

DIAGONAL COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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Diagonal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2008 Election)		
Phil Mason	President	2009
Monte Starlin	Vice President	2008
Pam Grace	Board Member	2008
Becky Stamps	Board Member	2010
Jim Strange	Board Member	2010
Board of Education (After September 2008 Election)		
Phil Mason	President	2009
Monte Starlin	Vice President	2009
Pam Grace	Board Member	2011
Becky Stamps	Board Member	2011*
Jim Strange	Board Member	2011*
School Officials		
Karleen Stephens	Superintendent	2009
Billie Jo Greene	District Secretary/ Treasurer	2009
Marion James	Attorney	2009

* Board term extended per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
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, the business type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District, Diagonal, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

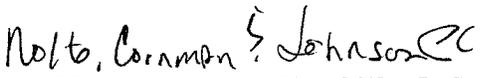
In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2010 on our consideration of Diagonal Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. 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 five years ended June 30, 2008 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4 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 3, 2010

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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,211,115 in fiscal 2008 to \$2,040,949 in fiscal 2009, while General Fund expenditures decreased from \$2,192,497 in fiscal 2008 to \$2,043,661 in fiscal 2009. This resulted in a decrease in the District's General Fund balance from \$347,813 in fiscal 2008 to \$345,101 in fiscal 2009, a 0.78% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in federal revenue sources in fiscal 2009. The decrease in expenditures was due primarily to a reduction in instructional expenditures.

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.

