

DIAGONAL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2010

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Diagonal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2009 Election)</b>		
Phil Mason	President	2009
Monte Starlin	Vice President	2009
Pam Grace	Board Member	2011
Becky Stamps	Board Member	2011
Jim Strange	Board Member	2011
<b>Board of Education (After September 2009 Election)</b>		
Phil Mason	President	2013
Jim Strange	Vice President	2011
Pam Grace	Board Member	2011
Becky Stamps	Board Member	2011
Amy Herr	Board Member	2013
<b>School Officials</b>		
Karleen Stephens	Superintendent	2010
Billie Jo Greene	District Secretary/ Treasurer	2010
Marion James	Attorney	2010

DIAGONAL COMMUNITY SCHOOL DISTRICT

**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, 2010, 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, 2010, 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 March 9, 2011 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 7 through 15 and 36 through 37 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 six years ended June 30, 2009 (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 PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

March 9, 2011

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$2,040,949 in fiscal 2009 to \$1,881,185 in fiscal 2010, while General Fund expenditures decreased from \$2,043,661 in fiscal 2009 to \$1,907,212 in fiscal 2010. This resulted in a decrease in the District's General Fund balance from \$345,101 in fiscal 2009 to \$319,074 in fiscal 2010, a 7.54% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state revenue sources in fiscal 2010. The decrease in expenditures was due primarily to a reduction in instructional expenditures.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) increased as compared to fiscal 2009. At June 30, 2009 the District's solvency ratio was 13.14% as compared to 14.09% at June 30, 2010. The State School Budget Review Committee recommends a solvency ratio of 5%-10%.

