

DIAGONAL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Diagonal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</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	2011
Billie Jo Greene	District Secretary/ Treasurer	2011
Ahlers & Cooney, P.C.	Attorney	2011

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, 2011, 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, 2011, 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 13, 2012 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 38 through 39 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 seven years ended June 30, 2010 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

March 13, 2012

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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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$1,881,185 in fiscal 2010 to \$1,995,087 in fiscal 2011, while General Fund expenditures decreased from \$1,907,212 in fiscal 2010 to \$1,863,909 in fiscal 2011. This resulted in an increase in the District's General Fund balance from \$319,074 in fiscal 2010 to \$410,252 in fiscal 2011, a 28.58% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local revenue sources in fiscal 2011. The decrease in expenditures was due primarily to a reduction in instructional expenditures.
- The District's solvency ratio (unassigned fund balance/general fund revenues) increased as compared to fiscal 2010. At June 30, 2010 the District's solvency ratio was 14.09% as compared to 8.58% at June 30, 2011.

### **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.

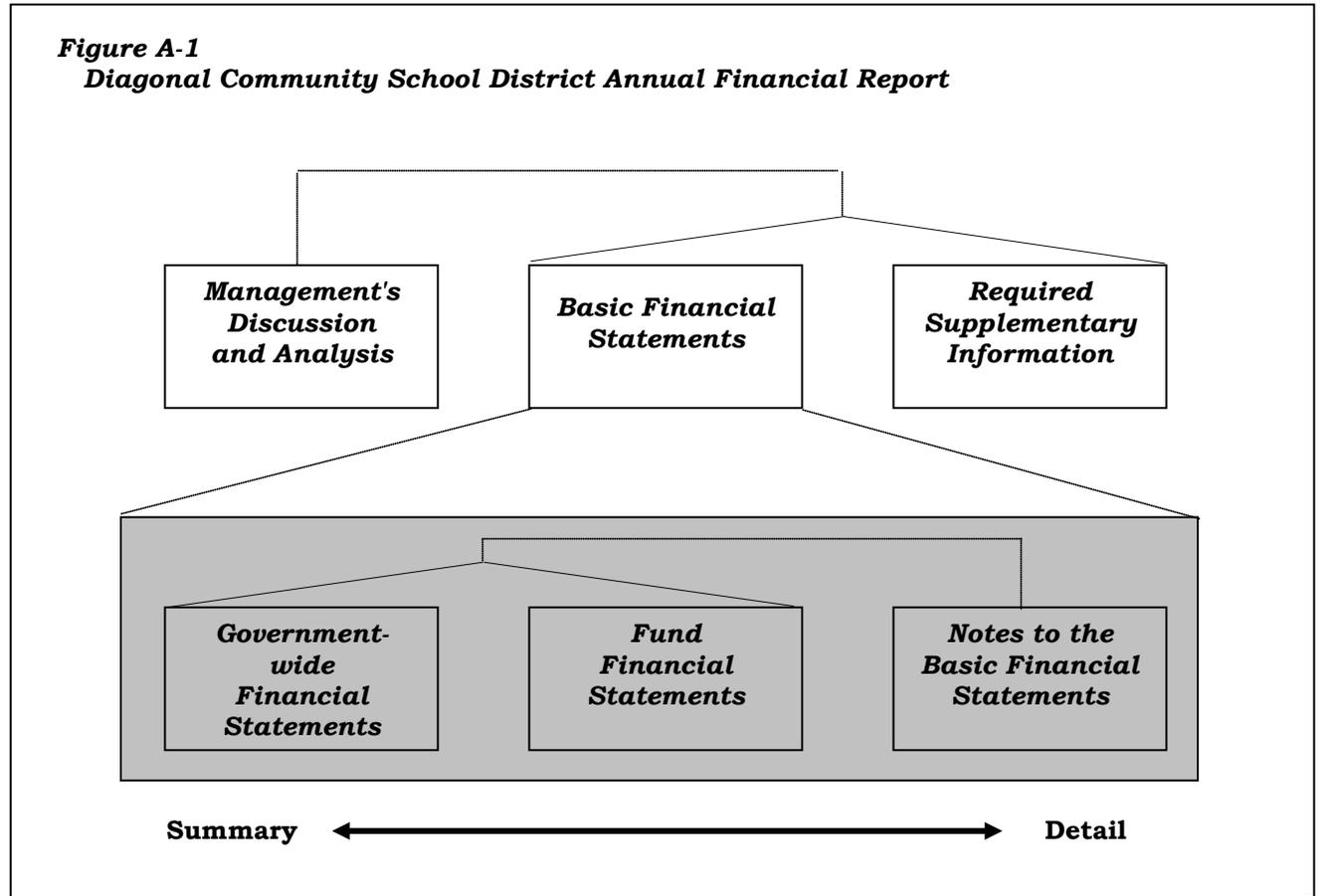


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	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, 2011 compared to June 30, 2010.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 1,443,781	1,296,817	13,643	11,098	1,457,424	1,307,915	11.43%
Capital assets	498,146	486,893	12,048	13,787	510,194	500,680	1.90%
Total assets	1,941,927	1,783,710	25,691	24,885	1,967,618	1,808,595	8.79%
Other liabilities	808,925	699,024	20,657	12,659	829,582	711,683	16.57%
Total liabilities	808,925	699,024	20,657	12,659	829,582	711,683	16.57%
Net assets:							
Invested in capital assets	498,146	486,893	12,048	13,787	510,194	500,680	1.90%
Restricted	413,486	288,588	-	-	413,486	288,588	43.28%
Unrestricted	221,370	309,205	(7,014)	(1,561)	214,356	307,644	-30.32%
Total net assets	\$ 1,133,002	1,084,686	5,034	12,226	1,138,036	1,096,912	3.75%