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

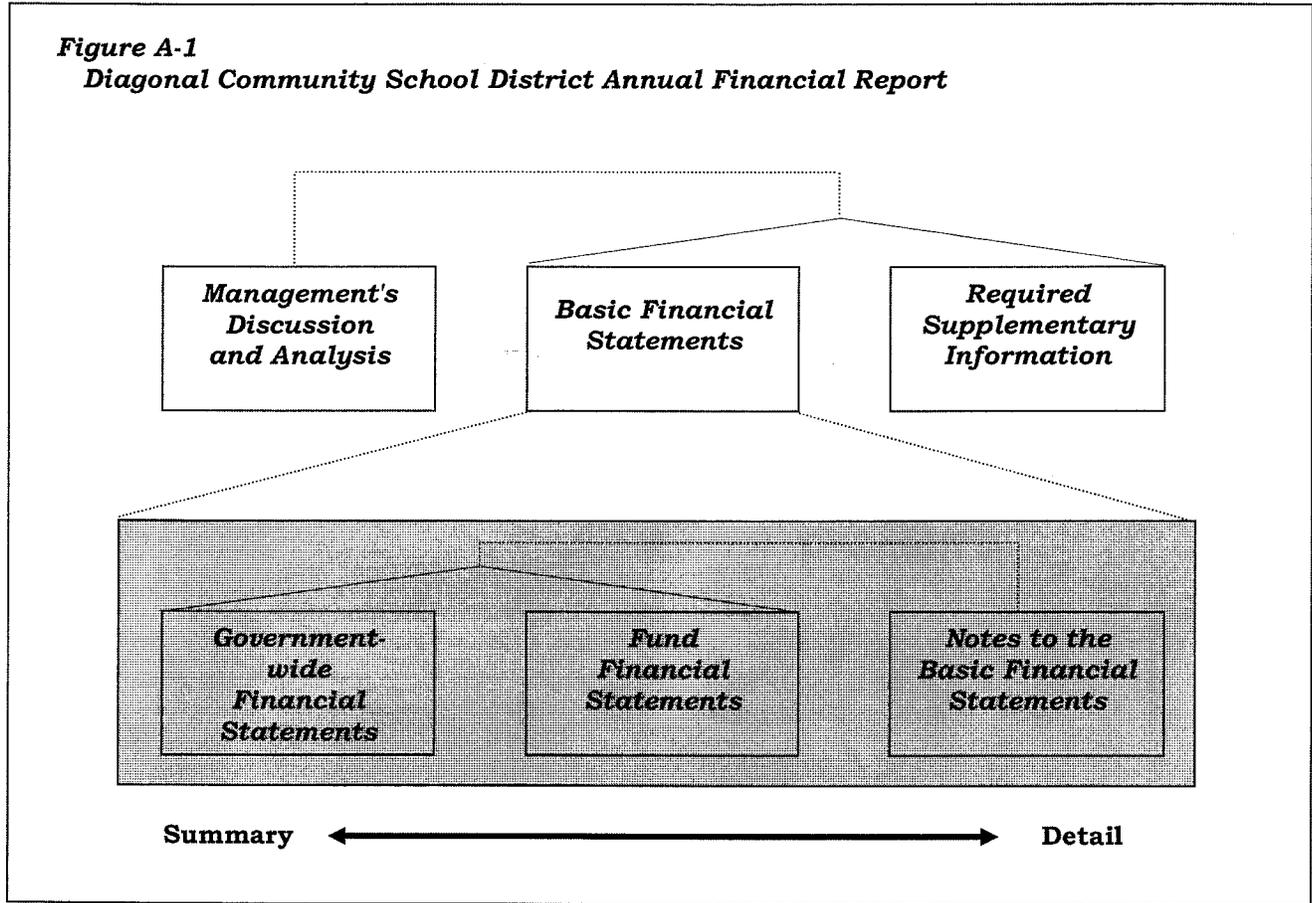


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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 and Capital Projects.

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.

Reconciliation 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 at June 30, 2009 compared to June 30, 2008.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 1,530,637	1,334,285	17,869	26,147	1,548,506	1,360,432	13.82%
Capital assets	529,051	495,866	13,318	10,933	542,369	506,799	7.02%
Total assets	<u>2,059,688</u>	<u>1,830,151</u>	<u>31,187</u>	<u>37,080</u>	<u>2,090,875</u>	<u>1,867,231</u>	<u>11.98%</u>
Other liabilities	958,445	800,114	5,543	1,926	963,988	802,040	20.19%
Total liabilities	<u>958,445</u>	<u>800,114</u>	<u>5,543</u>	<u>1,926</u>	<u>963,988</u>	<u>802,040</u>	<u>20.19%</u>
Net assets:							
Invested in capital assets	529,051	495,866	13,318	10,933	542,369	506,799	7.02%
Restricted	259,947	176,530	0	0	259,947	176,530	47.25%
Unrestricted	312,245	357,641	12,326	24,221	324,571	381,862	-15.00%
Total net assets	<u>\$ 1,101,243</u>	<u>1,030,037</u>	<u>25,644</u>	<u>35,154</u>	<u>1,126,887</u>	<u>1,065,191</u>	<u>5.79%</u>

The District's combined net assets increased by 5.79% or \$61,696 over the prior year. A portion of the District's net assets is the invested in capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$83,417 or 47.25% over the prior year. The increase was primarily due to the increase in the fund balance of the Capital Projects Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$57,291 or 15.00%. The decrease was primarily due to the decrease in the unrestricted fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to June 30, 2008.

	Figure A-4 Changes of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change	
	2009	2008	2009	2008	2009	2008	2008-09	
Revenues:								
Program revenues:								
Charges for services	\$ 395,625	481,680	27,143	28,362	422,768	510,042		-17.11%
Operating grants and contributions and restricted interest	528,373	862,644	49,698	42,874	578,071	905,518		-36.16%
Capital grants and contributions and restricted interest	-	25,000	-	-	-	25,000		-100.00%
General revenues:								
Property tax	523,590	489,225	-	-	523,590	489,225		7.02%
Income surtax	56,900	60,472	-	-	56,900	60,472		-5.91%
Statewide sales and services tax	55,752	62,803	-	-	55,752	62,803		-11.23%
Unrestricted state grants	455,424	423,423	-	-	455,424	423,423		7.56%
Other	250,008	50,969	23	45	250,031	51,014		390.12%
Total revenues	<u>2,265,672</u>	<u>2,456,216</u>	<u>76,864</u>	<u>71,281</u>	<u>2,342,536</u>	<u>2,527,497</u>		<u>-7.32%</u>
Program expenses:								
Governmental activities:								
Instructional	1,622,437	1,771,384	-	-	1,622,437	1,771,384		-8.41%
Support services	478,506	497,846	-	-	478,506	497,846		-3.88%
Non-instructional programs	-	-	86,374	67,410	86,374	67,410		28.13%
Other expenses	93,523	66,979	-	-	93,523	66,979		39.63%
Total expenses	<u>2,194,466</u>	<u>2,336,209</u>	<u>86,374</u>	<u>67,410</u>	<u>2,280,840</u>	<u>2,403,619</u>		<u>-5.11%</u>
Changes in net assets	71,206	120,007	(9,510)	3,871	61,696	123,878		-50.20%
Net assets beginning of year	<u>1,030,037</u>	<u>910,030</u>	<u>35,154</u>	<u>31,283</u>	<u>1,065,191</u>	<u>941,313</u>		<u>13.16%</u>
Net assets end of year	<u>\$ 1,101,243</u>	<u>1,030,037</u>	<u>25,644</u>	<u>35,154</u>	<u>1,126,887</u>	<u>1,065,191</u>		<u>5.79%</u>