### **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.

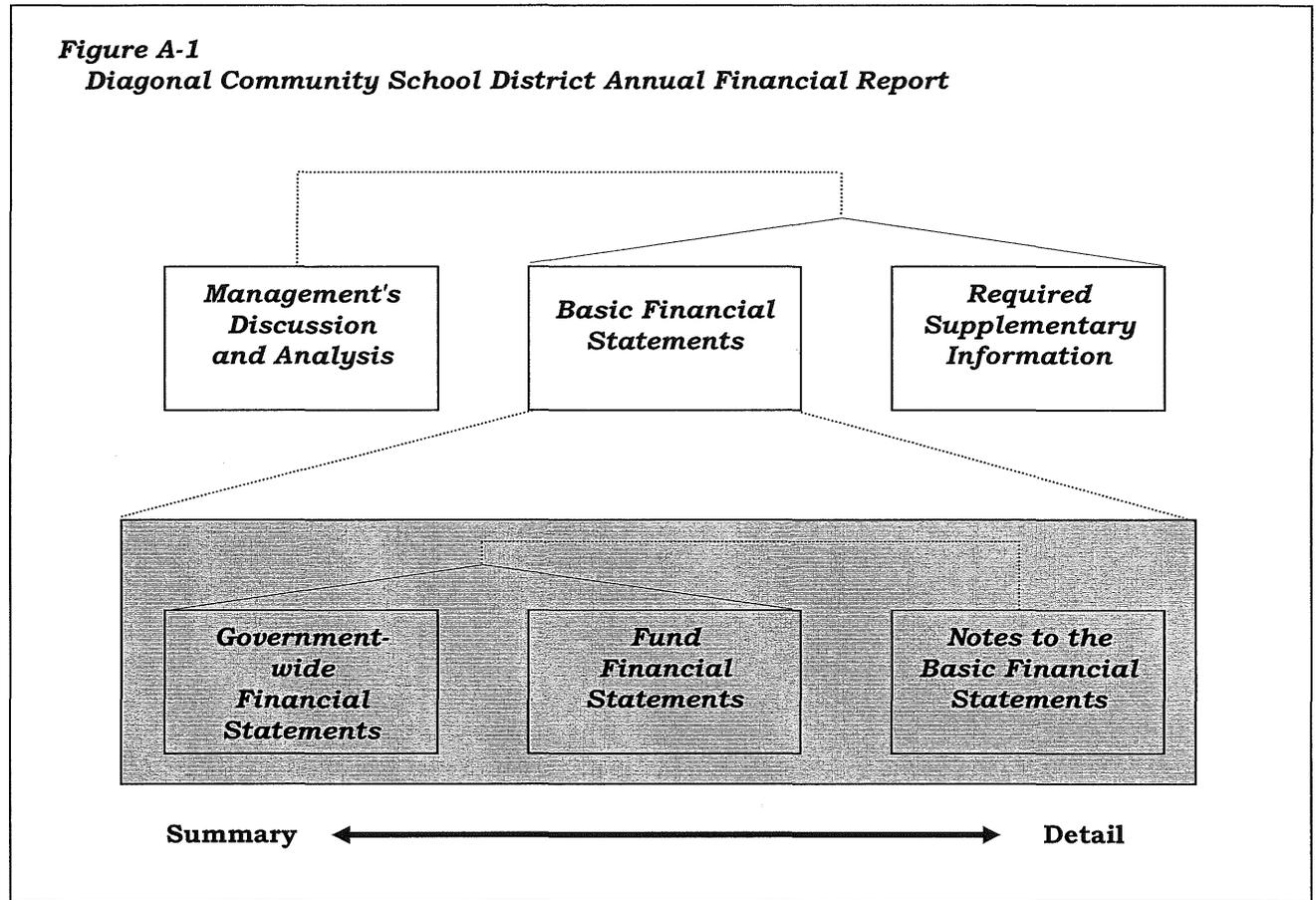


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
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

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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, 2010 compared to June 30, 2009.

Figure A-3 Condensed Statement of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 1,296,817	1,530,637	11,098	17,869	1,307,915	1,548,506	-15.54%
Capital assets	486,893	529,051	13,787	13,318	500,680	542,369	-7.69%
Total assets	<u>1,783,710</u>	<u>2,059,688</u>	<u>24,885</u>	<u>31,187</u>	<u>1,808,595</u>	<u>2,090,875</u>	<u>-13.50%</u>
Other liabilities	699,024	958,445	12,659	5,543	711,683	963,988	-26.17%
Total liabilities	<u>699,024</u>	<u>958,445</u>	<u>12,659</u>	<u>5,543</u>	<u>711,683</u>	<u>963,988</u>	<u>-26.17%</u>
Net assets:							
Invested in capital assets	486,893	529,051	13,787	13,318	500,680	542,369	-7.69%
Restricted	288,588	259,947	0	0	288,588	259,947	11.02%
Unrestricted	309,205	312,245	(1,561)	12,326	307,644	324,571	-5.22%
Total net assets	<u>\$ 1,084,686</u>	<u>1,101,243</u>	<u>12,226</u>	<u>25,644</u>	<u>1,096,912</u>	<u>1,126,887</u>	<u>-2.66%</u>

The District's combined net assets decreased by 2.66% or \$29,975 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 \$28,641 or 11.02% 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 \$16,927 or 5.22%. 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, 2010 compared to June 30, 2009.

	Figure A-4							
	Changes of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change	
2010	2009	2010	2009	2010	2009	2009-10		
Revenues and Transfers:								
Program revenues:								
Charges for services	\$ 536,738	395,625	31,160	27,143	567,898	422,768	34.33%	
Operating grants and contributions and restricted interest	478,082	528,373	45,294	49,698	523,376	578,071	-9.46%	
General revenues:								
Property tax	537,054	523,590	0	0	537,054	523,590	2.57%	
Income surtax	44,039	56,900	0	0	44,039	56,900	-22.60%	
Statewide sales, services and use tax	52,712	55,752	0	0	52,712	55,752	-5.45%	
Unrestricted state grants	379,878	455,424	0	0	379,878	455,424	-16.59%	
Other	70,463	250,008	13,779	23	84,242	250,031	-66.31%	
Transfers	(2,209)	0	2,209	0	0	0	0.00%	
Total revenues and transfers	<u>2,096,757</u>	<u>2,265,672</u>	<u>92,442</u>	<u>76,864</u>	<u>2,189,199</u>	<u>2,342,536</u>	<u>-6.55%</u>	
Program expenses:								
Governmental activities:								
Instructional	1,515,028	1,622,437	0	0	1,515,028	1,622,437	-6.62%	
Support services	492,139	478,506	0	0	492,139	478,506	2.85%	
Non-instructional programs	0	0	105,860	86,374	105,860	86,374	22.56%	
Other expenses	106,147	93,523	0	0	106,147	93,523	13.50%	
Total expenses	<u>2,113,314</u>	<u>2,194,466</u>	<u>105,860</u>	<u>86,374</u>	<u>2,219,174</u>	<u>2,280,840</u>	<u>-2.70%</u>	
Changes in net assets	(16,557)	71,206	(13,418)	(9,510)	(29,975)	61,696	-148.58%	
Net assets beginning 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>	
Net assets end of year	<u>\$ 1,084,686</u>	<u>1,101,243</u>	<u>12,226</u>	<u>25,644</u>	<u>1,096,912</u>	<u>1,126,887</u>	<u>-2.66%</u>	

