

DIAGONAL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

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Diagonal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Phil Mason	President	2013
Jim Strange	Vice President	2015
Pam Grace	Board Member	2015
Becky Stamps	Board Member	2015
Amy Herr	Board Member	2013
School Officials		
Karleen Stephens	Superintendent	2013
Billie Jo Greene	District Secretary/ Treasurer	2013
Ahlers & Cooney, P.C.	Attorney	2013

Diagonal Community School District

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District, Diagonal, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 7 through 15 and 36 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions 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 third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2014, on our consideration of Diagonal Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 in considering Diagonal Community School District's internal control over financial reporting and compliance.


NOLTE, CORNMAN & JOHNSON, P.C.

March 28, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Diagonal Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$1,905,415 in fiscal 2012 to \$1,672,013 in fiscal 2013, while General Fund expenditures decreased from \$1,875,923 in fiscal 2012 to \$1,860,131 in fiscal 2013. The District's General Fund balance decreased from \$439,744 in fiscal 2012 to \$251,626 in fiscal 2013, a 42.78% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local revenue sources in fiscal 2013. The decrease in expenditures was due primarily to a decrease in regular instruction expenditures.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Position 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.

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

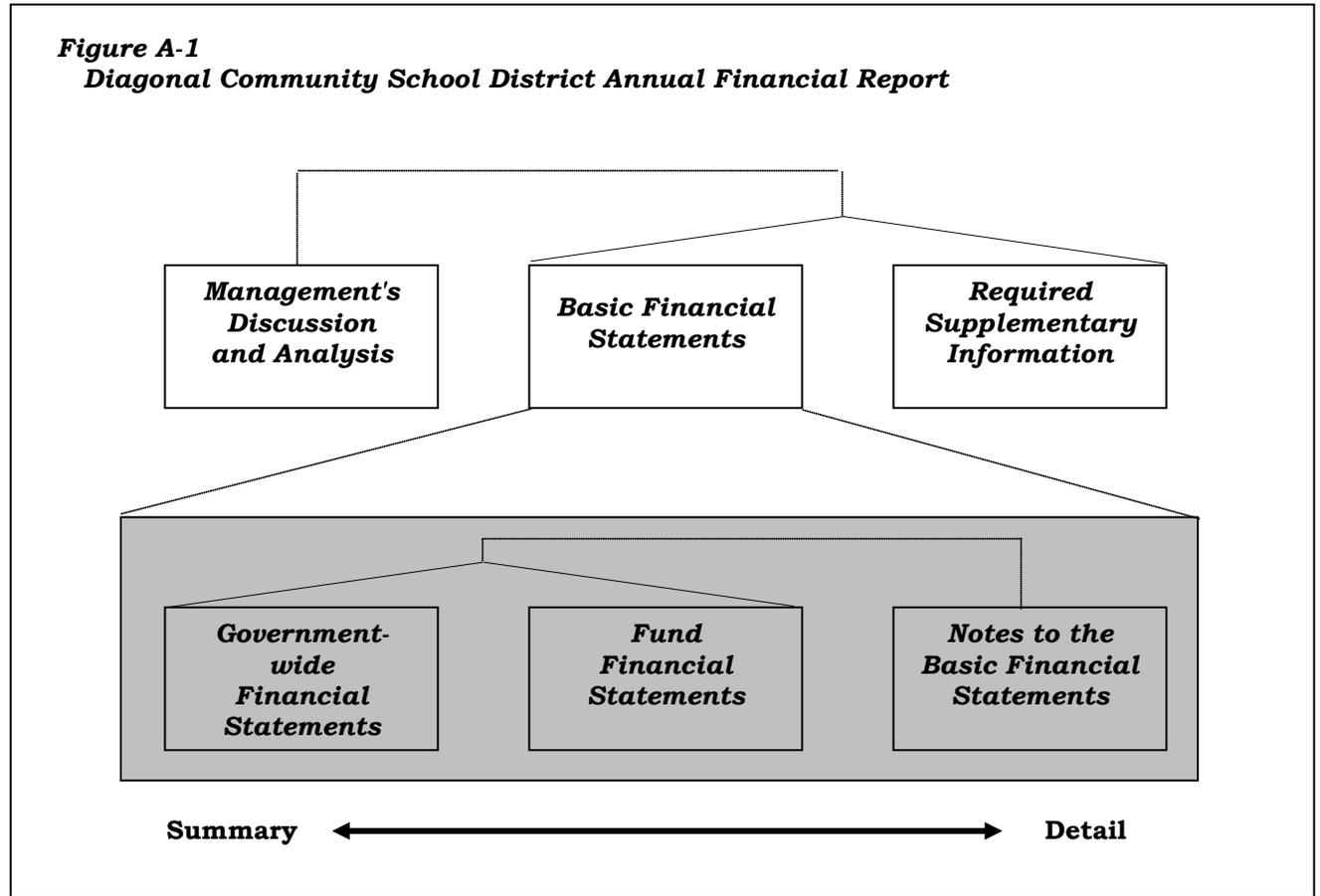


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position 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 position and how they have changed. Net position - the difference between the District’s assets and liabilities - is one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s net position is an indicator of whether financial position is improving or deteriorating.