The District's combined net assets increased by 3.75% or \$41,124 over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment).

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 \$124,898 or 43.28% over the prior year. The increase was primarily due to the restriction of local funding received for after school programs.

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 \$93,288 or 30.32%. The decrease was primarily due to the decrease in the unassigned fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to June 30, 2010.

	Figure A-4							Total Change 2010-11
	Changes of Net Assets							
	Governmental Activities		Business Type Activities		Total District			
2011	2010	2011	2010	2011	2010			
Revenues and Transfers:								
Program revenues:								
Charges for services	\$ 421,864	536,738	32,903	31,160	454,767	567,898		-19.92%
Operating grants, contributions and restricted interest	438,277	478,082	51,957	45,294	490,234	523,376		-6.33%
General revenues:								
Property tax	581,078	537,054	-	-	581,078	537,054		8.20%
Income surtax	46,855	44,039	-	-	46,855	44,039		6.39%
Statewide sales, services and use tax	63,798	52,712	-	-	63,798	52,712		21.03%
Unrestricted state grants	552,356	379,878	-	-	552,356	379,878		45.40%
Nonspecific program federal grants	10,426	-	-	-	10,426	-		100.00%
Other	74,264	70,463	-	13,779	74,264	84,242		-11.84%
Transfers	-	(2,209)	-	2,209	-	-		0.00%
Total revenues and transfers	<u>2,188,918</u>	<u>2,096,757</u>	<u>84,860</u>	<u>92,442</u>	<u>2,273,778</u>	<u>2,189,199</u>		<u>3.86%</u>
Program expenses:								
Governmental activities:								
Instructional	1,472,924	1,515,028	-	-	1,472,924	1,515,028		-2.78%
Support services	598,218	492,139	110	13,779	598,328	505,918		18.27%
Non-instructional programs	-	-	91,942	92,081	91,942	92,081		-0.15%
Other expenses	69,460	106,147	-	-	69,460	106,147		-34.56%
Total expenses	<u>2,140,602</u>	<u>2,113,314</u>	<u>92,052</u>	<u>105,860</u>	<u>2,232,654</u>	<u>2,219,174</u>		<u>0.61%</u>
Changes in net assets	48,316	(16,557)	(7,192)	(13,418)	41,124	(29,975)		-237.19%
Net assets beginning 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>
Net assets end of year	<u>\$ 1,133,002</u>	<u>1,084,686</u>	<u>5,034</u>	<u>12,226</u>	<u>1,138,036</u>	<u>1,096,912</u>		<u>3.75%</u>

In fiscal 2011, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 56.84% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 100.00% of the revenue from business type activities.

