

CITY OF MELCHER-DALLAS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, IA 50265

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	8
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	9
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	10
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	11
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	12
Notes to Financial Statements		13-20
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		22
Notes to Required Supplementary Information		23
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	25
Schedule of Indebtedness	2	26
Bond and Note Maturities	3	27
Schedule of Insurance in Force	4	28
Schedule of Statistical Rate Information	5	29
Schedule of Expenditures of Federal Awards	6	30
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 <u>Government Auditing Standards</u>		31-32
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		33-34
Schedule of Findings and Questioned Costs		35-47

City of Melcher-Dallas

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Louis Karpan	Mayor	January, 2008
Mel Beaver	Council Member	January, 2010
Bill Crozier	Council Member	January, 2010
Todd Lawler	Council Member	January, 2008
Naomi Miller	Council Member	January, 2008
Faye Starckovich	Council Member	January, 2008
Shirley Seddon	City Clerk/Treasurer	Indefinite
Michael Lane	Attorney	Indefinite

City of Melcher-Dallas

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IOWA 50265

(515) 277-3077

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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 the City of Melcher-Dallas, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Melcher-Dallas management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Melcher-Dallas as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in note 11, during the year ended June 30, 2007, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2007 on our consideration of the City of Melcher-Dallas 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 internal control over financial reporting or 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.

The budgetary comparison information on pages 22 through 23 is not a required part of the basic financial statement, but is supplementary information required by the Governmental Accounting Standards Board. 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.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Melcher-Dallas basic financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

December 13, 2007

Basic Financial Statements

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2007

Functions / Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 336,708	38,030	10,871	180,501	(107,306)	-	(107,306)
Public works	167,400	3,961	113,170	-	(50,269)	-	(50,269)
Culture and recreation	26,851	-	12,089	-	(14,762)	-	(14,762)
General government	120,383	1,822	24,398	-	(94,163)	-	(94,163)
Debt service	111,935	-	-	-	(111,935)	-	(111,935)
Capital projects	1,043,108	-	-	287,587	(755,521)	-	(755,521)
Total governmental activities	<u>1,806,385</u>	<u>43,813</u>	<u>160,528</u>	<u>468,088</u>	<u>(1,133,956)</u>	<u>-</u>	<u>(1,133,956)</u>
Business type activities:							
Sewer	132,762	137,619	-	-	-	4,857	4,857
Water	145,301	180,945	-	-	-	35,644	35,644
Total business type activities	<u>278,063</u>	<u>318,564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,501</u>	<u>40,501</u>
Total	<u>\$ 2,084,448</u>	<u>362,377</u>	<u>160,528</u>	<u>468,088</u>	<u>(1,133,956)</u>	<u>40,501</u>	<u>(1,093,455)</u>
General Receipts:							
Property tax and other city tax levied for:							
General purposes					178,674	-	178,674
Debt service					30,898	-	30,898
Local option sales tax					124,076	-	124,076
Loan proceeds (net of \$3,500 fee)					539,242	-	539,242
Unrestricted interest on investments					26,290	4,813	31,103
Miscellaneous					11,329	13,244	24,573
Sale of assets					1,700	-	1,700
Total general receipts and transfers					<u>912,209</u>	<u>18,057</u>	<u>930,266</u>
Change in cash basis net assets					(221,747)	58,558	(163,189)
Cash basis net assets beginning of year					827,347	437,065	1,264,412
Cash basis net assets end of year					<u>\$ 605,600</u>	<u>495,623</u>	<u>1,101,223</u>
Cash Basis Net Assets							
Restricted:							
Streets					\$ 41,497	-	41,497
Fire department rescue					84,966	-	84,966
Debt service					43,228	105,600	148,828
Local option sales tax					237,061	-	237,061
Other purposes					4,503	-	4,503
Unrestricted					194,345	390,023	584,368
Total cash basis net assets					<u>\$ 605,600</u>	<u>495,623</u>	<u>1,101,223</u>

See notes to financial statements.

City of Melcher-Dallas

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2007

	Special Revenue			Capital Projects		Total
	General	Fire	Local Option	Water	Nonmajor	
		Department Rescue	Sales Tax	Department		
Receipts:						
Property tax	\$ 153,810	-	-	-	55,762	209,572
Other city tax	-	-	124,076	-	-	124,076
Licenses and permits	1,822	-	-	-	-	1,822
Use of money and property	21,213	850	3,462	-	1,015	26,540
Intergovernmental	223,160	-	-	287,587	108,182	618,929
Charges for service	-	21,498	-	-	-	21,498
Miscellaneous	25,639	15,405	215	-	-	41,259
Total receipts	425,644	37,753	127,753	287,587	164,959	1,043,696
Disbursements:						
Operating:						
Public safety	317,335	15,065	-	-	4,590	336,990
Public works	13,232	-	119,943	-	34,501	167,676
Culture and recreation	25,878	-	-	-	1,031	26,909
General government	101,976	-	-	-	18,923	120,899
Debt service	-	-	-	-	111,935	111,935
Capital projects	-	-	-	1,043,108	-	1,043,108
Total disbursements	458,421	15,065	119,943	1,043,108	170,980	1,807,517
Excess (deficiency) of receipts over (under) disbursements	(32,777)	22,688	7,810	(755,521)	(6,021)	(763,821)
Other financing sources (uses):						
Loan proceeds (net of \$3,500 fee)	-	-	-	539,242	-	539,242
Sale of capital assets	1,700	-	-	-	-	1,700
Operating transfers in	14,644	-	-	-	-	14,644
Operating transfers out	-	-	(4,770)	-	(9,874)	(14,644)
Total other financing sources (uses)	16,344	-	(4,770)	539,242	(9,874)	540,942
Net change in cash balances	(16,433)	22,688	3,040	(216,279)	(15,895)	(222,879)
Cash balances beginning of year	209,014	62,278	234,021	215,547	105,855	826,715
Cash balances end of year	\$ 192,581	84,966	237,061	(732)	89,960	603,836
Cash Basis Fund Balances						
Reserved:						
Debt service	\$ -	-	-	-	43,228	43,228
Unreserved:						
General fund	192,581	-	-	-	-	192,581
Special revenue funds	-	84,966	237,061	-	46,732	368,759
Capital projects funds	-	-	-	(732)	-	(732)
Total cash basis fund balances	\$ 192,581	84,966	237,061	(732)	89,960	603,836

See notes to financial statements.