To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

The required financial statements for the governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

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

The required financial statements for the proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position 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 position at June 30, 2013 compared to June 30, 2012.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 1,190,758	1,384,984	16,043	11,410	1,206,801	1,396,394	-13.58%
Capital assets	417,397	442,392	10,757	11,773	428,154	454,165	-5.73%
Total assets	1,608,155	1,827,376	26,800	23,183	1,634,955	1,850,559	-11.65%
Other liabilities	705,022	691,457	11,081	4,401	716,103	695,858	2.91%
Total liabilities	705,022	691,457	11,081	4,401	716,103	695,858	2.91%
Net position:							
Invested in capital assets	417,397	442,392	10,757	11,773	428,154	454,165	-5.73%
Restricted	248,452	366,699	-	-	248,452	366,699	-32.25%
Unrestricted	237,284	326,828	4,962	7,009	242,246	333,837	-27.44%
Total net position	\$ 903,133	1,135,919	15,719	18,782	918,852	1,154,701	-20.43%

The District's combined net position decreased by 20.43% or \$235,849 over the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment).

Restricted net position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position decreased \$118,247 or 32.25% from the prior year. The decrease was primarily due to the decrease in restricted balance of the Management Levy Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$91,591 or 27.44%. 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 position for the year ended June 30, 2013 compared to June 30, 2012.

	Figure A-4						
	Changes of Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 361,776	407,291	145,065	39,727	506,841	447,018	13.38%
Operating grants, contributions and restricted interest	253,609	345,981	66,801	58,398	320,410	404,379	-20.76%
Capital grants, contributions and restricted interest	-	-	-	1,598	-	1,598	-100.00%
General revenues:							
Property tax	540,437	601,783	-	-	540,437	601,783	-10.19%
Income surtax	60,252	57,341	-	-	60,252	57,341	5.08%
Statewide sales, services and use tax	82,435	65,562	-	-	82,435	65,562	25.74%
Unrestricted state grants	548,340	486,022	-	-	548,340	486,022	12.82%
Nonspecific program federal grants	-	21,250	-	-	-	21,250	-100.00%
Unrestricted investment earnings	1,557	3,426	-	-	1,557	3,426	-54.55%
Other	17,217	142,795	-	-	17,217	142,795	-87.94%
Total revenues and transfers	<u>1,865,623</u>	<u>2,131,451</u>	<u>211,866</u>	<u>99,723</u>	<u>2,077,489</u>	<u>2,231,174</u>	<u>-6.89%</u>
Program expenses:							
Governmental activities:							
Instructional	1,400,637	1,457,169	110,575	-	1,511,212	1,457,169	3.71%
Support services	630,692	607,550	-	-	630,692	607,550	3.81%
Non-instructional programs	-	-	104,354	85,975	104,354	85,975	21.38%
Other expenses	67,080	63,815	-	-	67,080	63,815	5.12%
Total expenses	<u>2,098,409</u>	<u>2,128,534</u>	<u>214,929</u>	<u>85,975</u>	<u>2,313,338</u>	<u>2,214,509</u>	<u>4.46%</u>
Change in net position	(232,786)	2,917	(3,063)	13,748	(235,849)	16,665	-1515.24%
Net position beginning of year	<u>1,135,919</u>	<u>1,133,002</u>	<u>18,782</u>	<u>5,034</u>	<u>1,154,701</u>	<u>1,138,036</u>	<u>1.46%</u>
Net position end of year	<u>\$ 903,133</u>	<u>1,135,919</u>	<u>15,719</u>	<u>18,782</u>	<u>918,852</u>	<u>1,154,701</u>	<u>-20.43%</u>

In fiscal 2013, property tax and unrestricted state grants accounted for 58.36% of the revenue from governmental activities while charges for service and sales, operating grants, contributions and restricted interest and capital grants, contributions and restricted interest accounted for all of the revenue from business type activities.

The District's total revenues were \$2,077,489, of which \$1,865,623 was for governmental activities and \$211,866 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.89% decrease in revenues and a 4.46% increase in expenses. The decrease in revenues was primarily caused by a decrease in property tax revenue. The increase in expenses was caused by the increase in expenses for the instructional and non-instructional functional areas.

Governmental Activities

Revenues for governmental activities were \$1,865,623 and expenses were \$2,098,409 for the year ended June 30, 2013.

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		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 1,400,637	1,457,169	-3.88%	824,567	741,183	11.25%
Support services	630,692	607,550	3.81%	630,692	607,550	3.81%
Other expenses	67,080	63,815	5.12%	27,765	26,529	4.66%
Totals	<u>\$ 2,098,409</u>	<u>2,128,534</u>	<u>-1.42%</u>	<u>1,483,024</u>	<u>1,375,262</u>	<u>7.84%</u>

- The cost financed by users of the District's programs was \$361,776.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$253,609.
- The net cost of governmental activities was financed with \$540,437 in property tax, \$60,252 in income surtax, \$82,435 in statewide sales, services and use tax, \$548,340 in unrestricted state grants, \$1,557 in interest income and \$17,217 in other general revenues.