The District's total revenues were \$2,273,778, of which \$2,188,918 was for governmental activities and \$84,860 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.86% increase in revenues and a 0.61% increase in expenses. Property tax and unrestricted state grants combined increased \$216,502 to fund the increase in expenses. The increase in expenses was caused by the increase in expenses for the support services functional area.

### Governmental Activities

Revenues for governmental activities were \$2,188,918 and expenses were \$2,140,602.

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

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Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 1,472,924	1,515,028	-2.78%	655,714	542,952	20.77%
Support services	598,218	492,139	21.55%	598,218	492,139	21.55%
Other expenses	69,460	106,147	-34.56%	26,529	63,403	-58.16%
Totals	<u>\$ 2,140,602</u>	<u>2,113,314</u>	<u>1.29%</u>	<u>1,280,461</u>	<u>1,098,494</u>	<u>16.57%</u>

- The cost financed by users of the District's programs was \$421,864.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$438,277.
- The net cost of governmental activities was financed with \$581,078 in property tax, \$46,855 in income surtax, \$63,798 in statewide sales, services and use tax, \$552,356 in unrestricted state grants, \$10,426 in nonspecific program federal grants, \$4,849 in interest income and \$69,415 in other general revenues.

### **Business type Activities**

Revenues of the District's business type activities were \$84,860 and expenses were \$92,052. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service and federal and state reimbursements.

### **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 \$590,821, above last year's ending fund balances of \$553,681. The primary reason for the increase was the growth in General Fund balance.

### **Governmental Fund Highlights**

- The District's General Fund balance increased from \$319,074 on June 30, 2010 to \$410,252 on June 30, 2011. The improvement in the District's General Fund financial position is the product of many factors. Increased revenue from local tax and other local sources produced the increase in revenues. The decrease in expenditures was due mainly to the decrease in the instruction functional area.
- The Capital Projects Fund declined from a restated balance of \$130,944 at the beginning of fiscal year 2011 to \$69,706 at the end of fiscal year 2011. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. The Statewide Sales, Services and Use Tax Fund revenues increased \$11,062 and expenses increased \$54,707 when compared to the previous year. Physical Plant and Equipment Levy Fund revenues decreased \$3,944 and expenses increased \$38,877 when compared to the previous year.

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## Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$12,226 at June 30, 2010 to \$5,034 at June 30, 2011, representing a decrease of 58.83%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$284,103 less than budgeted revenues, a variance of 11.11%. 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, 2011, the District had invested \$510,194, 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 1.90% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$66,766.

The original cost of the District's capital assets was \$1,507,681. Governmental funds account for \$1,469,083 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 land improvements category. The District's land improvements, net of depreciation totaled \$53,135 at June 30, 2010, compared to \$49,644 reported at June 30, 2011. The decrease in land improvements is attributable to depreciation expenditures during the year.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 7,230	7,230	-	-	7,230	7,230	0.00%
Buildings	359,490	348,309	-	-	359,490	348,309	3.21%
Land improvements	49,644	53,135	-	-	49,644	53,135	-6.57%
Machinery and equipment	81,782	78,219	12,048	13,787	93,830	92,006	1.98%
Total	\$ 498,146	486,893	12,048	13,787	510,194	500,680	1.90%

### Long-Term Debt

At June 30, 2011, 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.
- The District continues to receive Statewide Sales, Services and Use Tax revenue for School Infrastructure. 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>, Diagonal, Iowa, 50845-0094.