In fiscal 2009, property tax, income surtax, statewide sales and services tax and unrestricted state grants account for 48.18% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.97% of the revenue from business type activities.

The District's total revenues were \$2,342,536 of which \$2,265,672 was for governmental activities and \$76,864 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 7.32% decrease in revenues and a 5.11% decrease in expenses. The decrease in revenues was related to decreases in tuition and operating grants, contributions and restricted interest. The decrease in expenses resulted primarily due to decreases in instruction expenditures.

Governmental Activities

Revenues for governmental activities were \$2,265,672 and expenses were \$2,194,466.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 1,622,437	1,771,384	-8.41%	737,311	465,042	58.55%
Support services	478,506	497,846	-3.88%	478,506	497,846	-3.88%
Other expenses	93,523	66,979	39.63%	54,651	3,997	1267.30%
Totals	\$ 2,194,466	2,336,209	-6.07%	1,270,468	966,885	31.40%

- The cost financed by users of the District's programs was \$395,625.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$528,373.
- The net cost of governmental activities was financed with \$523,590 in local tax, \$56,900 in income surtax, \$55,752 in statewide sales and service tax, \$455,424 in unrestricted state grants, \$11,698 in interest income and \$238,310 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$76,864 and expenses were \$86,374. 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 \$528,080, above last year's ending fund balances of \$492,881. The primary reason for the increase was increases in the fund balances of the Management Fund and Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$347,813 on June 30, 2008 to \$345,101 on June 30, 2009. The fluctuation in the District's General Fund financial position is the product of many factors. A decrease in the federal source revenue during the year resulted in a decrease in total revenues. The decrease in expenditures was due mainly to the decreases in instructional areas. Expenditures exceeded revenues causing a decrease in the District's General Fund balance.
- The Capital Projects fund balance increased from \$20,929 in 2008 to \$63,813 in 2009. This resulted primarily from decreased expenditures for facilities acquisitions.
- The Management fund balance increased from \$39,325 in 2008 to \$57,566 in 2009. This resulted mainly from a decrease in expenditures during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$35,154 at June 30, 2008 to \$25,644 at June 30, 2009, representing a decrease of 27.05%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$343,088 less than budgeted revenues, a variance of 12.79%. 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 not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$542,369, 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) This amount represents a net increase of 7.02% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$63,385.

The original cost of the District's capital assets was \$1,411,407. Governmental funds account for \$1,374,418 with the remainder of \$36,989 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements, net of depreciation totaled \$56,625 at June 30, 2009, compared to \$38,462 reported at June 30, 2008.

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	2008-09
Land	\$ 7,230	7,230	0	0	7,230	7,230	0.00%
Buildings	370,055	356,663	0	0	370,055	356,663	3.75%
Land improvements	56,625	38,462	0	0	56,625	38,462	47.22%
Machinery and equipment	95,141	93,511	13,318	10,933	108,459	104,444	3.84%
Total	<u>\$ 529,051</u>	<u>495,866</u>	<u>13,318</u>	<u>10,933</u>	<u>542,369</u>	<u>506,799</u>	<u>7.02%</u>

Long-Term Debt

At June 30, 2009, there was no long-term debt noted for the District.