Business type Activities

Revenues of the District's business type activities during the year ended June 30, 2013 were \$211,866 representing a 112.45% increase over the prior year, while expenses totaled \$214,929, a 149.99% increase from the prior year. The District's business type activities include the School Nutrition Fund and the Early Childhood 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 \$440,498, below last year's ending fund balances of \$652,461. The primary reason for the decrease was the decrease in the General Fund balance.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$439,744 on June 30, 2012 to \$251,626 on June 30, 2013. The District's deteriorating General Fund financial position is the product of many factors. Decreased revenues combined with an increase in expenses resulted in a decrease in the General Fund balance at June 30, 2013.
- The Capital Projects Fund increased from a balance of \$86,428 at the beginning of fiscal year 2013 to \$107,022 at the end of fiscal year 2013. The increase in fund balance resulted mainly from a decrease in capital outlay expenditures as compared to the previous year.

Proprietary Fund Highlights

- The School Nutrition Fund net position decreased from \$18,782 at June 30, 2012 to \$8,495 at June 30, 2013, representing a decrease of 54.77%.
- The Early Childhood Fund net position increased from \$0 at June 30, 2012 to \$7,224 at June 30, 2013, representing an increase of 100.00%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$233,140 less than budgeted revenues, a variance of 10.11%. The most significant percentage variance resulted from the District receiving less in local 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and non-instructional programs functional areas.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$428,154, 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 5.73% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$57,677.

The original cost of the District's capital assets was \$1,542,196. Governmental funds account for \$1,501,065 with the remainder of \$41,131 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 \$64,330 at June 30, 2012, compared to \$41,353 reported at June 30, 2013. The decrease in machinery and equipment 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,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 7,230	7,230	-	-	7,230	7,230	0.00%
Buildings	336,907	336,451	-	-	336,907	336,451	0.14%
Land improvements	42,664	46,154	-	-	42,664	46,154	-7.56%
Machinery and equipment	30,596	52,557	10,757	11,773	41,353	64,330	-35.72%
Total	\$ 417,397	442,392	10,757	11,773	428,154	454,165	-5.73%

Long-Term Debt

At June 30, 2013, there was no long-term debt noted for the District.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and possible enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of the District's unspent authorized budget.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period which started in fiscal year 2005.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Diagonal Community School District

BASIC FINANCIAL STATEMENTS

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 476,837	5,338	482,175
Receivables:			
Property tax:			
Delinquent	12,027	-	12,027
Succeeding year	559,533	-	559,533
Income surtax	45,238	-	45,238
Accounts	6,049	9,133	15,182
Due from other governments	91,074	-	91,074
Inventories	-	1,572	1,572
Capital assets, net of accumulated depreciation	417,397	10,757	428,154
TOTAL ASSETS	1,608,155	26,800	1,634,955
LIABILITIES			
Excess of warrants issued over bank balance	-	1,771	1,771
Accounts payable	110,055	2,591	112,646
Salaries and benefits payable	34,384	6,461	40,845
Deposits payable	1,050	-	1,050
Deferred revenue:			
Succeeding year property tax	559,533	-	559,533
Unearned revenue	-	258	258
TOTAL LIABILITIES	705,022	11,081	716,103
NET POSITION			
Invested in capital assets	417,397	10,757	428,154
Restricted for:			
Categorical funding	59,580	-	59,580
Management levy purposes	55,067	-	55,067
Student activities	26,783	-	26,783
School infrastructure	71,846	-	71,846
Physical plant and equipment	35,176	-	35,176
Unrestricted	237,284	4,962	242,246
TOTAL NET POSITION	\$ 903,133	15,719	918,852