In fiscal 2010, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 48.35% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 82.70% of the revenue from business type activities.

The District's total revenues were \$2,189,199 of which \$2,096,757 was for governmental activities and \$92,442 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.55% decrease in revenues and a 2.70% decrease in expenses. The decrease in revenues was related to decreases operating grants, contributions and restricted interest and unrestricted state grants. The decrease in expenses resulted primarily due to decreases in instruction expenditures.

### Governmental Activities

Revenues for governmental activities were \$2,096,757 and expenses were \$2,113,314.

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		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 1,515,028	1,622,437	-6.62%	542,952	737,311	-26.36%
Support services	492,139	478,506	2.85%	492,139	478,506	2.85%
Other expenses	106,147	93,523	13.50%	63,403	54,651	16.01%
Totals	<u>\$ 2,113,314</u>	<u>2,194,466</u>	<u>-3.70%</u>	<u>1,098,494</u>	<u>1,270,468</u>	<u>-13.54%</u>

- The cost financed by users of the District's programs was \$536,738.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$478,082.
- The net cost of governmental activities was financed with \$537,054 in local tax, \$44,039 in income surtax, \$52,712 in statewide sales, services and use tax, \$379,878 in unrestricted state grants, \$5,517 in interest income and \$64,946 in other general revenues.

### Business type Activities

Revenues of the District's business type activities were \$92,442 and expenses were \$105,860. 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 \$553,681, above last year's ending fund balances of \$528,080. 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 \$345,101 on June 30, 2009 to \$319,074 on June 30, 2010. The fluctuation in the District's General Fund financial position is the product of many factors. A decrease in the state 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 \$63,813 in 2009 to \$81,759 in 2010. This resulted primarily from local tax revenues exceeding expenditures for year end June 30, 2010.
- The Management fund balance increased from \$57,566 in 2009 to \$72,679 in 2010. This resulted mainly from revenues exceeding expenditures during the year.

## Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$25,644 at June 30, 2009 to \$12,226 at June 30, 2010, representing a decrease of 52.32%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$478,342 less than budgeted revenues, a variance of 17.93%. 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, 2010, the District had invested \$500,680, 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 decrease of 7.69% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$62,283.

The original cost of the District's capital assets was \$1,431,401. Governmental funds account for \$1,392,803 with the remainder of \$38,598 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment, net of depreciation totaled \$92,006 at June 30, 2010, compared to \$108,459 reported at June 30, 2009. The decrease in machinery and equipment is attributable to depreciation expenditures during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 7,230	7,230	0	0	7,230	7,230	0.00%
Buildings	348,309	370,055	0	0	348,309	370,055	-5.88%
Land improvements	53,135	56,625	0	0	53,135	56,625	-6.16%
Machinery and equipment	78,219	95,141	13,787	13,318	92,006	108,459	-15.17%
Total	<u>\$ 486,893</u>	<u>529,051</u>	<u>13,787</u>	<u>13,318</u>	<u>500,680</u>	<u>542,369</u>	<u>-7.69%</u>

### Long-Term Debt

At June 30, 2010, there was no long-term debt noted for the District.

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## **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 ten percent across-the-board reduction, the District continues to implement cost-saving measures. 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 2029.