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 may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- With the September 25, 2009 ten percent across-the-board reduction, the District will continue to implement cost-saving measures and develop a plan for the remainder of the 2009/2010 year. The Board of Education will determine what cost-saving measures we will implement and how much we can spend from our reserves.
- The District continues to receive Statewide 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 2005 and will continue through December 2013.

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 Billie Jo Greene, District Board Secretary/Treasurer, 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, 2009

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP	\$ 274,779	-	274,779
Other	461,442	11,518	472,960
Receivables:			
Property tax:			
Delinquent	9,894	-	9,894
Succeeding year	538,631	-	538,631
Income surtax	44,112	-	44,112
Accounts	9,482	20	9,502
Accrued ISCAP interest	2,954	-	2,954
Due from other governments	189,343	4,043	193,386
Inventories	-	2,288	2,288
Capital assets, net of accumulated depreciation	529,051	13,318	542,369
Total assets	2,059,688	31,187	2,090,875
Liabilities			
Accounts payable	101,743	2,258	104,001
Salaries and benefits payable	32,276	2,422	34,698
ISCAP warrants payable	271,000	-	271,000
ISCAP interest payable	2,270	-	2,270
ISCAP premiums payable	3,810	-	3,810
Deferred revenue:			
Succeeding year property tax	538,631	-	538,631
Other	8,715	-	8,715
Unearned revenue	-	863	863
Total liabilities	958,445	5,543	963,988
Net Assets			
Invested in capital assets	529,051	13,318	542,369
Restricted for:			
Categorical funding	76,968	-	76,968
Capital projects	63,813	-	63,813
Management levy	57,566	-	57,566
Physical plant and equipment levy	41,903	-	41,903
Other special revenue purposes	19,697	-	19,697
Unrestricted	312,245	12,326	324,571
Total net assets	\$ 1,101,243	25,644	1,126,887

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 750,356	246,408	484,205	(19,743)	-	(19,743)
Special	778,592	89,719	5,296	(683,577)	-	(683,577)
Other	93,489	59,498	-	(33,991)	-	(33,991)
	<u>1,622,437</u>	<u>395,625</u>	<u>489,501</u>	<u>(737,311)</u>	<u>-</u>	<u>(737,311)</u>
Support services:						
Instructional staff	4,706	-	-	(4,706)	-	(4,706)
Administration	235,817	-	-	(235,817)	-	(235,817)
Operation and maintenance of plant	163,366	-	-	(163,366)	-	(163,366)
Transportation	74,617	-	-	(74,617)	-	(74,617)
	<u>478,506</u>	<u>-</u>	<u>-</u>	<u>(478,506)</u>	<u>-</u>	<u>(478,506)</u>
Other expenditures:						
Facilities acquisitions	29,416	-	-	(29,416)	-	(29,416)
AEA flowthrough	38,872	-	38,872	-	-	-
Depreciation(unallocated) *	25,235	-	-	(25,235)	-	(25,235)
	<u>93,523</u>	<u>-</u>	<u>38,872</u>	<u>(54,651)</u>	<u>-</u>	<u>(54,651)</u>
Total governmental activities	2,194,466	395,625	528,373	(1,270,468)	-	(1,270,468)
Business type activities:						
Non-instructional programs:						
Nutrition services	86,374	27,143	49,698	-	(9,533)	(9,533)
Total business type activities	<u>86,374</u>	<u>27,143</u>	<u>49,698</u>	<u>-</u>	<u>(9,533)</u>	<u>(9,533)</u>
Total	<u>\$ 2,280,840</u>	<u>422,768</u>	<u>578,071</u>	<u>(1,270,468)</u>	<u>(9,533)</u>	<u>(1,280,001)</u>
General Revenues:						
Local tax for:						
General purposes				\$ 473,322	-	473,322
Capital outlay				50,268	-	50,268
Income surtax				56,900	-	56,900
Statewide sales and services tax				55,752	-	55,752
Unrestricted state grants				455,424	-	455,424
Unrestricted investment earnings				11,698	23	11,721
Other general revenues				238,310	-	238,310
Total general revenues				<u>1,341,674</u>	<u>23</u>	<u>1,341,697</u>
Changes in net assets				71,206	(9,510)	61,696
Net assets beginning of year				<u>1,030,037</u>	<u>35,154</u>	<u>1,065,191</u>
Net assets end of year				<u>\$ 1,101,243</u>	<u>25,644</u>	<u>1,126,887</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Other Nonmajor Governmental Funds	Total
Assets			
Cash and pooled investments:			
ISCAP	\$ 274,779	-	274,779
Other	288,236	173,206	461,442
Receivables:			
Property tax:			
Delinquent	8,091	1,803	9,894
Succeeding year	440,874	97,757	538,631
Income surtax	44,112	-	44,112
Accounts	9,138	344	9,482
Accrued ISCAP interest	2,954	-	2,954
Due from other governments	174,058	15,285	189,343
Total assets	\$ 1,242,242	288,395	1,530,637
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 94,084	7,659	101,743
Salaries and benefits payable	32,276	-	32,276
ISCAP warrants payable	271,000	-	271,000
ISCAP interest payable	2,270	-	2,270
ISCAP premiums payable	3,810	-	3,810
Deferred revenue:			
Succeeding year property tax	440,874	97,757	538,631
Income surtax	44,112	-	44,112
Other	8,715	-	8,715
Total liabilities	897,141	105,416	1,002,557
Fund balances:			
Reserved for:			
Categorical funding	76,968	-	76,968
Unreserved	268,133	182,979	451,112
Total fund balances	345,101	182,979	528,080
Total liabilities and fund balances	\$ 1,242,242	288,395	1,530,637