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2007

Total governmental funds cash balances (page 9) \$ 603,836

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of self funding of the City's payroll revolving fund to the various funds. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

1,764

Cash basis net assets of governmental activities (page 8) \$ 605,600

Net change in cash balances (page 9) \$ (222,879)

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of self funding of the City's payroll revolving fund to the various funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.

1,132

Change in cash balance of governmental activities (page 8) \$ (221,747)

See notes to financial statements.

City of Melcher-Dallas

Exhibit D

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2007

	Enterprises Funds			Internal Service Fund
	Sewer	Water	Total	Payroll Revolving
Operating receipts:				
Charges for service	\$ 137,619	175,822	313,441	261,026
Miscellaneous	-	5,123	5,123	-
Total operating receipts	<u>137,619</u>	<u>180,945</u>	<u>318,564</u>	<u>261,026</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	42,239
Public works	-	-	-	41,454
Culture and recreation	-	-	-	8,799
General government	-	-	-	76,930
Business type activities	115,433	103,002	218,435	89,873
Total operating disbursements	<u>115,433</u>	<u>103,002</u>	<u>218,435</u>	<u>259,295</u>
Excess of operating receipts over operating disbursements	<u>22,186</u>	<u>77,943</u>	<u>100,129</u>	<u>1,731</u>
Non-operating receipts (disbursements):				
Interest on investments	1,156	3,657	4,813	-
Miscellaneous	50	13,194	13,244	-
Debt service	(17,689)	(42,538)	(60,227)	-
Total non-operating receipts (disbursements)	<u>(16,483)</u>	<u>(25,687)</u>	<u>(42,170)</u>	<u>-</u>
Net change in cash balances	5,703	52,256	57,959	1,731
Cash balances beginning of year	<u>306,333</u>	<u>130,397</u>	<u>436,730</u>	<u>967</u>
Cash balances end of year	<u>\$ 312,036</u>	<u>182,653</u>	<u>494,689</u>	<u>2,698</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 63,804	41,796	105,600	-
Unreserved	<u>248,232</u>	<u>140,857</u>	<u>389,089</u>	<u>2,698</u>
Total cash basis fund balances	<u>\$ 312,036</u>	<u>182,653</u>	<u>494,689</u>	<u>2,698</u>

See notes to financial statements.

City of Melcher-Dallas

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2007

Total enterprise funds cash balances (page 11) \$ 494,689

*Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of self funding of the City's payroll revolving fund to the various funds. A portion of the assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

934

Cash basis net assets of business type activities (page 8) \$ 495,623

Net change in cash balances (page 11) \$ 57,959

*Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of self funding of the City's payroll revolving fund to the various funds. A portion of the change in net assets of the Internal Service Fund is reported with business type activities.

599

Change in cash balance of business type activities (page 8) \$ 58,558

See notes to financial statements.

City of Melcher-Dallas

Notes to Financial Statements

June 30, 2007

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

The City of Melcher-Dallas is a political subdivision of the State of Iowa located in Marion County. The City merged in 1986, and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Melcher-Dallas has included all funds, organizations, agencies, boards, commissions and authorities. The City 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 City are such that exclusion would cause the City'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 City 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 City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in a jointly governed organization that provides goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from the business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts 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 on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Fire Department Rescue Fund is used to account for rescue billings and donations and the related costs to provide this service.

The Local Option Sales Tax Fund is used to account for local option sales tax receipts and the projects financed with these receipts.

The Capital Projects – Water Department Fund is utilized to account for the receipts of grant and loan funds and the costs associated with water system capital improvements.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Melcher-Dallas maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, debt service and capital projects activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were not entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City 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 City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$89,953 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit Risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds and Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 19,500	10,734	93,865	57,480	113,365	68,214
2009	19,500	9,817	97,149	53,986	116,649	63,803
2010	14,000	8,901	106,457	49,251	120,457	58,152
2011	15,000	8,299	110,779	44,576	125,779	52,875
2012	15,000	7,654	120,118	39,889	135,118	47,543
2013-2017	86,000	27,993	506,299	120,695	592,299	148,688
2018-2022	77,000	8,041	312,250	47,030	389,250	55,071
2023-2026	-	-	113,271	8,090	113,271	8,090
	<u>\$ 246,000</u>	<u>81,439</u>	<u>1,460,188</u>	<u>420,997</u>	<u>1,706,188</u>	<u>502,436</u>

Water Revenue Bonds

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.

- (b) Sufficient monthly transfers shall be made to a water bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payment when due.
- (c) Additional monthly transfers of \$132 to a water reserve account shall be made until a minimum of \$15,840 has been accumulated. The account is established for the purpose of making bond principal and interest payments should the sinking account have insufficient funds to do so and also for the payment of any extraordinary costs of maintaining the system.

The water revenue bonds were held by Capmark Finance, Inc., with a balance owed by the City of \$82,000 as of June 30, 2007.

Sewer Revenue Bonds

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) The City shall make annual payments of \$11,604, including interest at 5% per year, in the years 1981 to 2020, inclusive.
- (c) Sufficient monthly transfers shall be made to a sewer bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payment when due.
- (d) Additional transfers shall be made in order to maintain a debt service reserve account in an amount equal to at least the maximum amount of principal and interest coming due on the bonds and parity bonds in any succeeding fiscal year. The account is established for the purpose of making bond principal and interest payments should the sinking account have insufficient funds to do so.
- (e) An annual independent audit is required, with copies provided to the original purchaser of the Bonds.