## **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 2<sup>nd</sup>, P.O. Box 94, Diagonal, Iowa, 50845-0094.

DIAGONAL COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 420,640	0	420,640
Receivables:			
Property tax:			
Delinquent	9,199	0	9,199
Succeeding year	588,242	0	588,242
Income surtax	44,112	0	44,112
Accounts	10,484	1	10,485
Other	2,341	0	2,341
Due from other governments	221,799	8,786	230,585
Inventories	0	2,311	2,311
Capital assets, net of accumulated depreciation	486,893	13,787	500,680
<b>Total assets</b>	<b>1,783,710</b>	<b>24,885</b>	<b>1,808,595</b>
<b>Liabilities</b>			
Excess of warrants issued over bank balance	0	7,647	7,647
Accounts payable	46,308	2,293	48,601
Salaries and benefits payable	47,220	1,734	48,954
Deferred revenue:			
Succeeding year property tax	588,242	0	588,242
Other	17,254	0	17,254
Unearned revenue	0	985	985
<b>Total liabilities</b>	<b>699,024</b>	<b>12,659</b>	<b>711,683</b>
<b>Net Assets</b>			
Invested in capital assets	486,893	13,787	500,680
Restricted for:			
Categorical funding	53,981	0	53,981
Capital projects	81,759	0	81,759
Management levy	72,679	0	72,679
Physical plant and equipment levy	49,185	0	49,185
Other special revenue purposes	30,984	0	30,984
Unrestricted	309,205	(1,561)	307,644
<b>Total net assets</b>	<b>\$ 1,084,686</b>	<b>12,226</b>	<b>1,096,912</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

	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	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 905,760	364,547	150,248	(390,965)	0	(390,965)
Special	235,604	109,066	19,718	(106,820)	0	(106,820)
Other	373,664	63,125	265,372	(45,167)	0	(45,167)
	<u>1,515,028</u>	<u>536,738</u>	<u>435,338</u>	<u>(542,952)</u>	<u>0</u>	<u>(542,952)</u>
Support services:						
Student support	8,579	0	0	(8,579)	0	(8,579)
Instructional staff	24,127	0	0	(24,127)	0	(24,127)
Administration	243,710	0	0	(243,710)	0	(243,710)
Operation and maintenance of plant	157,476	0	0	(157,476)	0	(157,476)
Transportation	58,247	0	0	(58,247)	0	(58,247)
	<u>492,139</u>	<u>0</u>	<u>0</u>	<u>(492,139)</u>	<u>0</u>	<u>(492,139)</u>
Other expenditures:						
Facilities acquisitions	63,403	0	0	(63,403)	0	(63,403)
AEA flowthrough	42,744	0	42,744	0	0	0
	<u>106,147</u>	<u>0</u>	<u>42,744</u>	<u>(63,403)</u>	<u>0</u>	<u>(63,403)</u>
Total governmental activities	2,113,314	536,738	478,082	(1,098,494)	0	(1,098,494)
Business type activities:						
Non instructional programs:						
Nutrition services	105,860	31,160	45,294	0	(29,406)	(29,406)
Total business type activities	<u>105,860</u>	<u>31,160</u>	<u>45,294</u>	<u>0</u>	<u>(29,406)</u>	<u>(29,406)</u>
Total	\$ <u>2,219,174</u>	<u>567,898</u>	<u>523,376</u>	<u>(1,098,494)</u>	<u>(29,406)</u>	<u>(1,127,900)</u>
<b>General Revenues and Transfers:</b>						
Local tax for:						
General purposes				\$ 484,452	0	484,452
Capital outlay				52,602	0	52,602
Income surtax				44,039	0	44,039
Statewide sales, services and use tax				52,712	0	52,712
Unrestricted state grants				379,878	0	379,878
Unrestricted investment earnings				5,517	0	5,517
Other general revenues				64,946	13,779	78,725
Transfers				(2,209)	2,209	0
Total general revenues and transfers				<u>1,081,937</u>	<u>15,988</u>	<u>1,097,925</u>
Changes in net assets				(16,557)	(13,418)	(29,975)
Net assets beginning of year				<u>1,101,243</u>	<u>25,644</u>	<u>1,126,887</u>
Net assets end of year				\$ <u>1,084,686</u>	<u>12,226</u>	<u>1,096,912</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	General	Other Nonmajor Governmental Funds	Total
<b>Assets</b>			
Cash and pooled investments	\$ 177,384	243,256	420,640
Receivables:			
Property tax:			
Delinquent	7,530	1,669	9,199
Succeeding year	504,003	84,262	588,265
Income surtax	43,404	0	43,404
Accounts	7,994	2,490	10,484
Other	2,335	0	2,335
Accrued ISCAP interest	6	0	6
Due from other governments	218,218	3,581	221,799
<b>Total assets</b>	<b>\$ 960,874</b>	<b>335,258</b>	<b>1,296,132</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 29,919	16,389	46,308
Salaries and benefits payable	47,220	0	47,220
Deferred revenue:			
Succeeding year property tax	504,003	84,262	588,265
Income surtax	43,404	0	43,404
Other	17,254	0	17,254
<b>Total liabilities</b>	<b>641,800</b>	<b>100,651</b>	<b>742,451</b>
Fund balances:			
Reserved for:			
Categorical funding	53,981	0	53,981
Unreserved, reported in:			
General fund	265,093	0	265,093
Special revenue funds	0	152,848	152,848
Capital projects fund	0	81,759	81,759
<b>Total fund balances</b>	<b>319,074</b>	<b>234,607</b>	<b>553,681</b>
<b>Total liabilities and fund balances</b>	<b>\$ 960,874</b>	<b>335,258</b>	<b>1,296,132</b>