DIAGONAL COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 607,049	6,947	613,996
Receivables:			
Property tax:			
Delinquent	7,471	-	7,471
Succeeding year	601,903	-	601,903
Income surtax	44,035	-	44,035
Accounts	19,768	641	20,409
Due from other funds	15,332	-	15,332
Due from other governments	148,223	4,540	152,763
Inventories	-	1,515	1,515
Capital assets, net of accumulated depreciation	498,146	12,048	510,194
<b>Total assets</b>	<b>1,941,927</b>	<b>25,691</b>	<b>1,967,618</b>
<b>Liabilities</b>			
Accounts payable	130,440	3,268	133,708
Salaries and benefits payable	49,925	1,273	51,198
Due to other funds	-	15,332	15,332
Deferred revenue:			
Succeeding year property tax	601,903	-	601,903
Other	26,657	-	26,657
Unearned revenue	-	784	784
<b>Total liabilities</b>	<b>808,925</b>	<b>20,657</b>	<b>829,582</b>
<b>Net Assets</b>			
Invested in capital assets	498,146	12,048	510,194
Restricted for:			
Categorical funding	74,254	-	74,254
Other restricted	158,663	-	158,663
Management levy purposes	87,263	-	87,263
Student activities	23,600	-	23,600
School infrastructure	56,060	-	56,060
Physical plant and equipment	13,646	-	13,646
Unrestricted	221,370	(7,014)	214,356
<b>Total net assets</b>	<b>\$ 1,133,002</b>	<b>5,034</b>	<b>1,138,036</b>

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

	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	\$ 845,058	273,197	273,099	(298,762)	-	(298,762)
Special	226,488	65,517	5,511	(155,460)	-	(155,460)
Other	401,378	83,150	116,736	(201,492)	-	(201,492)
	<u>1,472,924</u>	<u>421,864</u>	<u>395,346</u>	<u>(655,714)</u>	<u>-</u>	<u>(655,714)</u>
Support services:						
Student support	16,795	-	-	(16,795)	-	(16,795)
Instructional staff	67,286	-	-	(67,286)	-	(67,286)
Administration	248,997	-	-	(248,997)	-	(248,997)
Operation and maintenance of plant	187,006	-	-	(187,006)	-	(187,006)
Transportation	78,134	-	-	(78,134)	-	(78,134)
	<u>598,218</u>	<u>-</u>	<u>-</u>	<u>(598,218)</u>	<u>-</u>	<u>(598,218)</u>
Other expenditures:						
AEA flowthrough	42,931	-	42,931	-	-	-
Depreciation(unallocated)*	26,529	-	-	(26,529)	-	(26,529)
	<u>69,460</u>	<u>-</u>	<u>42,931</u>	<u>(26,529)</u>	<u>-</u>	<u>(26,529)</u>
Total governmental activities	2,140,602	421,864	438,277	(1,280,461)	-	(1,280,461)
Business type activities:						
Support services:						
Operation and maintenance of plant	110	-	-	-	(110)	(110)
Non instructional programs:						
Nutrition services	91,942	32,903	51,957	-	(7,082)	(7,082)
Total business type activities	<u>92,052</u>	<u>32,903</u>	<u>51,957</u>	<u>-</u>	<u>(7,192)</u>	<u>(7,192)</u>
Total	<u>\$ 2,232,654</u>	<u>454,767</u>	<u>490,234</u>	<u>(1,280,461)</u>	<u>(7,192)</u>	<u>(1,287,653)</u>
<b>General Revenues:</b>						
Local tax for:						
General purposes				\$ 532,417	-	532,417
Capital outlay				48,661	-	48,661
Income surtax				46,855	-	46,855
Statewide sales, services and use tax				63,798	-	63,798
Unrestricted state grants				552,356	-	552,356
Nonspecific program federal grants				10,426	-	10,426
Unrestricted investment earnings				4,849	-	4,849
Other general revenues				69,415	-	69,415
Total general revenues				<u>1,328,777</u>	<u>-</u>	<u>1,328,777</u>
Changes in net assets				48,316	(7,192)	41,124
Net assets beginning of year				<u>1,084,686</u>	<u>12,226</u>	<u>1,096,912</u>
Net assets end of year				<u>\$ 1,133,002</u>	<u>5,034</u>	<u>1,138,036</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	Capital			Total
	General	Projects	Nonmajor	
<b>Assets</b>				
Cash and pooled investments	\$ 389,377	104,211	113,461	607,049
Receivables:				
Property tax:				
Delinquent	6,400	626	445	7,471
Succeeding year	515,057	51,846	35,000	601,903
Income surtax	44,035	-	-	44,035
Accounts	18,792	-	976	19,768
Due from other funds	15,332	-	-	15,332
Due from other governments	132,856	15,367	-	148,223
<b>Total assets</b>	<b>\$ 1,121,849</b>	<b>172,050</b>	<b>149,882</b>	<b>1,443,781</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 75,923	50,498	4,019	130,440
Salaries and benefits payable	49,925	-	-	49,925
Deferred revenue:				
Succeeding year property tax	515,057	51,846	35,000	601,903
Income surtax	44,035	-	-	44,035
Other	26,657	-	-	26,657
Total liabilities	711,597	102,344	39,019	852,960
Fund Balances:				
Restricted for:				
Categorical funding	74,254	-	-	74,254
Other restricted	158,663	-	-	158,663
Management levy purposes	-	-	87,263	87,263
Student activities	-	-	23,600	23,600
School infrastructure	-	56,060	-	56,060
Physical plant and equipment	-	13,646	-	13,646
Assigned for special purposes	9,580	-	-	9,580
Unassigned	167,755	-	-	167,755
Total fund balances	410,252	69,706	110,863	590,821
<b>Total liabilities and fund balances</b>	<b>\$ 1,121,849</b>	<b>172,050</b>	<b>149,882</b>	<b>1,443,781</b>