The sewer revenue bonds were held by Capmark Finance, Inc., with a balance owed by the City of \$114,917 as of June 30, 2007.

Sewer Revenue Bonds

On June 13, 1992, the City entered into an agreement with the Iowa Finance Authority, the Department of Natural Resources and Wells Fargo Bank for issuance of \$100,000 of sewer revenue bonds. The bonds were issued pursuant to the provisions of Sections 384.24A and 384.82 of the Code of Iowa for the purpose of paying costs of construction improvements to the municipal sanitary sewer system. The interest rate is 3.00% per annum on the outstanding principal amount for the remainder of the life of the bonds.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payment when due.
- (c) Additional monthly transfers to a sewer revenue reserve account shall be made until a specific minimum balance has been accumulated. The account is established for the purpose of making bond principal and interest payments should the sinking account have insufficient funds to do so.

The balance owed for these sewer revenue bonds was \$33,000 as of June 30, 2007.

Road Use Tax Revenue Note

On February 1, 2005, the City entered into an agreement with a local bank to borrow \$605,000 to pay for the costs of street repair. The note agreement states that the note will not constitute a general obligation of the City but will be payable solely and only from annual road use tax funds received by the City from the State of Iowa.

The balance owed on the Road Use Tax revenue note was \$505,000 as of June 30, 2007.

Water Revenue Bonds

On March 15, 2006, the City entered into an agreement with the Iowa Finance Authority, the Department of Natural Resources and Wells Fargo Bank for issuance of \$475,000 of water revenue bonds. The bonds were issued pursuant to the provisions of Sections 384.24A and 384.82 of the Code of Iowa for the purpose of paying costs of construction improvements to the municipal water system. The interest rate is 3.00% per annum on the outstanding principal amount for the remainder of the life of the bonds.

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payment when due.

The balance owed for these water revenue bonds was \$474,000 as of June 30, 2007.

Water Revenue Bonds

On March 23, 2007, the City entered into an agreement with the Iowa Finance Authority, the Department of Natural Resources and Wells Fargo Bank (Trustee) for issuance of \$350,000 of water revenue bonds. The bonds were issued pursuant to the provisions of Sections 384.24A and 384.82 of the Code of Iowa for the purpose of paying costs of construction improvements to the municipal water system. The interest rate is 3.00% per annum on the outstanding principal amount for the remainder of the life of the bonds. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred.

At June 30, 2007, the City had drawn \$264,271, including a \$3,500 initiation fee, of the \$350,000 authorized. A formal repayment schedule has been adopted for the debt. The City repaid \$13,000, leaving a balance of \$251,271 owed as of June 30, 2007.

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payment when due.

The City has inadequate funds in the water bond sinking account and the sewer bond sinking account in relation to the water revenue bonds and sewer revenue bonds as discussed above.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2007 was \$10,508, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, personal and compensatory leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for compensated absences payable to employees at June 30, 2007, primarily relating to the General Fund, was \$8,569. The liability has been computed based on rates of pay in effect at June 30, 2007.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 9,874
	Local Option Sales Tax	4,770
		<u>\$ 14,644</u>

The City was unable to provide any documentation as to why the above transfers were made.

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2007 were \$22,657.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contracts with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Deficit Balance

The Capital Projects – Water Department Fund had a deficit balance of \$732 at June 30, 2007. This deficit was the result of costs in excess of income. This deficit will be eliminated through additional borrowings from the State of Iowa.

(9) Contingency

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(10) Commitments/Subsequent Events

As of June 30, 2007, the City has awarded contracts for various water system construction projects. All of these construction projects will be primarily funded by loans from the State of Iowa. It is anticipated that most of these projects will be completed in fiscal year 2008. As of June 30, 2007, the total amount of the uncompleted water system construction projects was approximately \$80,000.

(11) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2007. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and a fund financial statement which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

Required Supplementary Information

City of Melcher-Dallas

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 209,572	-	-	209,572	191,167	191,167	18,405
Other city tax	124,076	-	-	124,076	104,383	104,383	19,693
Licenses and permits	1,822	-	-	1,822	1,400	1,400	422
Use of money and property	26,540	4,813	-	31,353	2,000	2,000	29,353
Intergovernmental	618,929	-	-	618,929	119,085	119,085	499,844
Charges for service	21,498	574,467	261,026	334,939	323,620	323,620	11,319
Miscellaneous	41,259	18,367	-	59,626	33,070	33,070	26,556
Total receipts	1,043,696	597,647	261,026	1,380,317	774,725	774,725	605,592
Disbursements:							
Public safety	336,990	42,239	42,239	336,990	98,349	128,349	(208,641)
Public works	167,676	41,454	41,454	167,676	214,123	254,123	86,447
Culture and recreation	26,909	8,799	8,799	26,909	8,000	20,000	(6,909)
General government	120,899	76,930	76,930	120,899	124,667	124,667	3,768
Debt service	111,935	-	-	111,935	30,366	30,366	(81,569)
Capital projects	1,043,108	-	-	1,043,108	-	-	(1,043,108)
Business type activities	-	368,535	89,873	278,662	299,220	299,220	20,558
Total disbursements	1,807,517	537,957	259,295	2,086,179	774,725	856,725	(1,229,454)
Excess (deficiency) of receipts over (under) disbursements	(763,821)	59,690	1,731	(705,862)	-	(82,000)	(623,862)
Other financing sources, net	540,942	-	-	540,942	-	-	540,942
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(222,879)	59,690	1,731	(164,920)	-	(82,000)	(82,920)
Balances beginning of year	826,715	437,697	967	1,263,445	870,365	870,365	393,080
Balances end of year	\$ 603,836	497,387	2,698	1,098,525	870,365	788,365	310,160

See accompanying independent auditor's report.

City of Melcher-Dallas

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2007

The 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 comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$82,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, debt service and the capital projects activities functions.