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 952,473	221,767	98,640	(632,066)	-	(632,066)
Special	220,163	65,188	5,695	(149,280)	-	(149,280)
Other	228,001	74,821	109,959	(43,221)	-	(43,221)
	<u>1,400,637</u>	<u>361,776</u>	<u>214,294</u>	<u>(824,567)</u>	<u>-</u>	<u>(824,567)</u>
Support services:						
Student support	11,214	-	-	(11,214)	-	(11,214)
Instructional staff	85,953	-	-	(85,953)	-	(85,953)
Administration	251,419	-	-	(251,419)	-	(251,419)
Operation and maintenance of plant	203,040	-	-	(203,040)	-	(203,040)
Transportation	79,066	-	-	(79,066)	-	(79,066)
	<u>630,692</u>	<u>-</u>	<u>-</u>	<u>(630,692)</u>	<u>-</u>	<u>(630,692)</u>
Other expenditures:						
AEA flowthrough	39,315	-	39,315	-	-	-
Depreciation (unallocated)*	27,765	-	-	(27,765)	-	(27,765)
	<u>67,080</u>	<u>-</u>	<u>39,315</u>	<u>(27,765)</u>	<u>-</u>	<u>(27,765)</u>
Total governmental activities	<u>2,098,409</u>	<u>361,776</u>	<u>253,609</u>	<u>(1,483,024)</u>	<u>-</u>	<u>(1,483,024)</u>
Business type activities:						
Instruction:						
Regular	110,575	101,307	16,492	-	7,224	7,224
Non instructional programs:						
Nutrition services	104,354	43,758	50,309	-	(10,287)	(10,287)
Total business type activities	<u>214,929</u>	<u>145,065</u>	<u>66,801</u>	<u>-</u>	<u>(3,063)</u>	<u>(3,063)</u>
Total	<u>\$ 2,313,338</u>	<u>506,841</u>	<u>320,410</u>	<u>(1,483,024)</u>	<u>(3,063)</u>	<u>(1,486,087)</u>
General Revenues:						
Local tax for:						
General purposes				\$ 490,491	-	490,491
Capital outlay				49,946	-	49,946
Income surtax				60,252	-	60,252
Statewide sales, services and use tax				82,435	-	82,435
Unrestricted state grants				548,340	-	548,340
Unrestricted investment earnings				1,557	-	1,557
Other				17,217	-	17,217
Total general revenues				<u>1,250,238</u>	<u>-</u>	<u>1,250,238</u>
Changes in net position				(232,786)	(3,063)	(235,849)
Net position beginning of year				<u>1,135,919</u>	<u>18,782</u>	<u>1,154,701</u>
Net position end of year				<u>\$ 903,133</u>	<u>15,719</u>	<u>918,852</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, 2013

	Capital			Total
	General	Projects	Nonmajor	
ASSETS				
Cash and pooled investments	\$ 307,876	84,189	84,772	476,837
Receivables:				
Property tax:				
Delinquent	10,915	1,112	-	12,027
Succeeding year	462,182	52,351	45,000	559,533
Income surtax	45,238	-	-	45,238
Accounts	4,514	-	1,535	6,049
Due from other funds	-	3,201	-	3,201
Due from other governments	72,116	18,958	-	91,074
TOTAL ASSETS	\$ 902,841	159,811	131,307	1,193,959
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 3,201	-	-	3,201
Accounts payable	105,160	438	4,457	110,055
Salaries and benefits payable	34,384	-	-	34,384
Deposits payable	1,050	-	-	1,050
Deferred revenue:				
Succeeding year property tax	462,182	52,351	45,000	559,533
Income surtax	45,238	-	-	45,238
Total liabilities	651,215	52,789	49,457	753,461
Fund balances:				
Restricted for:				
Categorical funding	59,580	-	-	59,580
Management levy purposes	-	-	55,067	55,067
Student activities	-	-	26,783	26,783
School infrastructure	-	71,846	-	71,846
Physical plant and equipment	-	35,176	-	35,176
Assigned for special purposes	3,967	-	-	3,967
Unassigned	188,079	-	-	188,079
Total fund balances	251,626	107,022	81,850	440,498
TOTAL LIABILITIES AND FUND BALANCES	\$ 902,841	159,811	131,307	1,193,959

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2013

Total fund balances of governmental funds (page 20)	\$	440,498
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***Amounts reported for governmental activities in the
 Statement of Net Position are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		417,397
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Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		45,238
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Net position of governmental activities (page 18)	\$	903,133
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SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 546,571	132,381	-	678,952
Tuition	285,253	-	-	285,253
Other	105,425	2	57,055	162,482
State sources	628,374	-	-	628,374
Federal sources	106,390	-	-	106,390
Total revenues	<u>1,672,013</u>	<u>132,383</u>	<u>57,055</u>	<u>1,861,451</u>
Expenditures:				
Current:				
Instruction:				
Regular	932,639	-	2,930	935,569
Special	220,163	-	-	220,163
Other	166,360	-	61,641	228,001
	<u>1,319,162</u>	<u>-</u>	<u>64,571</u>	<u>1,383,733</u>
Support services:				
Student	11,214	-	-	11,214
Instructional staff	13,307	72,646	-	85,953
Administration	251,419	-	-	251,419
Operation and maintenance of plant	158,309	11,562	36,923	206,794
Transportation	67,405	6,604	-	74,009
	<u>501,654</u>	<u>90,812</u>	<u>36,923</u>	<u>629,389</u>
Capital outlay	-	20,977	-	20,977
Other expenditures:				
AEA flowthrough	39,315	-	-	39,315
Total expenditures	<u>1,860,131</u>	<u>111,789</u>	<u>101,494</u>	<u>2,073,414</u>
Change in fund balances	(188,118)	20,594	(44,439)	(211,963)
Fund balances beginning of year	439,744	86,428	126,289	652,461
Fund balance end of year	<u>\$ 251,626</u>	<u>107,022</u>	<u>81,850</u>	<u>440,498</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, 2013