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2009

Total fund balances of governmental funds (page 15)	\$	528,080
 <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 reported as assets in in the governmental funds.		529,051
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		<u>44,112</u>
Net assets of governmental activities (page 13)	\$	<u><u>1,101,243</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 482,346	151,074	633,420
Tuition	336,127	-	336,127
Other	238,679	70,827	309,506
State sources	866,197	-	866,197
Federal sources	117,600	-	117,600
Total revenues	<u>2,040,949</u>	<u>221,901</u>	<u>2,262,850</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	720,198	31,512	751,710
Special	778,592	-	778,592
Other	31,850	61,639	93,489
	<u>1,530,640</u>	<u>93,151</u>	<u>1,623,791</u>
Support services:			
Instructional staff	3,141	1,449	4,590
Administration	235,817	-	235,817
Operation and maintenance of plant	160,182	3,184	163,366
Transportation	75,009	-	75,009
	<u>474,149</u>	<u>4,633</u>	<u>478,782</u>
Other expenditures:			
Facilities acquisitions	-	86,206	86,206
AEA flowthrough	38,872	-	38,872
	<u>38,872</u>	<u>86,206</u>	<u>125,078</u>
Total expenditures	<u>2,043,661</u>	<u>183,990</u>	<u>2,227,651</u>
Net change in fund balances	(2,712)	37,911	35,199
Fund balance beginning of year	347,813	145,068	492,881
Fund balance end of year	<u>\$ 345,101</u>	<u>182,979</u>	<u>528,080</u>

SEE NOTES TO BASIC 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, 2009

Net change in fund balances - total governmental funds(page 17) \$ 35,199

*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. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 94,319	
Depreciation expense	<u>(61,134)</u>	33,185

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	<u>2,822</u>
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Changes in net assets of governmental activities(page 14)	<u><u>\$ 71,206</u></u>
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	School Nutrition
Assets	
Cash and pooled investments	\$ 11,518
Receivables:	
Accounts	20
Due from other governments	4,043
Inventories	2,288
Capital assets, net of accumulated depreciation	13,318
Total assets	31,187
 Liabilities	
Accounts payable	2,258
Salaries and benefits payable	2,422
Unearned revenue	863
Total liabilities	5,543
 Net Assets	
Invested in capital assets	13,318
Unrestricted	12,326
Total net assets	\$ 25,644