Other Supplementary Information

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2007

	Special Revenue			Total
	Employee Benefits	Road Use Tax	Debt Service	
Receipts:				
Property tax	\$ 24,864	-	30,898	55,762
Use of money and property	1,015	-	-	1,015
Intergovernmental	-	108,182	-	108,182
Total receipts	25,879	108,182	30,898	164,959
Disbursements:				
Operating:				
Public safety	4,590	-	-	4,590
Public works	-	34,501	-	34,501
Culture and recreation	1,031	-	-	1,031
General government	18,923	-	-	18,923
Debt service	-	81,706	30,229	111,935
Total disbursements	24,544	116,207	30,229	170,980
Excess (deficiency) of receipts over (under) disbursements	1,335	(8,025)	669	(6,021)
Other financing sources (uses):				
Operating transfers out	-	(9,874)	-	(9,874)
Total other financing sources (uses)	-	(9,874)	-	(9,874)
Net change in cash balances	1,335	(17,899)	669	(15,895)
Cash balances beginning of year	3,900	59,396	42,559	105,855
Cash balances end of year	5,235	41,497	43,228	89,960
Cash Basis Fund Balances				
Reserved for debt service	-	-	43,228	43,228
Unreserved:				
Special revenue funds	5,235	41,497	-	46,732
Total cash basis fund balances	\$ 5,235	41,497	43,228	89,960

See accompanying independent auditor's report.

City of Melcher-Dallas

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds and notes -									
Fire truck note	September 20, 1999	5.50%	\$ 65,000	19,500	-	6,500	13,000	1,072	-
Sewer improvement bonds	June 1, 2001	4.30%	305,000	245,000	-	12,000	233,000	10,535	-
				\$ 264,500	-	18,500	246,000	11,607	-
Revenue bonds and notes -									
Water revenue bonds	September 14, 1973	5.00%	\$ 267,000	94,000	-	12,000	82,000	4,700	-
Sewer revenue bonds	November 19, 1980	5.00%	195,700	120,497	-	5,580	114,917	6,024	-
Sewer revenue bonds	June 13, 1992	3.00%	100,000	38,000	-	5,000	33,000	1,065	-
Road Use Tax revenue note	February 1, 2005	4.00-5.50%	605,000	560,000	-	55,000	505,000	26,706	-
Water revenue bonds	March 15, 2006	3.00%	475,000	196,529	278,471	1,000	474,000	9,885	-
Water revenue bonds	March 23, 2007	3.00%	350,000	-	264,271	13,000	251,271	493	-
				\$ 1,009,026	542,742	91,580	1,460,188	48,873	-

See accompanying independent auditor's report.

June 30, 2007

Year Ending June 30,	General Obligation Bonds and Notes												
	Fire Truck Note		Sewer Improvement Bonds								Total		
	Issued September 20, 1999	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates				
2008	5.50%	\$ 6,500	4.30%	\$ 13,000	3.00%	\$ 5,000	4.25%	\$ 55,000	3.00%	\$ 3,000	3.00%	\$ 13,000	\$ 93,865
2009	5.50%	6,500	4.30%	13,000	3.00%	5,000	4.50%	55,000	3.00%	5,000	3.00%	14,000	97,149
2010	-	-	4.30%	14,000	3.00%	5,000	4.50%	60,000	3.00%	7,000	3.00%	14,000	106,457
2011	-	-	4.30%	15,000	3.00%	6,000	4.75%	60,000	3.00%	9,000	3.00%	15,000	110,779
2012	-	-	4.30%	15,000	3.00%	6,000	4.75%	65,000	3.00%	11,000	3.00%	15,000	120,118
2013	-	-	4.30%	16,000	3.00%	6,000	5.00%	65,000	3.00%	13,000	3.00%	16,000	121,474
2014	-	-	4.30%	16,000	3.00%	6,000	5.25%	70,000	3.00%	35,000	3.00%	16,000	128,848
2015	-	-	4.30%	17,000	3.00%	-	5.50%	75,000	3.00%	35,000	3.00%	16,000	134,240
2016	-	-	4.30%	18,000	3.00%	-	-	-	3.00%	35,000	3.00%	17,000	60,652
2017	-	-	4.30%	19,000	3.00%	-	-	-	3.00%	35,000	3.00%	17,000	61,085
2018	-	-	4.30%	20,000	3.00%	-	-	-	3.00%	35,000	3.00%	18,000	62,539
2019	-	-	4.30%	20,000	3.00%	-	-	-	3.00%	35,000	3.00%	19,000	64,016
2020	-	-	4.30%	21,000	3.00%	-	-	-	3.00%	35,000	3.00%	19,000	64,517
2021	-	-	4.30%	16,000	3.00%	-	-	-	3.00%	35,000	3.00%	20,000	66,178
2022	-	-	-	-	-	-	-	-	3.00%	30,000	3.00%	20,000	55,000
2023	-	-	-	-	-	-	-	-	3.00%	30,000	3.00%	2,271	32,271
2024	-	-	-	-	-	-	-	-	3.00%	30,000	-	-	30,000
2025	-	-	-	-	-	-	-	-	3.00%	26,000	-	-	26,000
2026	-	-	-	-	-	-	-	-	3.00%	25,000	-	-	25,000
		\$ 13,000		\$ 233,000		\$ 33,000		\$ 505,000		\$ 474,000		\$ 251,271	\$ 1,460,188