Change in fund balances - total governmental funds (page 22) \$ (211,963)

***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:

Capital outlay	\$ 30,731	
Depreciation expense	<u>(55,726)</u>	(24,995)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 4,172

Change in net position of governmental activities (page 19) \$ (232,786)

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	School Nutrition	Early Childhood	Total
ASSETS			
Cash and pooled investments	\$ -	5,338	5,338
Accounts receivable	295	8,838	9,133
Inventories	1,572	-	1,572
Capital assets, net of accumulated depreciation	10,757	-	10,757
TOTAL ASSETS	12,624	14,176	26,800
LIABILITIES			
Excess of warrants issued over bank balance	\$ 1,771	-	1,771
Accounts payable	1,813	778	2,591
Salaries and benefits payable	287	6,174	6,461
Unearned revenue	258	-	258
TOTAL LIABILITIES	4,129	6,952	11,081
NET POSITION			
Invested in capital assets	10,757	-	10,757
Unrestricted	(2,262)	7,224	4,962
TOTAL NET POSITION	\$ 8,495	7,224	15,719

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	School Nutrition	Early Childhood	Total
Operating revenues:			
Local sources:			
Charges for services	\$ 43,758	101,307	145,065
Operating expenses:			
Instruction:			
Regular:			
Salaries	-	80,868	80,868
Benefits	-	13,243	13,243
Supplies	-	16,464	16,464
Total instruction	-	110,575	110,575
Non-instructional programs:			
Food service operations:			
Salaries	46,629	-	46,629
Benefits	7,512	-	7,512
Supplies	48,262	-	48,262
Depreciation	1,951	-	1,951
	104,354	-	104,354
Total operating expenses	104,354	110,575	214,929
Operating loss	(60,596)	(9,268)	(69,864)
Non-operating revenues:			
State sources	729	16,492	17,221
Federal sources	49,580	-	49,580
Total non-operating revenues	50,309	16,492	66,801
Change in net position	(10,287)	7,224	(3,063)
Net position beginning of year	18,782	-	18,782
Net position end of year	\$ 8,495	7,224	15,719

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	School Nutrition	Early Childhood	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 44,061	-	44,061
Cash received from daycare operating activities	-	92,469	92,469
Cash payments to employees for services	(55,882)	(87,937)	(143,819)
Cash payments to suppliers for goods or services	(37,805)	(15,686)	(53,491)
Net cash used in operating activities	(49,626)	(11,154)	(60,780)
Cash flows from non-capital financing activities:			
State grants received	729	16,492	17,221
Federal grants received	47,513	-	47,513
Net cash provided by non-capital financing activities	48,242	16,492	64,734
Cash flows from capital financing activities:			
Acquisition of assets	(935)	-	(935)
Net increase(decrease) in cash and cash equivalents	(2,319)	5,338	3,019
Cash and cash equivalents at beginning of year	548	-	548
Cash and cash equivalents at end of year	\$ (1,771)	5,338	3,567
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (60,596)	(9,268)	(69,864)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	9,989	-	9,989
Depreciation	1,951	-	1,951
Decrease in inventories	1,028	-	1,028
Decrease(Increase) in accounts receivable	45	(8,838)	(8,793)
(Decrease)Increase in accounts payable	(560)	778	218
(Decrease)Increase in salaries and benefits payable	(1,741)	6,174	4,433
Increase in unearned revenues	258	-	258
Net cash used in operating activities	\$ (49,626)	(11,154)	(60,780)

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2013, the District received \$9,989 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(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 Position 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 service.

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

Invested in capital assets consists of capital assets, net of accumulated depreciation.

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

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has 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 major proprietary fund:

The District's major proprietary fund is the Enterprise, Early Childhood Fund. The Early Childhood Fund is used to account for the District's programs for two and three year old children that are not able to be funded with state categorical funding, but rather by tuition paid by parents and county empowerment grants.

The District reports the following nonmajor proprietary fund:

The District's non-major 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 position 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are charges to customers for sales and services. Operating expenses for 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 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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 Position. 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
Buildings	\$ 1,500
Land improvements	1,500
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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 Position 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 Position 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 Position.

Fund Balances - 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 and preschool programs.