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2011

<b>Total fund balances of governmental funds(page 20)</b>	\$	590,821
 <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.		498,146
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		<u>44,035</u>
<b>Net assets of governmental activities(page 18)</b>		<u><u>\$ 1,133,002</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011

	Capital			Total
	General	Projects	Nonmajor	
Revenues:				
Local sources:				
Local tax	\$ 544,777	112,459	34,572	691,808
Tuition	336,964	-	-	336,964
Other	310,557	80	86,797	397,434
State sources	636,723	-	-	636,723
Federal sources	126,066	-	-	126,066
Total revenues	<u>1,955,087</u>	<u>112,539</u>	<u>121,369</u>	<u>2,188,995</u>
Expenditures:				
Current:				
Instruction:				
Regular	843,509	1,634	9,598	854,741
Special	218,295	-	-	218,295
Other	302,651	-	90,534	393,185
	<u>1,364,455</u>	<u>1,634</u>	<u>100,132</u>	<u>1,466,221</u>
Support services:				
Student	8,602	-	-	8,602
Instructional staff	10,712	48,381	-	59,093
Administration	222,580	18,224	-	240,804
Operation and maintenance of plant	161,072	5,774	11,966	178,812
Transportation	53,557	-	2,071	55,628
	<u>456,523</u>	<u>72,379</u>	<u>14,037</u>	<u>542,939</u>
Other expenditures:				
Facilities acquisitions	-	99,764	-	99,764
AEA flowthrough	42,931	-	-	42,931
	<u>42,931</u>	<u>99,764</u>	<u>-</u>	<u>142,695</u>
Total expenditures	<u>1,863,909</u>	<u>173,777</u>	<u>114,169</u>	<u>2,151,855</u>
Net change in fund balances	91,178	(61,238)	7,200	37,140
Fund balances beginning of year, as restated	319,074	130,944	103,663	553,681
Fund balance end of year	<u>\$ 410,252</u>	<u>69,706</u>	<u>110,863</u>	<u>590,821</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds(page 22) \$ 37,140

*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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expenses in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 76,280	
Depreciation expense	<u>(65,027)</u>	11,253

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (77)

**Changes in net assets of governmental activities(page 19) \$ 48,316**

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2011

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 6,947
Accounts receivable	641
Due from other governments	4,540
Inventories	1,515
Capital assets, net of accumulated depreciation	<u>12,048</u>
<b>Total assets</b>	<u>25,691</u>
<b>Liabilities</b>	
Accounts payable	3,268
Salaries and benefits payable	1,273
Due to other funds	15,332
Unearned revenue	784
<b>Total liabilities</b>	<u>20,657</u>
<b>Net Assets</b>	
Invested in capital assets	12,048
Unrestricted	<u>(7,014)</u>
<b>Total net assets</b>	<u>\$ 5,034</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 32,903
Operating expenses:	
Support services:	
Operation and maintenance of plant:	
Services	110
Non-instructional programs:	
Food service operations:	
Salaries	34,478
Benefits	5,016
Supplies	50,709
Depreciation	1,739
	91,942
Total operating expenses	92,052
Operating loss	(59,149)
Non-operating revenues:	
State sources	666
Federal sources	51,291
Total non-operating revenues	51,957
Change in net assets	(7,192)
Net assets beginning of year	12,226
Net assets end of year	\$ 5,034