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 27,143
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	32,119
Benefits	4,457
Supplies	47,547
Depreciation	2,251
TOTAL OPERATING EXPENSES	<u>86,374</u>
OPERATING LOSS	<u>(59,231)</u>
NON-OPERATING REVENUES:	
State sources	761
Federal sources	48,937
Interest income	23
TOTAL NON-OPERATING REVENUES	<u>49,721</u>
Change in net assets	(9,510)
Net assets beginning of year	<u>35,154</u>
Net assets end of year	<u>\$ 25,644</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 28,217
Cash payments to employees for services	(34,154)
Cash payments to suppliers for goods or services	(42,826)
Net cash used in operating activities	(48,763)
Cash flows from non-capital financing activities:	
State grants received	761
Federal grants received	40,559
Net cash provided by non-capital financing activities	41,320
Cash flows from capital financing activities:	
Acquisition of assets	(4,636)
Cash flows from investing activities:	
Interest on investments	23
Net decrease in cash and cash equivalents	(12,056)
Cash and cash equivalents at beginning of year	23,574
Cash and cash equivalents at end of year	\$ 11,518
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (59,231)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,413
Depreciation	2,251
Increase in inventories	(45)
Decrease in accounts receivable	232
Increase in accounts payable	353
Increase in salaries and benefits payable	2,422
Increase in unearned revenues	842
Net cash used in operating activities	\$ (48,763)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 11,518
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2009, the District received Federal commodities valued at \$4,413.	

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

(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 consists of capital assets, net of accumulated depreciation.

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 proprietary fund:

The District's proprietary fund is 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 Balances

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

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, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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

Capital assets 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 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.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The

lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - 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 Balances - 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, 2009 were entirely covered by federal depository insurance or 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 as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 129,352</u>

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 Schools Joint Investment Trust were rated Aaa by Moody's Investors Services.

(3) 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, 2009 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2008-09A	6/26/08	6/25/09	\$ -	1,349	-	-
2008-09B	1/21/09	1/21/10	172,180	1,592	170,000	2,236
2009-10A	6/25/09	6/23/10	102,599	13	101,000	34
			<u>\$ 274,779</u>	<u>2,954</u>	<u>271,000</u>	<u>2,270</u>

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, 2009.

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
2008-09A	3.500%	3.469%
2008-09B	3.000%	2.110%
2009-10A	2.500%	0.902%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,230	-	-	7,230
Total capital assets not being depreciated	<u>7,230</u>	<u>-</u>	<u>-</u>	<u>7,230</u>
Capital assets being depreciated:				
Buildings	810,907	35,137	-	846,044
Land improvements	48,152	21,653	-	69,805
Machinery and equipment	413,810	37,529	-	451,339
Total capital assets being depreciated	<u>1,272,869</u>	<u>94,319</u>	<u>-</u>	<u>1,367,188</u>
Less accumulated depreciation for:				
Buildings	454,244	21,745	-	475,989
Land improvements	9,690	3,490	-	13,180
Machinery and equipment	320,299	35,899	-	356,198
Total accumulated depreciation	<u>784,233</u>	<u>61,134</u>	<u>-</u>	<u>845,367</u>
Total capital assets being depreciated, net	<u>488,636</u>	<u>33,185</u>	<u>-</u>	<u>521,821</u>
Governmental activities capital assets, net	<u>\$ 495,866</u>	<u>33,185</u>	<u>-</u>	<u>529,051</u>
Business type activities:				
Machinery and equipment	\$ 34,020	4,636	1,667	36,989
Less accumulated depreciation	23,087	2,251	1,667	23,671
Business type activities capital assets, net	<u>\$ 10,933</u>	<u>2,385</u>	<u>-</u>	<u>13,318</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 21,470
Support services:		
Instructional staff		116
Transportation		14,313
		<u>35,899</u>
Unallocated depreciation		<u>25,235</u>
Total governmental activities depreciation expense		<u>\$ 61,134</u>
Business type activities:		
Food services		<u>\$ 2,251</u>

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$76,555, \$81,970 and \$75,379 respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

GASB Statement No.45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement No.45.

(7) 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.