Unassigned - All amounts not included in other spendable classifications.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures exceeded the amounts budgeted in the support services and non-instructional programs functional areas.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2013 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, 2013, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$126,228 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust were rated AAA by Standard and Poor's Financial Services.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,230	-	-	7,230
Total capital assets not being depreciated	<u>7,230</u>	<u>-</u>	<u>-</u>	<u>7,230</u>
Capital assets being depreciated:				
Buildings	880,263	24,731	-	904,994
Land improvements	69,805	-	-	69,805
Machinery and equipment	513,036	6,000	-	519,036
Total capital assets being depreciated	<u>1,463,104</u>	<u>30,731</u>	<u>-</u>	<u>1,493,835</u>
Less accumulated depreciation for:				
Buildings	543,812	24,275	-	568,087
Land improvements	23,651	3,490	-	27,141
Machinery and equipment	460,479	27,961	-	488,440
Total accumulated depreciation	<u>1,027,942</u>	<u>55,726</u>	<u>-</u>	<u>1,083,668</u>
Total capital assets being depreciated, net	<u>435,162</u>	<u>(24,995)</u>	<u>-</u>	<u>410,167</u>
Governmental activities capital assets, net	<u>\$ 442,392</u>	<u>(24,995)</u>	<u>-</u>	<u>417,397</u>
Business type activities:				
Machinery and equipment	\$ 40,196	935	-	41,131
Less accumulated depreciation	28,423	1,951	-	30,374
Business type activities capital assets, net	<u>\$ 11,773</u>	<u>(1,016)</u>	<u>-</u>	<u>10,757</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 16,904
Support services:	
Transportation	<u>11,057</u>
	<u>27,961</u>
Unallocated depreciation	<u>27,765</u>
Total governmental activities depreciation expense	<u>\$ 55,726</u>
Business type activities:	
Food services	<u>\$ 1,951</u>

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$105,368, \$94,505 and \$82,174, respectively, equal to the required contributions for each year.

(5) 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.

(6) 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 \$39,315 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2013 is comprised of the following programs:

Program	Amount
Teacher salary supplement	\$ 16,328
Market factor	1,024
Gifted and talented	40,128
Professional development	1,114
Market factor incentives	986
	<hr/>
Total	<u><u>\$ 59,580</u></u>

(8) Operating Lease

During the year ended June 30, 2010, the District entered into a 60 month operating lease with Infomax Office Systems for the use of copiers. The minimum monthly payment is \$1,407. For the year ended June 30, 2013, the District's total amount paid was \$20,759.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2013, expenditures in the support services and non-instructional programs functional area exceeded the budgeted amounts.

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, 2013

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 1,126,687	145,065	1,271,752	1,389,541	1,389,541	(117,789)
State sources	628,374	17,221	645,595	771,916	771,916	(126,321)
Federal sources	106,390	49,580	155,970	145,000	145,000	10,970
Total revenues	<u>1,861,451</u>	<u>211,866</u>	<u>2,073,317</u>	<u>2,306,457</u>	<u>2,306,457</u>	<u>(233,140)</u>
Expenditures/Expenses:						
Instruction	1,383,733	110,575	1,494,308	2,042,712	2,042,712	548,404
Support services	629,389	-	629,389	622,733	622,733	(6,656)
Non-instructional programs	-	104,354	104,354	101,494	101,494	(2,860)
Other expenditures	60,292	-	60,292	161,005	161,005	100,713
Total expenditures/expenses	<u>2,073,414</u>	<u>214,929</u>	<u>2,288,343</u>	<u>2,927,944</u>	<u>2,927,944</u>	<u>639,601</u>
Deficiency of revenues under expenditures/expenses	(211,963)	(3,063)	(215,026)	(621,487)	(621,487)	406,461
Balances beginning of year	<u>652,461</u>	<u>18,782</u>	<u>671,243</u>	<u>621,487</u>	<u>621,487</u>	<u>49,756</u>
Balances end of year	<u>\$ 440,498</u>	<u>15,719</u>	<u>456,217</u>	<u>-</u>	<u>-</u>	<u>456,217</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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.

During the year ended June 30, 2013, expenditures in the support services and non-instructional programs functional areas exceeded the amounts budgeted.

Diagonal Community School District

SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 56,255	28,517	84,772
Receivables:			
Property tax:			
Succeeding year	45,000	-	45,000
Accounts	-	1,535	1,535
TOTAL ASSETS	\$ 101,255	30,052	131,307
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,188	3,269	4,457
Deferred revenue:			
Succeeding year property tax	45,000	-	45,000
Total liabilities	46,188	3,269	49,457
Fund balances:			
Restricted for:			
Management levy purposes	55,067	-	55,067
Student activities	-	26,783	26,783
Total fund balances	55,067	26,783	81,850
TOTAL LIABILITIES AND FUND BALANCES	\$ 101,255	30,052	131,307

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, 2013

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Revenues:			
Local sources:			
Other	\$ 969	56,086	57,055
Total revenues	969	56,086	57,055
Expenditures:			
Current:			
Instruction:			
Regular	2,930	-	2,930
Other	-	61,641	61,641
Support services:			
Operation and maintenance of plant	36,923	-	36,923
Total expenditures	39,853	61,641	101,494
Change in fund balances	(38,884)	(5,555)	(44,439)
Fund balances beginning of year	93,951	32,338	126,289
Fund balances end of year	\$ 55,067	26,783	81,850