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, 2010

<b>Total fund balances of governmental funds (page 20)</b>	\$ 553,681
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	486,893
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	<u>44,112</u>
<b>Net assets of governmental activities (page 18)</b>	<u><u>\$ 1,084,686</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, 2010

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 483,622	150,182	633,804
Tuition	352,417	0	352,417
Other	187,186	67,599	254,785
State sources	680,763	0	680,763
Federal sources	177,197	0	177,197
Total revenues	<u>1,881,185</u>	<u>217,781</u>	<u>2,098,966</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	866,820	36,331	903,151
Special	235,604	0	235,604
Other	321,826	51,838	373,664
	<u>1,424,250</u>	<u>88,169</u>	<u>1,512,419</u>
Support services:			
Student support	8,579	0	8,579
Instructional staff	8,750	15,377	24,127
Administration	237,956	5,754	243,710
Operation and maintenance of plant	140,999	16,477	157,476
Transportation	43,934	0	43,934
	<u>440,218</u>	<u>37,608</u>	<u>477,826</u>
Other expenditures:			
Facilities acquisitions	0	40,376	40,376
AEA flowthrough	42,744	0	42,744
	<u>42,744</u>	<u>40,376</u>	<u>83,120</u>
Total expenditures	<u>1,907,212</u>	<u>166,153</u>	<u>2,073,365</u>
Net change in fund balances	(26,027)	51,628	25,601
Fund balance beginning of year	345,101	182,979	528,080
Fund balance end of year	<u>\$ 319,074</u>	<u>234,607</u>	<u>553,681</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, 2010

Net change in fund balances - total governmental funds (page 22) \$ 25,601

*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	\$ 18,385	
Depreciation expense	<u>(60,543)</u>	<u>(42,158)</u>

Changes in net assets of governmental activities (page 19) \$ (16,557)

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2010

	<u>School</u> <u>Nutrition</u>
<b>Assets</b>	
Accounts receivable	\$ 1
Due from other governments	8,786
Inventories	2,311
Capital assets, net of accumulated depreciation	<u>13,787</u>
<b>Total assets</b>	<u>24,885</u>
<b>Liabilities</b>	
Excess of warrants issued over bank balance	7,647
Accounts payable	2,293
Salaries and benefits payable	1,734
Unearned revenue	985
<b>Total liabilities</b>	<u>12,659</u>
<b>Net Assets</b>	
Invested in capital assets	13,787
Unrestricted	(1,561)
<b>Total net assets</b>	<u>\$ 12,226</u>