Year Ending June 30,	Revenue Bonds and Notes														
	Water Revenue Bonds		Sewer Revenue Bonds		Road Use Tax Revenue Note		Water Revenue Bonds		Water Revenue Bonds						
	Issued September 14, 1973	Amount	Interest Rates	Issued November 19, 1980	Amount	Interest Rates	Issued June 13, 1992	Amount	Interest Rates	Issued March 15, 2006	Amount	Interest Rates	Issued March 23, 2007	Amount	Interest Rates
2008	5.00%	\$ 12,000	5.00%	\$ 5,865	3.00%	\$ 5,000	4.25%	\$ 55,000	3.00%	\$ 3,000	3.00%	\$ 3,000	3.00%	\$ 13,000	\$ 93,865
2009	5.00%	12,000	5.00%	6,149	3.00%	5,000	4.50%	55,000	3.00%	5,000	3.00%	5,000	3.00%	14,000	97,149
2010	5.00%	14,000	5.00%	6,457	3.00%	5,000	4.50%	60,000	3.00%	7,000	3.00%	7,000	3.00%	14,000	106,457
2011	5.00%	14,000	5.00%	6,779	3.00%	6,000	4.75%	60,000	3.00%	9,000	3.00%	9,000	3.00%	15,000	110,779
2012	5.00%	16,000	5.00%	7,118	3.00%	6,000	4.75%	65,000	3.00%	11,000	3.00%	11,000	3.00%	15,000	120,118
2013	5.00%	14,000	5.00%	7,474	3.00%	6,000	5.00%	65,000	3.00%	13,000	3.00%	13,000	3.00%	16,000	121,474
2014	-	-	5.00%	7,848	-	-	5.25%	70,000	3.00%	35,000	3.00%	35,000	3.00%	16,000	128,848
2015	-	-	5.00%	8,240	-	-	5.50%	75,000	3.00%	35,000	3.00%	35,000	3.00%	16,000	134,240
2016	-	-	5.00%	8,652	-	-	-	-	3.00%	35,000	3.00%	35,000	3.00%	17,000	60,652
2017	-	-	5.00%	9,085	-	-	-	-	3.00%	35,000	3.00%	35,000	3.00%	17,000	61,085
2018	-	-	5.00%	9,539	-	-	-	-	3.00%	35,000	3.00%	35,000	3.00%	18,000	62,539
2019	-	-	5.00%	10,016	-	-	-	-	3.00%	35,000	3.00%	35,000	3.00%	19,000	64,016
2020	-	-	5.00%	10,517	-	-	-	-	3.00%	35,000	3.00%	35,000	3.00%	19,000	64,517
2021	-	-	5.00%	11,178	-	-	-	-	3.00%	35,000	3.00%	35,000	3.00%	20,000	66,178
2022	-	-	-	-	-	-	-	-	3.00%	30,000	3.00%	30,000	3.00%	20,000	55,000
2023	-	-	-	-	-	-	-	-	3.00%	30,000	3.00%	2,271	32,271	32,271	
2024	-	-	-	-	-	-	-	-	3.00%	30,000	-	-	-	30,000	
2025	-	-	-	-	-	-	-	-	3.00%	26,000	-	-	-	26,000	
2026	-	-	-	-	-	-	-	-	3.00%	25,000	-	-	-	25,000	
		\$ 82,000		\$ 114,917		\$ 33,000		\$ 505,000		\$ 474,000		\$ 251,271	\$ 1,460,188		

City of Melcher-Dallas

Schedule 4

Schedule of Insurance in Force

June 30, 2007

Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool	General Liability - each occurrence	\$ 2,000,000	April 1, 2008
	Public Officials Liability - each occurrence	2,000,000	
	Law Enforcement Liability - each occurrence	2,000,000	
Iowa Communities Assurance Pool	Auto Coverage: Liability - each accident	2,000,000	April 1, 2008
Iowa Municipalities Workers' Compensation Association	Workers' Compensation: Bodily injury by accident (each accident)	1,000,000	July 1, 2007
	Bodily injury by disease (each employee)	1,000,000	
	Bodily injury by disease (memorandum limit)	1,000,000	
Iowa Communities Assurance Pool	Employee Blanket Bond: Surety bond coverage	25,000	April 1, 2008
Iowa Communities Assurance Pool	Municipal Property: Buildings and Contents	2,820,186	April 1, 2008
	Vehicles	551,829	

See accompanying independent auditor's report.

Schedule of Statistical Rate Information

June 30, 2007

	Sewer	Water
Number of Customers	612	574

Sewer Rate Schedule -

Minimum bi-monthly charge of \$27.90 for 4,000 gallons.
 \$2.48 for each additional 1,000 gallons of water used.

Customers outside the City limits pay an additional
 \$6.70 per bi-monthly billing period.

Effective August 1, 2006 -

Minimum bi-monthly charge of \$28.74 for 4,000 gallons.
 \$2.48 for each additional 1,000 gallons of water used.

Customers outside the City limits pay an additional
 \$6.90 per bi-monthly billing period.

Customers in the City who receive sewer service but
 not water service pay a pre-determined flat amount per
 bi-monthly billing period depending on the number of
 occupants in the household.

Water Rate Schedule -

Minimum bi-monthly charge of \$36.24 for 4,000 gallons.
 \$2.60 for each additional 1,000 gallons of water used.

Effective August 1, 2006 -

Minimum bi-monthly charge of \$37.33 for 4,000 gallons.
 \$2.60 for each additional 1,000 gallons of water used.

Effective February 1, 2007 -

Minimum bi-monthly charge of \$42.33 for 4,000 gallons.
 \$2.60 for each additional 1,000 gallons of water used.

Customers outside the city limits pay \$2.80 per each
 additional 1,000 gallons of water used.

See accompanying independent auditor's report.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct -			
U.S. Department of Homeland Security - Office of Domestic Preparedness - Assistance to Firefighter's Grant	97.044	EMW-2005-FG-05769	180,500
Subtotal - Direct			180,500
Indirect -			
U.S. Department of Housing and Urban Development - Iowa Department of Economic Development - Community Development Block Grants/State's Program	14.228	05-WS-077	325,321
U.S. Environmental Protection Agency - Iowa Department of Natural Resources - Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-76-05-DWSRF-20	162,967
U.S. Department of Homeland Security - Iowa Department of Public Defense - Iowa Homeland Security and Emergency Management Division - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-1688-IA	3,005
Subtotal - Indirect			491,293
Total			\$ 671,793

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

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IOWA 50265

(515) 277-3077

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 Honorable Mayor and
Members of the City Council:

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 the City of Melcher-Dallas, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 13, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

Except as noted in the Independent Auditor's Report, 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 the City of Melcher-Dallas 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 the City of Melcher-Dallas internal control over financial reporting. Accordingly, we do not express our opinion on the effectiveness of the City of Melcher-Dallas internal control over financial reporting.