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS ACCOUNTS
 JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 53,326	30,863	84,189
Receivables:			
Property tax:			
Delinquent	-	1,112	1,112
Succeeding year	-	52,351	52,351
Due from other funds	-	3,201	3,201
Due from other governments	18,958	-	18,958
TOTAL ASSETS	\$ 72,284	87,527	159,811
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 438	-	438
Deferred revenue:			
Succeeding year property tax	-	52,351	52,351
Total liabilities	438	52,351	52,789
Fund balances:			
Restricted for:			
School infrastructure	71,846	-	71,846
Physical plant and equipment	-	35,176	35,176
Total fund balances	71,846	35,176	107,022
TOTAL LIABILITIES AND FUND BALANCES	\$ 72,284	87,527	159,811

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, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 82,435	49,946	132,381
Other	2	-	2
Total revenues	<u>82,437</u>	<u>49,946</u>	<u>132,383</u>
Expenditures:			
Current:			
Support services:			
Instructional staff	26,714	45,932	72,646
Operation and maintenance of plant	-	11,562	11,562
Transportation	604	6,000	6,604
Capital outlay	20,902	75	20,977
Total expenditures	<u>48,220</u>	<u>63,569</u>	<u>111,789</u>
Change in fund balances	34,217	(13,623)	20,594
Fund balances beginning of year	<u>37,629</u>	<u>48,799</u>	<u>86,428</u>
Fund balances end of year	<u>\$ 71,846</u>	<u>35,176</u>	<u>107,022</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, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 1,810	18,791	20,601	-
Concessions	10,369	7,984	12,160	6,193
Camps	178	-	-	178
Class of 2010	250	-	-	250
Class of 2011	1,620	-	1,000	620
Class of 2012	517	-	16	501
Class of 2013	7,856	7,243	12,192	2,907
Class of 2014	4	11,027	7,936	3,095
Annual	3,874	4,789	3,613	5,050
Drama	3,269	2,884	1,066	5,087
Student Council	196	-	41	155
Maroon Reader	(479)	3,368	2,781	108
Memorials	1,977	-	235	1,742
Class Memorials	897	-	-	897
Total	\$ 32,338	56,086	61,641	26,783

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 TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 678,952	727,655	691,808	633,804	633,420	607,635	566,458	559,857	546,400	544,656
Tuition	285,253	330,342	336,964	352,417	336,127	292,589	267,538	92,408	67,507	51,087
Other	162,482	386,555	397,434	254,785	309,506	240,060	292,187	391,741	91,851	126,058
State sources	628,374	567,841	636,723	680,763	866,197	745,083	705,559	594,677	660,783	548,636
Federal sources	106,390	122,027	126,066	177,197	117,600	565,984	597,650	513,842	675,119	681,393
Total	\$ 1,861,451	2,134,420	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	\$ 935,569	998,799	854,741	903,151	751,710	840,950	938,263	789,828	699,770	1,108,158
Special	220,163	195,244	218,295	235,604	778,592	227,815	184,185	161,538	280,114	256,790
Other	228,001	245,814	393,185	373,664	93,489	692,388	737,560	603,817	589,192	87,919
Support services:										
Student	11,214	11,121	8,602	8,579	-	4,201	-	-	7,702	-
Instructional staff	85,953	15,846	59,093	24,127	4,590	15,139	20,779	21,308	2,285	8,197
Administration	251,419	256,960	240,804	243,710	235,817	234,017	229,767	200,702	210,383	167,842
Operation and maintenance of plant	206,794	177,415	178,812	157,476	163,366	170,872	164,230	143,747	141,915	193,348
Transportation	74,009	60,127	55,628	43,934	75,009	61,290	108,348	56,573	37,790	42,674
Non-instructional programs	-	-	-	-	-	-	-	-	-	36,781
Capital outlays	20,977	74,168	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
Other expenditures:										
AEA flow-through	39,315	37,286	42,931	42,744	38,872	37,982	37,546	35,408	35,430	35,560
Total	\$ 2,073,414	2,072,780	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.

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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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Diagonal Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Diagonal Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Diagonal Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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 described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-13 through I-G-13 to be significant deficiencies.

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 which 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, 2013 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

Diagonal Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Diagonal Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 28, 2014
Newton, Iowa

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

I-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording and depositing; journalizing, posting and reconciling.
- 4) Computer systems - performing all general accounting functions and controlling all data input and output.
- 5) School lunch program - collecting, recording and depositing; journalizing, posting, reconciling and purchase order processing.

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 investigate available alternatives and implement if possible.

Conclusion - Response accepted.

I-B-13 Receipting Procedures - We noted that the District does not currently issue receipts for money collected. These receipts should be used as a control to ensure that all money collected by the District is being recorded and deposited correctly and in a timely manner.

Recommendation - The District should require all offices to use receipts which are pre-numbered to ensure that all money that is collected is recorded and deposited correctly.

Response - The District will begin using pre-numbered receipts for money collected.

Conclusion - Response accepted.

I-C-13 Gate Admissions - It was noted that the District does not utilize pre-numbered tickets for all events that requires an admission.

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

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - The District will review procedures and implement necessary changes.

Conclusion - Response accepted.

I-D-13 Payroll Procedures - We noted during our audit that a District employee was paid \$0.75/hour under their contracted amount for one pay period during the year ended June 30, 2013.