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, 2010

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 31,160
Miscellaneous	13,779
TOTAL OPERATING REVENUES	44,939
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant:	
Services	13,779
Non-instructional programs:	
Food service operations:	
Salaries	36,049
Benefits	5,023
Supplies	49,269
Depreciation	1,740
TOTAL OPERATING EXPENSES	105,860
OPERATING LOSS	(60,921)
NON-OPERATING REVENUES:	
Capital contributions	2,209
State sources	661
Federal sources	44,633
TOTAL NON-OPERATING REVENUES	47,503
Change in net assets	(13,418)
Net assets beginning of year	25,644
Net assets end of year	\$ 12,226

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2010

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 31,301
Cash payments from miscellaneous	13,779
Cash payments to employees for services	(41,760)
Cash payments to suppliers for goods or services	(58,134)
Net cash used in operating activities	(54,814)
Cash flows from non-capital financing activities:	
State grants received	661
Federal grants received	34,988
Net cash provided by non-capital financing activities	35,649
Net decrease in cash and cash equivalents	(19,165)
Cash and cash equivalents at beginning of year	11,518
Cash and cash equivalents at end of year	\$ (7,647)
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (60,921)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,902
Depreciation	1,740
Increase in inventories	(23)
Decrease in accounts receivable	19
Increase in accounts payable	35
Decrease in salaries and benefits payable	(688)
Increase in unearned revenues	122
Net cash used in operating activities	\$ (54,814)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$4,902.

During the year ended June 30, 2010, the District received \$2,209 in capital contributions for the Capital Project Fund.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

(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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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 and intangibles, 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
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund 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
Intangibles	2 or more 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, 2010 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.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$139,598 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 School 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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. The District had no ISCAP borrowings or repayments during the year ended June 30, 2010.

During the year ended June 30, 2010, the District paid \$241 of interest on ISCAP warrants.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	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	846,044	0	0	846,044
Land improvements	69,805	0	0	69,805
Machinery and equipment	451,339	18,385	0	469,724
Total capital assets being depreciated	<u>1,367,188</u>	<u>18,385</u>	<u>0</u>	<u>1,385,573</u>
Less accumulated depreciation for:				
Buildings	475,989	21,746	0	497,735
Land improvements	13,180	3,490	0	16,670
Machinery and equipment	356,198	35,307	0	391,505
Total accumulated depreciation	<u>845,367</u>	<u>60,543</u>	<u>0</u>	<u>905,910</u>
Total capital assets being depreciated, net	<u>521,821</u>	<u>(42,158)</u>	<u>0</u>	<u>479,663</u>
Governmental activities capital assets, net	<u>\$ 529,051</u>	<u>(42,158)</u>	<u>0</u>	<u>486,893</u>
Business type activities:				
Machinery and equipment	\$ 36,989	2,209	600	38,598
Less accumulated depreciation	23,671	1,740	600	24,811
Business type activities capital assets, net	<u>\$ 13,318</u>	<u>469</u>	<u>0</u>	<u>13,787</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 20,994
Support services:	
Transportation	<u>14,313</u>
	<u>35,307</u>
Unallocated depreciation	<u>25,236</u>
Total governmental activities depreciation expense	<u>\$ 60,543</u>
Business type activities:	
Food services	<u>\$ 1,740</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 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$80,035, \$76,555 and \$81,970 respectively, equal to the required contributions for each year.

**(6) 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.

**(7) 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 \$42,744 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(8) Categorical Funding**

The District's ending reserved balances for categorical funding as of June 30, 2010 are broken out by the following projects:

<u>Project</u>	<u>Amount</u>
Gifted and talented programs	\$ 30,982
Teacher salary supplement	6,842
Beginning administration mentoring	1,024
At risk parent education	6,498
Model core curriculum	2,281
Professional development	5,368
Market factor incentives	986
Total	<u>\$ 53,981</u>

**(9) Deficit Fund Balance/Net Assets**

The District had a deficit unrestricted net assets balance in the business type activities of \$1,561.