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 32,062
Cash payments to employees for services	(39,955)
Cash payments to suppliers for goods or services	(44,721)
Net cash used in operating activities	(52,614)
Cash flows from non-capital financing activities:	
Borrowings from General Fund	15,332
State grants received	666
Federal grants received	51,210
Net cash provided by non-capital financing activities	67,208
Net increase in cash and cash equivalents	14,594
Cash and cash equivalents at beginning of year	(7,647)
Cash and cash equivalents at end of year	\$ 6,947
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (59,149)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,327
Depreciation	1,739
Decrease in inventories	796
Increase in accounts receivable	(640)
Increase in accounts payable	975
Decrease in salaries and benefits payable	(461)
Decrease in unearned revenues	(201)
Net cash used in operating activities	\$ (52,614)

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2011, the District received \$4,327 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(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. Combining schedules are also included for the Capital Projects Fund accounts.

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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

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.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the 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 1% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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 Equity - In the governmental fund financial statements, fund balance are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Board intends to use for specific purposes such as the District's archery program.

Unassigned - All amounts not included in other spendable classifications.

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 Accounting

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

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2011 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, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$193,991 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) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
General	Enterprise - School Nutrition	<u>\$ 15,332</u>

The School Nutrition Fund borrowed from the General Fund for cash flow purposes. The balance is to be repaid by June 30, 2012.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
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	846,044	34,219	-	880,263
Land improvements	69,805	-	-	69,805
Machinery and equipment	469,724	42,061	-	511,785
Total capital assets being depreciated	<u>1,385,573</u>	<u>76,280</u>	<u>-</u>	<u>1,461,853</u>
Less accumulated depreciation for:				
Buildings	497,735	23,038	-	520,773
Land improvements	16,670	3,491	-	20,161
Machinery and equipment	391,505	38,498	-	430,003
Total accumulated depreciation	<u>905,910</u>	<u>65,027</u>	<u>-</u>	<u>970,937</u>
Total capital assets being depreciated, net	<u>479,663</u>	<u>11,253</u>	<u>-</u>	<u>490,916</u>
Governmental activities capital assets, net	<u>\$ 486,893</u>	<u>11,253</u>	<u>-</u>	<u>498,146</u>
<b>Business type activities:</b>				
Machinery and equipment	\$ 38,598	-	-	38,598
Less accumulated depreciation	24,811	1,739	-	26,550
Business type activities capital assets, net	<u>\$ 13,787</u>	<u>(1,739)</u>	<u>-</u>	<u>12,048</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 24,185
Support services:	
Transportation	14,313
	<hr/>
	38,498
Unallocated depreciation	26,529
	<hr/>
	65,027
	<hr/> <hr/>
Total governmental activities depreciation expense	\$ 65,027
	<hr/> <hr/>
Business type activities:	
Food services	\$ 1,739
	<hr/> <hr/>

**(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 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$82,174, \$80,035 and \$76,555 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 \$42,931 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(8) Deficit Unrestricted Net Assets**

The District had a deficit unrestricted net assets of \$7,014 in the Enterprise, School Nutrition Fund.

**(9) Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Gifted and Talented Programs	\$ 37,395
Teacher Salary Supplement	6,842
Market Factor	1,024
Parent Education for At Risk	16,400
Professional Development for Model Core Curriculum	860
Professional Development	10,747
Market Factor Incentives	986
	<hr/>
Total	<u>\$ 74,254</u>

**(10) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously stated	\$ 81,759	49,185
Change in fund type classification per implementation of GASB Statement No. 54	49,185	(49,185)
	<hr/>	<hr/>
Balances July 1, 2010, as restated	<u>\$ 130,944</u>	<u>-</u>