(8) 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 \$38,872 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Categorical Funding

The District's ending reserved balances for categorical funding by project as of June 30, 2009 are as follows:

Project	Amount
Gifted and talented programs	\$ 25,102
Market factor	1,024
Parent education for at risk	2,632
Before and after school grants	47,224
Market factor incentives	986
	\$ 76,968
Total reserved for categorical funding	\$ 76,968

REQUIRED SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 1,279,053	27,166	1,306,219	1,277,447	1,277,447	28,772
State sources	866,197	761	866,958	769,355	769,355	97,603
Federal sources	117,600	48,937	166,537	636,000	636,000	(469,463)
Total revenues	<u>2,262,850</u>	<u>76,864</u>	<u>2,339,714</u>	<u>2,682,802</u>	<u>2,682,802</u>	<u>(343,088)</u>
Expenditures/Expenses:						
Instruction	1,623,791	-	1,623,791	2,286,219	2,286,219	662,428
Support services	478,782	-	478,782	612,705	612,705	133,923
Non-instructional programs	-	86,374	86,374	136,782	136,782	50,408
Other expenditures	125,078	-	125,078	160,260	160,260	35,182
Total expenditures/expenses	<u>2,227,651</u>	<u>86,374</u>	<u>2,314,025</u>	<u>3,195,966</u>	<u>3,195,966</u>	<u>881,941</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	35,199	(9,510)	25,689	(513,164)	(513,164)	538,853
Balance beginning of year	492,881	35,154	528,035	513,164	513,164	14,871
Balance end of year	<u>\$ 528,080</u>	<u>25,644</u>	<u>553,724</u>	-	-	<u>553,724</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

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 comparison 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, 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 GAAP basis.

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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

	Special Revenue					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 56,714	21,838	41,274	119,826	53,380	173,206
Receivables:						
Property tax:						
Delinquent	852	-	951	1,803	-	1,803
Succeeding year property tax	45,000	-	52,757	97,757	-	97,757
Accounts	-	344	-	344	-	344
Due from other governments	-	-	-	-	15,285	15,285
Total assets	\$ 102,566	22,182	94,982	219,730	68,665	288,395
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ -	2,485	322	2,807	4,852	7,659
Deferred revenue:						
Succeeding year property tax	45,000	-	52,757	97,757	-	97,757
Total liabilities	45,000	2,485	53,079	100,564	4,852	105,416
Unreserved fund balances	57,566	19,697	41,903	119,166	63,813	182,979
Total liabilities and fund balances	\$ 102,566	22,182	94,982	219,730	68,665	288,395

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, 2009

	Special Revenue					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 45,054	-	50,268	95,322	55,752	151,074
Other	4,764	58,248	7,598	70,610	217	70,827
TOTAL REVENUES	49,818	58,248	57,866	165,932	55,969	221,901
EXPENDITURES:						
Current:						
Instruction:						
Regular	31,512	-	-	31,512	-	31,512
Other	-	61,639	-	61,639	-	61,639
Support services:						
Instructional staff	-	-	-	-	1,449	1,449
Operation and maintenance of plant	65	-	3,119	3,184	-	3,184
Other expenditures:						
Facilities acquisition	-	-	74,570	74,570	11,636	86,206
TOTAL EXPENDITURES	31,577	61,639	77,689	170,905	13,085	183,990
Net change in fund balances	18,241	(3,391)	(19,823)	(4,973)	42,884	37,911
Fund balance beginning of year	39,325	23,088	61,726	124,139	20,929	145,068
Fund balance end of year	\$ 57,566	19,697	41,903	119,166	63,813	182,979

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 710	17,009	17,395	324
Concessions	10,577	10,943	15,560	5,960
Class of 2009	2,864	10,285	13,149	-
Class of 2010	170	14,540	11,348	3,362
Annual	2,717	3,163	1,242	4,638
Drama	2,893	-	-	2,893
Student Council	110	-	-	110
Maroon Reader	1,848	2,308	2,945	1,211
Memorials	902	-	-	902
Class Memorials	297	-	-	297
Total	\$ 23,088	58,248	61,639	19,697