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, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 1,241,006	44,939	1,285,945	1,404,388	1,404,388	(118,443)
State sources	680,763	661	681,424	848,153	848,153	(166,729)
Federal sources	177,197	44,633	221,830	415,000	415,000	(193,170)
Total revenues	<u>2,098,966</u>	<u>90,233</u>	<u>2,189,199</u>	<u>2,667,541</u>	<u>2,667,541</u>	<u>(478,342)</u>
Expenditures/Expenses:						
Instruction	1,512,419	0	1,512,419	1,907,665	1,907,665	395,246
Support services	477,826	13,779	491,605	890,016	890,016	398,411
Non-instructional programs	0	92,081	92,081	113,304	113,304	21,223
Other expenditures	83,120	0	83,120	134,123	134,123	51,003
Total expenditures/expenses	<u>2,073,365</u>	<u>105,860</u>	<u>2,179,225</u>	<u>3,045,108</u>	<u>3,045,108</u>	<u>865,883</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	25,601	(15,627)	9,974	(377,567)	(377,567)	387,541
Other financing sources, net	0	2,209	2,209	0	0	2,209
Excess(deficiency) of receipts and other financing sources over(under) disbursements	25,601	(13,418)	12,183	(377,567)	(377,567)	389,750
Balance beginning of year	528,080	25,644	553,724	377,567	377,567	176,157
Balance end of year	<u>\$ 553,681</u>	<u>12,226</u>	<u>565,907</u>	<u>0</u>	<u>0</u>	<u>565,907</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2010

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.

DIAGONAL COMMUNITY SCHOOL DISTRICT

OTHER SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2010

	Special Revenue					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
<b>Assets</b>						
Cash and pooled investments	\$ 71,911	29,139	62,563	163,613	79,643	243,256
Receivables:						
Property tax:						
Delinquent	768	0	901	1,669	0	1,669
Succeeding year	35,000	0	49,262	84,262	0	84,262
Accounts	0	2,490	0	2,490	0	2,490
Due from other governments	0	0	0	0	3,581	3,581
<b>Total assets</b>	<b>\$ 107,679</b>	<b>31,629</b>	<b>112,726</b>	<b>252,034</b>	<b>83,224</b>	<b>335,258</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 0	645	14,279	14,924	1,465	16,389
Deferred revenue:						
Succeeding year property tax	35,000	0	49,262	84,262	0	84,262
Total liabilities	35,000	645	63,541	99,186	1,465	100,651
Unreserved fund balances	72,679	30,984	49,185	152,848	81,759	234,607
<b>Total liabilities and fund balances</b>	<b>\$ 107,679</b>	<b>31,629</b>	<b>112,726</b>	<b>252,034</b>	<b>83,224</b>	<b>335,258</b>

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, 2010

	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	\$ 44,868	0	52,603	97,471	52,711	150,182
Other	4,367	63,125	29	67,521	78	67,599
TOTAL REVENUES	49,235	63,125	52,632	164,992	52,789	217,781
EXPENDITURES:						
Current:						
Instruction:						
Regular	34,122	0	0	34,122	2,209	36,331
Other	0	51,838	0	51,838	0	51,838
Support services:						
Instructional staff	0	0	0	0	15,377	15,377
Administration	0	0	0	0	5,754	5,754
Operation and maintenance of plant	0	0	16,477	16,477	0	16,477
Other expenditures:						
Facilities acquisition	0	0	28,873	28,873	11,503	40,376
TOTAL EXPENDITURES	34,122	51,838	45,350	131,310	34,843	166,153
Net change in fund balances	15,113	11,287	7,282	33,682	17,946	51,628
Fund balance beginning of year	57,566	19,697	41,903	119,166	63,813	182,979
Fund balance end of year	\$ 72,679	30,984	49,185	152,848	81,759	234,607

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 324	16,476	14,533	2,267
Concessions	5,960	14,468	8,678	11,750
Camps	0	1,725	274	1,451
Class of 2010	3,362	8,707	11,819	250
Class of 2011	0	17,105	11,555	5,550
Annual	4,638	3,540	4,127	4,051
Drama	2,893	10	205	2,698
Student Council	110	0	0	110
Maroon Reader	1,211	139	647	703
Memorials	902	755	0	1,657
Class Memorials	297	200	0	497
<b>Total</b>	<b>\$ 19,697</b>	<b>63,125</b>	<b>51,838</b>	<b>30,984</b>