DIAGONAL COMMUNITY SCHOOL DISTRICT

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, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 1,426,206	32,903	1,459,109	1,518,777	1,518,777	(59,668)
State sources	636,723	666	637,389	872,181	872,181	(234,792)
Federal sources	126,066	51,291	177,357	167,000	167,000	10,357
Total revenues	<u>2,188,995</u>	<u>84,860</u>	<u>2,273,855</u>	<u>2,557,958</u>	<u>2,557,958</u>	<u>(284,103)</u>
Expenditures/Expenses:						
Instruction	1,466,221	-	1,466,221	2,139,762	2,139,762	673,541
Support services	542,939	110	543,049	882,558	882,558	339,509
Non-instructional programs	-	91,942	91,942	103,454	103,454	11,512
Other expenditures	142,695	-	142,695	154,674	154,674	11,979
Total expenditures/expenses	<u>2,151,855</u>	<u>92,052</u>	<u>2,243,907</u>	<u>3,280,448</u>	<u>3,280,448</u>	<u>1,036,541</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	37,140	(7,192)	29,948	(722,490)	(722,490)	752,438
Balances beginning of year	<u>553,681</u>	<u>12,226</u>	<u>565,907</u>	<u>722,490</u>	<u>722,490</u>	<u>(156,583)</u>
Balances end of year	<u>\$ 590,821</u>	<u>5,034</u>	<u>595,855</u>	<u>-</u>	<u>-</u>	<u>595,855</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011

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, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
<b>Assets</b>			
Cash and pooled investments	\$ 86,818	26,643	113,461
Receivables:			
Property tax:			
Delinquent	445	-	445
Succeeding year	35,000	-	35,000
Accounts	-	976	976
<b>Total assets</b>	<b>\$ 122,263</b>	<b>27,619</b>	<b>149,882</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	4,019	4,019
Deferred revenue:			
Succeeding year property tax	35,000	-	35,000
Total liabilities	35,000	4,019	39,019
Fund Balances:			
Restricted for:			
Management levy purposes	87,263	-	87,263
Student activities	-	23,600	23,600
Total fund balances	87,263	23,600	110,863
<b>Total liabilities and fund balances</b>	<b>\$ 122,263</b>	<b>27,619</b>	<b>149,882</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, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 34,572	-	34,572
Other	3,647	83,150	86,797
Total revenues	38,219	83,150	121,369
Expenditures:			
Current:			
Instruction:			
Regular	9,598	-	9,598
Other	-	90,534	90,534
Support services:			
Operation and maintenance of plant	11,966	-	11,966
Transportation	2,071	-	2,071
Total expenditures	23,635	90,534	114,169
Net change in fund balances	14,584	(7,384)	7,200
Fund balances beginning of year, as restated	72,679	30,984	103,663
Fund balances end of year	\$ 87,263	23,600	110,863

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS ACCOUNTS  
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 57,992	46,219	104,211
Receivables:			
Property tax:			
Delinquent	-	626	626
Succeeding year	-	51,846	51,846
Due from other governments	15,367	-	15,367
<b>Total assets</b>	<b>\$ 73,359</b>	<b>98,691</b>	<b>172,050</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 17,299	33,199	50,498
Deferred revenue:			
Succeeding year property tax	-	51,846	51,846
Total liabilities	17,299	85,045	102,344
Fund balances:			
Restricted for:			
School infrastructure	56,060	-	56,060
Physical plant and equipment	-	13,646	13,646
Total fund balances	56,060	13,646	69,706
<b>Total liabilities and fund balances</b>	<b>\$ 73,359</b>	<b>98,691</b>	<b>172,050</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 63,798	48,661	112,459
Other	53	27	80
Total revenues	<u>63,851</u>	<u>48,688</u>	<u>112,539</u>
Expenditures:			
Instruction:			
Regular	1,634	-	1,634
Support Services:			
Instructional staff	48,381	-	48,381
Administration	18,224	-	18,224
Operation and maintenance of plant	-	5,774	5,774
Other expenditures:			
Facilities acquisitions	21,311	78,453	99,764
Total expenditures	<u>89,550</u>	<u>84,227</u>	<u>173,777</u>
Net change in fund balances	(25,699)	(35,539)	(61,238)
Fund balances beginning of year, as restated	<u>81,759</u>	<u>49,185</u>	<u>130,944</u>
Fund balances end of year	<u>\$ 56,060</u>	<u>13,646</u>	<u>69,706</u>

