not have been accepted to participate and should have paid full price.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response - We will contact Department of Education to correct the necessary reports. The District is also reviewing procedures in place for filing free and reduced lunch applications.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.287 - Twenty-First Century Community Learning Grants
Federal Award Year: 2004
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

- IV-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.
- IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-04 Business Transactions - No business transactions between the District and District officials were noted.
- IV-F-04 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.
- IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.