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 SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 633,804	633,420	607,635	566,458	559,857	546,400	544,656
Tuition	352,417	336,127	292,589	267,538	92,408	67,507	51,087
Other	254,785	309,506	240,060	292,187	391,741	91,851	126,058
State sources	680,763	866,197	745,083	705,559	594,677	660,783	548,636
Federal sources	177,197	117,600	565,984	597,650	513,842	675,119	681,393
Total	\$ 2,098,966	2,262,850	2,451,351	2,429,392	2,152,525	2,041,660	1,951,830
Expenditures:							
Current:							
Instruction:							
Regular	\$ 903,151	751,710	840,950	938,263	789,828	699,770	1,108,158
Special	235,604	778,592	227,815	184,185	161,538	280,114	256,790
Other	373,664	93,489	692,388	737,560	603,817	589,192	87,919
Support services:							
Student	8,579	0	4,201	0	0	7,702	0
Instructional staff	24,127	4,590	15,139	20,779	21,308	2,285	8,197
Administration	243,710	235,817	234,017	229,767	200,702	210,383	167,842
Operation and maintenance of plant	157,476	163,366	170,872	164,230	143,747	141,915	193,348
Transportation	43,934	75,009	61,290	108,348	56,573	37,790	42,674
Non-instructional programs	0	0	0	0	0	0	36,781
Other expenditures:							
Facilities acquisitions	40,376	86,206	111,836	130,986	38,958	16,495	0
Long-term debt:							
Principal	0	0	0	0	0	893	15,706
Interest and fiscal charges	0	0	0	0	0	30	1,550
AEA flow-through	42,744	38,872	37,982	37,546	35,408	35,430	35,560
Total	\$ 2,073,365	2,227,651	2,396,490	2,551,664	2,051,879	2,021,999	1,954,525

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT

**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 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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 9, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-10 to be a significant deficiency.

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, 2010 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, P.C.

March 9, 2011

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

I-A-10 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.

I-B-10 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 - The District is now giving receipts to sponsors for money's turned into the office.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Statutory Reporting

- II-A-10 Certified Budget - No instances were noted for the year ended June 30, 2010 where District expenditures exceeded the certified budget amounts.
- II-B-10 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-10 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-10 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-10 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-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-10 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-10 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-J-10 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-K-10 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning balance		\$	42,667
Statewide sales, services and use tax			52,711
Expenditures/Transfers out:			
School infrastructure:			
Buildings	\$	11,503	
Equipment		23,340	34,843
		<u>          </u>	<u>          </u>
Ending balance		\$	<u>60,535</u>

No tax levies were reduced as a result of the statewide sales, services and use tax revenues received during year end June 30, 2010.

II-M-10 Financial Condition - The District had deficit net assets in the business type activities of \$1,561.

Recommendation - The District should continue to monitor this Fund and investigate alternatives to eliminate the deficits.

Response - We will monitor these funds and try to resolve this deficit.

Conclusion - Response accepted.

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

March 9, 2011

To the Board of Education and Administration of  
Diagonal Community School District

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Diagonal Community School District for the year ended June 30, 2010, and have issued our report thereon dated March 9, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 27, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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 opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to management in our meeting about planning matters on September 8, 2010.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant account policies used by Diagonal Community School District are described in Note 1 to the financial statements.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 9, 2011.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in normal course of our professional relationship and our responses were not a condition to our retention.

Management comments include:

- 1) Segregation of Duties noted individual employees handling duties that are incompatible.\*
- 2) Receipting Procedures noted that the District sponsors of student organizations are not provided receipts when money is turned into the central office.\*

Statutory comments include:

- 1) Financial condition noted deficit net assets in Nutrition Fund and business type activities.

\* Indicates repeat comment from the 2009 audit report.

This information is intended solely for the use of the Board of Education and management of Diagonal Community School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

  
Nolte, Cornman & Johnson P.C.