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	\$ 2,267	39,515	41,391	391
Concessions	11,750	9,950	13,269	8,431
Camps	1,451	8,726	9,985	192
Class of 2010	250	-	-	250
Class of 2011	5,550	7,993	12,025	1,518
Class of 2012	-	10,373	8,037	2,336
Class of 2013	-	100	-	100
Annual	4,051	3,975	3,556	4,470
Drama	2,698	-	507	2,191
Student Council	110	-	-	110
Maroon Reader	703	1,798	1,764	737
Memorials	1,657	320	-	1,977
Class Memorials	497	400	-	897
<b>Total</b>	<b>\$ 30,984</b>	<b>83,150</b>	<b>90,534</b>	<b>23,600</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 EIGHT YEARS

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 691,808	633,804	633,420	607,635	566,458	559,857	546,400	544,656
Tuition	336,964	352,417	336,127	292,589	267,538	92,408	67,507	51,087
Other	397,434	254,785	309,506	240,060	292,187	391,741	91,851	126,058
State sources	636,723	680,763	866,197	745,083	705,559	594,677	660,783	548,636
Federal sources	126,066	177,197	117,600	565,984	597,650	513,842	675,119	681,393
Total	\$ 2,188,995	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	\$ 854,741	903,151	751,710	840,950	938,263	789,828	699,770	1,108,158
Special	218,295	235,604	778,592	227,815	184,185	161,538	280,114	256,790
Other	393,185	373,664	93,489	692,388	737,560	603,817	589,192	87,919
Support services:								
Student	8,602	8,579	-	4,201	-	-	7,702	-
Instructional staff	59,093	24,127	4,590	15,139	20,779	21,308	2,285	8,197
Administration	240,804	243,710	235,817	234,017	229,767	200,702	210,383	167,842
Operation and maintenance of plant	178,812	157,476	163,366	170,872	164,230	143,747	141,915	193,348
Transportation	55,628	43,934	75,009	61,290	108,348	56,573	37,790	42,674
Non-instructional programs	-	-	-	-	-	-	-	36,781
Other expenditures:								
Facilities acquisitions	99,764	40,376	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	42,931	42,744	38,872	37,982	37,546	35,408	35,430	35,560
Total	\$ 2,151,855	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.

**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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 13, 2012. 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-11 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-11 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, 2011 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 13, 2012

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

I-A-11 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 - The District will continue to review and implement internal controls with our limited number of staff.

Conclusion - Response accepted.

I-B-11 Checks Written as Bearer Paper - We noted during our audit that the District is writing checks payable to "cash" which are later cashed at that bank for start-up money at District events.

Recommendation - The District writes various checks throughout the year for change boxes for startup cash at the gate for District events. It was noted that these checks were being written to "cash" instead of the custodian/sponsor for these events and the bank. Checks made out to "cash" alone are bearer paper and in the event the check would be lost or stolen, anyone could cash the check. In the future, the District should write the check payable to the custodian/sponsor.

Response - The District has implemented the policy that the names of the custodian/sponsor will be added to all cash checks written.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Statutory Reporting

- II-A-11 Certified Budget - No instances were noted for the year ended June 30, 2011 where District expenditures exceeded the certified budget amounts.
- II-B-11 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-11 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-11 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-11 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-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-11 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-11 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-11 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-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-11 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 revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	81,759
Revenues:			
Sales tax revenue	\$	63,798	
Other local revenues		53	63,851
		<u>        </u>	<u>145,610</u>
Expenditures:			
School infrastructure construction	\$	21,311	
Equipment		50,015	
Other		18,224	89,550
		<u>        </u>	<u>89,550</u>
Ending balance		\$	<u>56,060</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-11 Financial Condition - The District had deficit unrestricted net assets in the School Nutrition Fund of \$7,014.

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

Response - The District is working on eliminating the deficit and will have the program cash flowing in two years.

Conclusion - Response accepted.