Recommendation - The District should review its payroll procedures to ensure that employees are receiving the rate of pay stated in their contract. In addition, the District should correct payroll for the employee who was underpaid.

Response - The District contacted the employee to reimburse the short fall, but the employee declined payment to correct the payroll error. Payroll procedures will be reviewed to ensure employees are compensated according to their contracts.

Conclusion - Response accepted.

I-E-13 Deposit Process - We noted during our audit, instances of deposit slips lacking sufficient detail. The lack of sufficient detail on the deposit slip provides a risk of loss due to possible theft, improper use or loss, as well as, lack of reporting of the funds. We also noted that the District is not making deposits in a timely manner.

Recommendation - The District should review and implement procedures to ensure that sufficient detail is on the deposit slip and that deposits are being made in a timely manner. The District should also make sure that the appropriate staff is trained on the process.

Response - The District now writes detail on deposit slips and deposits are being made in a timely manner.

Conclusion - Response accepted.

I-F-13 Supporting Documentation - We noted an instance of a check being written to a vendor without an invoice or supporting documentation.

Recommendation - The District should review their procedures that are in place to ensure that all bills are supported, approved, and paid from an invoice. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or support documentation other than the invoice.

Response - The District will review its procedures to ensure invoices are provided for all payments.

Conclusion - Response accepted.

I-G-13 Student Activity Class Accounts - We noted during our audit that the Class of 2010, Class of 2011, Class of 2012 and Class of 2013 accounts in the Student Activity Fund had balances at year end.

Recommendation - Upon graduation, the remaining balances in old class accounts should be redistributed to other individual activity fund accounts or used as start-up funds for the next incoming class.

Response - The old class accounts will be closed and the remaining balances will be allocated among other activity accounts.

Conclusion - Response accepted.

OTHER MATTERS:

I-I-13 Student Activity Fund Interest - We noted during our audit that the Student Activity Fund earned interest. However, this interest was not allocated to the various accounts at least once during the year.

Recommendation- Interest in the Student Activity Fund should be allocated among the various accounts at least on an annual basis. The interest should be recognized by the individual clubs that earned the interest.

Response - The District will deposit interest to the Athletics and Concessions accounts as they earn the majority of the interest.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Statutory Reporting:

II-A-13 Certified Budget - District expenditures for the year ended June 30, 2013, exceeded the amounts budgeted in the support services and non-instructional programs functional areas.

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

Response - The District will review expenditures in accordance with Chapter 24.9 of the Code of Iowa and amend the budget as needed.

Conclusion - Response accepted.

II-B-13 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-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted and no travel advances to District officials or employees were noted. However, we noted during our audit that an employee made meal purchases while on District business but failed to turn in a detailed receipt of the purchase to the District office. Board policy 401.10 states that employees using a school district credit card must submit a detailed receipt in addition to a credit card receipt indicating the date, purpose and nature of the expense for each claimed item. Failure to provide a proper receipt shall make the employee responsible for expenses incurred.

Recommendation - The District should review procedures in place when employees use the District's credit card for expenses. Detailed receipts should be turned into the District's central office for processing travel expenses. If detailed receipts are not available, the cost should be borne by the employee in accordance with District policy.

Response - The District will require detailed receipts before reimbursements are made.

Conclusion - Response accepted.

II-D-13 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-13 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-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-13 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by 2.0 students.

Recommendation - The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.

Response - The District's auditors will contact the Iowa Department of Education and the Department of Management to resolve this issue.

Conclusion - Response accepted.

- II-H-13 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-13 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-13 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-13 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-13 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, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	37,629
Revenues:			
Sales tax revenue	\$	82,435	
Other local revenues		2	82,437
			120,066
Expenditures:			
School infrastructure construction	\$	20,902	
Equipment		8,468	
Other		18,850	48,220
			48,220
Ending balance		\$	71,846

For the year ended June 30, 2013, 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-13 Physical Plant and Equipment Levy(PPEL) Expenditures - In the previous year, we requested the District make a corrective transfer of \$1,423 for fire inspection fees paid from PPEL Fund. For the year ended June 30, 2013, the District paid fire inspection fees of \$1,778 from PPEL Fund. Fire inspection fees are considered routine maintenance which would appear to not be in compliance with Chapter 423 and 298 of the Code of Iowa. Expenditures for routine maintenance are more appropriate from General Fund.

Due to materiality to PPEL Fund, the prior year fire inspection fees of \$1,423 have been added with the current year fire inspection fees of \$1,778 to create the interfund payable/receivable from the General Fund to PPEL of \$3,201 that is shown on the financial statements of this report.

Recommendation - The District needs to have the Board of Directors approve the repayment of \$3,201 from General Fund to PPEL Fund. The District should review Chapter 423 and 298 of the Code of Iowa for allowability of expenditures from the Physical Plant and Equipment Levy.

Response - The District will have the Board approve the transfer from General Fund to PPEL Fund for the repayment of \$3,201.

Conclusion - Response accepted.