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects City of Melcher-Dallas ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Melcher-Dallas financial statements that is more than inconsequential will not be prevented or detected by City of Melcher-Dallas internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Melcher-Dallas internal control.

Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07 and II-I-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Melcher-Dallas 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. 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.

City of Melcher-Dallas responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Melcher-Dallas responses and, accordingly, we do not express an 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 the City of Melcher-Dallas and other parties to whom the City of Melcher-Dallas 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 the City of Melcher-Dallas 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.

Peak & Gerdes, LLP
Certified Public Accountants

December 13, 2007

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IOWA 50265

(515) 277-3077

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Melcher-Dallas, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2007. The City of Melcher-Dallas major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs are the responsibility of the City of Melcher-Dallas management. Our responsibility is to express an opinion on the City of Melcher-Dallas compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Melcher-Dallas compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Melcher-Dallas compliance with those requirements.

In our opinion, the City of Melcher-Dallas complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items III-A-07, III-B-07 and III-C-07.

Internal Control Over Compliance

The management of the City of Melcher-Dallas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Melcher-Dallas internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Melcher-Dallas internal control over compliance.

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

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-D-07 through III-G-07 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-D-07 through III-G-07 to be material weaknesses.

City of Melcher-Dallas responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the City's responses, we did not audit the City of Melcher-Dallas 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 the City of Melcher-Dallas and other parties to whom the City of Melcher-Dallas 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.

Peak & Gerdes, LLP
Certified Public Accountants

December 13, 2007

City of Melcher-Dallas

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements, which are considered to be material weaknesses.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 14.228 – Community Development Block Grants/State's Program.
 - CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Melcher-Dallas did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person primarily has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of the assets.
- (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Investments – investing, recording and custody.
- (4) Long-term debt – recording, reconciling and performing cash functions.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, preparing checks, recording, signing (stamping) and reconciling.
- (8) Payroll – preparing and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response - We will consider this.

Conclusion - Response acknowledged.

II-B-07 Records of Accounts/Separately Maintained Records – The Melcher-Dallas Fire Department and the Melcher-Dallas Public Library each maintain bank accounts and accounting records separate from the City Clerk's records. The transactions and the resulting balances were not reported to the City Council each month, the transactions were not recorded in the City Clerk's records and the activities were not included in the City's certified budget. Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose."

Also, for each of these accounts one person has primary control over receipts, deposits, disbursements, reconciling bank accounts and reporting financial activity. These transactions and balances were included in the financial statements in this audit report.

City of Melcher-Dallas

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Recommendation – The Melcher-Dallas Fire Department and the Melcher-Dallas Public Library financial transactions and balances should be included in the City Clerk’s monthly financial reports and budget process. Internal controls could be strengthened and operating efficiency could be increased by integrating the accounting receipts and disbursements with the City accounting records.

Response – We will require financial reports be submitted to the Clerk periodically and will notify the separate boards to review reports.

Conclusion – Response acknowledged. Also, internal controls could be strengthened if accounting functions were integrated with the City’s records and budget process.

II-C-07 Accounting System and New Chart of Accounts – The City recording and financial reporting is all done on a manual basis. Even though everything is done manually, the City has not fully implemented the Uniform Chart of Accounts for Iowa City governments as approved by the City Finance Committee on September 25, 2002. As a result, several receipts and disbursements were not classified to the proper function in accordance with the Uniform Chart of Accounts. These were classified and resolved for audit purposes.

Recommendation – To provide better financial information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – We will review this.

Conclusion – Response acknowledged.

II-D-07 Financial Accounting and Reporting – The City Clerk submits financial reports including fund balances and monthly and year to date receipts and disbursements to the City Council. Because of the report format, it is difficult to determine whether the fund balances are reconciled to the bank balances for all funds of the City. Also, adjustments made to the fund balances were not properly reported as interfund transfers which should have been approved by the Council. In addition, the yearly receipt and disbursement report as submitted to the City Council for the year ended June 30, 2007, does not agree to the sum of the monthly receipt and disbursement reports submitted to the City Council.

Recommendation – The City should establish a format for reporting monthly Clerk’s balances by fund. The report should identify each fund with beginning and ending balances which would include investments in the balances. The report should also show transfers between funds and a reconciliation with the bank balances each month. In addition, procedures should be implemented to ensure the yearly receipt and disbursement report reconciles to the sum of the monthly receipt and disbursement reports submitted to the City Council.

Response – We will review this area.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

- II-E-07 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared.

Recommendation – A listing of delinquent accounts should be prepared on a bi-monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will consider this.

Conclusion – Response accepted.

- II-F-07 Meter Deposit – The amounts held by the City for customer meter deposits are not reconciled to a control record or to the meter deposit cash balance. As a result, the City is unable to determine if the customer meter deposits are accounted for properly.

In addition, the City Code of Ordinances state that the customer meter deposit will be returned to the customer if water service is discontinued and the water bill is paid in full. We noted that the City returns the customer meter deposit to property owners after a year if they are not delinquent, even if they continue to be customers of the system. The current policy appears to be in conflict with the wording as noted in the City Code of Ordinances.

Recommendation – The dollar amounts held by the City for customer meter deposits should be reconciled to the cash balance in the customer meter deposit fund on a regular basis. Any differences should be timely investigated and resolved. In addition, the City should review its Code of Ordinances to ensure they are followed in relation to the collection and holding of customer meter deposits.

Response – We will implement this recommendation.

Conclusion –Response accepted.

- II-G-07 Police Department Collections – The Police department issues parking tickets, with the fines payable to the City Clerk. Documentation supporting these collections was inadequate to determine the amounts which should have been collected and remitted to the City for deposit.

Recommendation – Procedures should be implemented to reconcile fines assessed with collections and delinquencies, with the Council or a Council-designated independent person reviewing the reconciliations and to monitor delinquencies.