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 SIX YEARS

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 633,420	607,635	566,458	559,857	546,400	544,656
Tuition	336,127	292,589	267,538	92,408	67,507	51,087
Other	309,506	240,060	292,187	391,741	91,851	126,058
State sources	866,197	745,083	705,559	594,677	660,783	548,636
Federal sources	117,600	565,984	597,650	513,842	675,119	681,393
Total	\$ 2,262,850	2,451,351	2,429,392	2,152,525	2,041,660	1,951,830
Expenditures:						
Current:						
Instruction:						
Regular	\$ 751,710	840,950	938,263	789,828	699,770	1,108,158
Special	778,592	227,815	184,185	161,538	280,114	256,790
Other	93,489	692,388	737,560	603,817	589,192	87,919
Support services:						
Student	-	4,201	-	-	7,702	-
Instructional staff	4,590	15,139	20,779	21,308	2,285	8,197
Administration	235,817	234,017	229,767	200,702	210,383	167,842
Operation and maintenance of plant	163,366	170,872	164,230	143,747	141,915	193,348
Transportation	75,009	61,290	108,348	56,573	37,790	42,674
Non-instructional programs	-	-	-	-	-	36,781
Other expenditures:						
Facilities acquisitions	86,206	111,836	130,986	38,958	16,495	-
Long-term debt:						
Principal	-	-	-	-	893	15,706
Interest and fiscal charges	-	-	-	-	30	1,550
AEA flow-through	38,872	37,982	37,546	35,408	35,430	35,560
Total	\$ 2,227,651	2,396,490	2,551,664	2,051,879	2,021,999	1,954,525

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
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Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

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

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 Diagonal Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 3, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Diagonal Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Diagonal Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Diagonal Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Diagonal Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Diagonal Community School District's financial statements that is more than inconsequential will not be prevented or detected by Diagonal Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Diagonal Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-09 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 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.

Diagonal Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Diagonal Community School District's responses and, accordingly, we express no opinion on them.

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.

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 PC
NOLTE, CORNMAN & JOHNSON, P.C.

February 3, 2010

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-09 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 are reviewing internal controls and procedures that can be implemented to help with the segregation of duties.

Conclusion - Response accepted.

CONTROL DEFICIENCIES:

I-B-09 Gate Admissions - It was noted that while the District does utilize pre-numbered tickets for event admissions, reconciliation is not performed after the event.

Recommendation - The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.

- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the “accounting” function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District’s vault or other secure location at the District’s office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - A set dollar amount for gate and concession boxes has been established, pre-numbered tickets are being used, and other recommendations are being done as well.

Conclusion - Response accepted.

I-C-09 Receipting Procedures - We noted that sponsors of student organizations were collecting money from individuals, fundraising events and other revenue fees. These collections are turned into the office for receipting, depositing and posting after the event or fundraising drive is completed. When the money is turned into the office, the sponsor does not receive a receipt to be used for supporting documentation or for subsequent reconciliation.

Recommendation - When sponsors or fundraising chairpersons submit money to the office for multiple previously collected receipts, they should provide documentation of their receipts and receive a receipt from the office for the total submitted. This documentation should be used when reconciling deposits to receipts.

Response - Receipts are given to fund-raising chairpersons.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Statutory Reporting

- II-A-09 Certified Budget - No instances were noted for the year ended June 30, 2009 where District expenditures exceeded the certified budget amounts.
- II-B-09 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.
- II-C-09 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.
- II-D-09 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Monte Starlin, Board Member Owns Starlin Construction	Pipe repair	\$300

In accordance with the Chapter 279.7A of the code of Iowa, the above transaction with the board member does not appear to represent a conflict of interest.

- II-E-09 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.
- II-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-09 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-09 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.
- II-I-09 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.
- II-J-09 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-K-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services 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 and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance		\$	-
Statewide sales and services tax			55,752
Expenditures/Transfers out:			
School infrastructure:			
Buildings	\$	10,400	
Equipment		1,449	
Other improvements		1,236	13,085
			<u>13,085</u>
Ending balance		\$	<u>42,667</u>

II-L-09 Officiating Contracts - We noted during our audit that the Board President was not signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - All contracts are signed by the Board President.

Conclusion - Response accepted.