Response - We will review this.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

II-H-07 State Reports – Annually, the City completes a street report and sends it to the State Department of Transportation. Our review of this report noted that the beginning and ending cash balances as recorded on this report did not agree to the beginning and ending cash balances as recorded on the general ledger. In addition, not all disbursements incurred for street related purposes were shown on the street report.

The City also completes an annual financial report and sends it to the State Auditor. Our review of the annual financial report noted that some debt balances were not included on the annual financial report. In addition, the annual financial report does not include the financial transactions of the library and fire department, even though this is required. Also, the annual financial report is inaccurate because several receipts and disbursements were not classified to the proper functions in accordance with the Uniform Chart of Accounts (See II-C-07). The annual financial report was also inaccurate because the numbers used for this report were based on an inaccurate yearly receipt and disbursement report (See II-D-07).

Recommendation – The City implement procedures to ensure the street report and the annual financial report submitted to the State reconciles with the City’s accounting records.

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted.

II-I-07 Receipts – At times, the City physically held checks until a specified date pursuant to the request of the payee. As a result, the receipts were not always deposited intact. In addition, an immediate record of receipts is not always made. For those checks held by the City, the date of the receipt is currently shown on the accounting records as the day the check was taken to the bank for deposit. However, all receipts should be recorded immediately upon receipt.

Recommendation – An immediate record of receipt should be maintained for all receipts. In addition, the City should ensure all receipts are deposited timely and on an intact basis.

Response – We will take this under advisement.

Conclusion – Response accepted.

II-J-07 Library – Our review of the Library procedures noted that collections are not reconciled to deposits. There is a lack of a functioning double entry accounting system for the Library. Checks require two signatures on them; however, one of the signatories signs blank checks in advance. The Board does not consistently approve of all invoices paid by the Library, including those where supplies are bought from the internet and paid for through a direct debit to the bank account. In addition, the Board minutes did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law. Also, an instance was noted where an invoice could not be located by the Library.

Recommendation – Procedures should be implemented to reconcile collections to deposits, and that a double entry accounting system exists for the Library. In addition, blank checks should not be signed in advance, and the Board should approve all invoices paid by the Library, including those paid by direct debit to the bank account. Also, the Library should comply with Chapter 21 of the Code of Iowa. All invoices should also be retained by the Library.

Response – We will implement the above to the best of our ability.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

II-K-07 Fire Department – Our review of the fire department procedures noted that the fire department invoices are not cancelled after payment. In addition, there is not an immediate record of receipt of the monies received by the fire department. Controls over fundraising and sales of merchandise are in need of improvement, as documented existing controls are either very weak or non-existent.

Recommendation – The fire department cancel all invoices after payment by marking each page of the invoice “paid” and by writing the date and check number on the invoice. An immediate record of receipt should be generated, which can be accomplished through the use of receipt slips. The fire department needs to analyze its controls and procedures over fundraisers and sales of merchandise and improve controls over these activities. Specifically, pre-numbered tickets need to be used for raffles and game events, with a reconciliation of the dollar value of tickets used with cash collected. Also, at the close of each event or activity, two people should immediately count the monies and both people should document, in writing, the amount of money collected. In addition, an analysis needs to be performed after each fundraising event or merchandise sale event which analyzes profits, along with a documented reconciliation of cash collected, cash pay outs and bank deposits.

Response – We will attempt to implement the above recommendations.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 05-WS-077
Federal Award Year: 2005
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving Funds
Pass-through Agency Number: FS-76-05-DWSRF-20
Federal Award Year: 2006
U.S. Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

III-A-07 Cash Management – Federal regulations require that the City have procedures in place to minimize the amount of time elapsed between receipt of the federal funds and the related disbursement of those funds. Specifically, the Community Development Block Grant (CDBG) agreement states that the City shall not have more than \$500 of grant proceeds on hand for a period of longer than ten working days. Our review noted instances in which the City held several thousand dollars of CDBG and Capitalization Grants for Drinking Water State Revolving Funds proceeds in excess of one month before the related disbursements were made to the vendors.

Recommendation – The City implement procedures to ensure the cash management requirements are met in relation to federal funds.

Response – We will implement this recommendation.

Conclusion – Response accepted.

III-B-07 Electronic Check Retention – The City did not obtain an image of both the front and back of each cancelled check, including those related to federal funds. See IV-N-07.

CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving Funds
Pass-through Agency Number: FS-76-05-DWSRF-20
Federal Award Year: 2006
U.S. Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

III-C-07 Division IV – On Division IV of the Water Treatment Plant Improvements, the contractor did not meet the substantial completion date to complete the project. No evidence could be found that the City extended the substantial completion date, or that the City assessed liquidated damages on the contractor as allowed pursuant to the contract.

Recommendation – The City implement procedures to ensure the contract terms are followed in relation to future construction contracts.

Response – We will implement this recommendation.

Conclusion – Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards:

SIGNIFICANT DEFICIENCIES:

CFDA Number 14.228: Community Development Block Grants/State's Program

Pass-through Agency Number: 05-WS-077

Federal Award Year: 2005

U.S. Department of Housing and Urban Development

Passed through the Iowa Department of Economic Development

CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving Funds

Pass-through Agency Number: FS-76-05-DWSRF-20

Federal Award Year: 2006

U.S. Environmental Protection Agency

Passed through the Iowa Department of Natural Resources

- III-D-07 Segregation of Duties – The City did not properly segregate collection, deposit and record-keeping for receipts. In addition, the City did not segregate the preparation of, recording, signing (stamping) and reconciling the disbursements, including those related to federal programs. See item II-A-07.

- III-E-07 Disbursements – Some invoices were not approved by the City Council and were not published as required pursuant to Chapter 372.13(6) of the Code of Iowa, including those related to federal programs. See item IV-F-07.

- III-F-07 Construction Project – Division III – For Division III of the Water Treatment Plant Improvements, it does not appear the City met the Iowa Code requirements in relation to the construction bidding procedures on this project. See item IV-P-07.

CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving Funds

Pass-through Agency Number: FS-76-05-DWSRF-20

Federal Award Year: 2006

U.S. Environmental Protection Agency

Passed through the Iowa Department of Natural Resources

- III-G-07 Construction Project – Division I – In January, 2007, based on the recommendation of the engineer, the City took a vote at the City Council meeting and assessed \$6,000 in liquidated damages to the contractor of the Division I of the Water Treatment Plant Improvements. These liquidated damages were assessed due to the failure of the contractor to complete the project on a timely basis. In February, 2007, the City Council minutes indicate there was additional discussion of this issue, but no new decisions were made in relation to this issue, according to the City Council minutes.

City of Melcher-Dallas

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

In March, 2007, the engineer wrote a letter to the contractor stating that the City would accept \$4,538 from the contractor in lieu of the original \$6,000 in liquidated damages. Even though the engineer wrote this letter on behalf of the City, no evidence could be found that the City ever approved of this reduction in liquidated damages from \$6,000 to \$4,538. The \$4,538 amount was determined by the engineer based on the additional engineering costs the City incurred as a result of the untimely completion of the project. Furthermore, in January, 2007, the contractor wrote a letter to the engineer implying they would pay for these additional costs, specifically stating in their letter to the engineer that "We are however willing to offer to participate in paying for the owner's (City) additional engineering costs that you have stated they incurred due to additional construction observation and administrative processes that your firm performed".

Our current review of this situation noted that the contractor has not reimbursed the City for the \$4,538, nor has the City reduced a subsequent payment to the contractor. Specifically, based on discussions with City personnel, it appears the City, Engineer, and the Contractor all forgot about this arrangement until we brought it to their attention in December, 2007, which is nine months after the last correspondence on this issue. As a result of the above, it does not appear the City has procedures in place to follow up on non-routine items.

Recommendation – The City work with the engineer in order to obtain a \$4,538 reimbursement from the contractor. In addition, procedures should be implemented to ensure all liquidated damage amounts are approved by the City Council. Also, the City needs to implement procedures to ensure adequate follow-up exists on all non-routine items.

Response – We will implement these recommendations.

Conclusion – Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public safety, culture and recreation, debt service and capital projects activities functions. Chapter 384.20 of the Iowa Code states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-07 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-07 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Council Minutes – Transactions were found that we believe should have been approved in the Council minutes but were not.

Some invoices were not approved by the City Council and were not published as required by Chapter 372.13 (6) of the Code of Iowa.

Recommendation - All invoices should be approved by the City Council and should be published as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion - Response accepted.

IV-G-07 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted, except that the City's cash in bank exceeded the amount of its depository resolution.

Recommendation – The City review its depository resolution to ensure the depository resolution amount meets or exceeds the maximum amount of cash in the bank, as required by Chapter 12C.2 of the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

IV-H-07 Revenue Bonds – The City has complied with revenue bond and note resolutions, except as follows:

- (a) The water and sewer revenue bond resolutions require the City to establish water and sewer sinking and reserve accounts. While the City has established these accounts, the amount of monies in the water bond sinking account and the sewer bond sinking account as of June 30, 2007, is less than the required amounts.
- (b) The sewer bond resolutions in relation to the sewer bonds held by Capmark Finance, Inc. require a yearly independent audit. This is not done by the City.

Recommendation – The City should establish the required accounts according to the water and sewer bond resolutions and make the required transfers. In addition, the City should have an independent audit every year, as required by the bond resolutions.

Response – We will take the above under advisement.

Conclusion – Response accepted.

IV-I-07 Payroll – There was no written authorization regarding the bonus amounts paid to various City employees. Taxable fringe benefits are not added to the employee's pay, and consequently, applicable payroll and income taxes are not withheld.

The City Code of Ordinances states that the City Council members are to be paid \$10 per meeting. However, none of the Council members were paid this past fiscal year.

Recommendation – Written authorization should be obtained for bonus amounts awarded to various City employees. Also, taxable fringe benefits should be added to the employee's pay, with all applicable taxes withheld. In addition, the City should pay its City Council members according to the City Code of Ordinances.

Response - We will consult with our legal counsel regarding these issues.

Conclusion - Response accepted.

IV-J-07 Fuel Log – The City buys fuel for its vehicles and equipment from local vendors on an as needed basis. The City does not keep fuel or vehicle logs for the vehicles and equipment. As a result, the City is unable to reconcile the logs with the paid invoices, and is unable to analyze fuel usage for propriety.

Recommendation – A fuel or vehicle log should be maintained in each vehicle. In addition, this log should be reconciled with the billings from the vendors, and the logs should be periodically reviewed for propriety.

Response – We will review this and take action as necessary.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

IV-K-07 Financial Condition – The Capital Projects, Water Department Fund had a deficit balance at June 30, 2007 of \$732. The balance in the Debt Service Fund and the balance in the Special Revenue, Local Option Sales Tax Fund may be excessive.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position. In addition, the City should review the funds with excessive balances and implement procedures to reduce the balance in these funds.

Response – The deficit was due to excess spending. We will obtain a loan from the State of Iowa to bring this account to a positive balance. We will also continually review the balances in the Debt Service Fund and the Special Revenue, Local Option Sales Tax Fund to ensure we have a plan in place to spend the monies from these funds.

Conclusion – Response accepted.

IV-L-07 Water Reconciliation – There is no comparison of the gallons of water pumped by the City to the gallons of water billed to the customers.

Recommendation – A comparison should be periodically made of the gallons of water pumped with the gallons of water billed to the customers. This information should then be used to help determine the propriety of unaccounted for water.

Response – We will review this situation.

Conclusion - Response accepted.

IV-M-07 Interest – Interest earned on Debt Service Fund monies were credited to the General Fund. However, interest earned on funds used to pay debt should be credited to the Debt Service Fund, as required pursuant to Chapter 12 of the Code of Iowa.

The interest rate on one certificate of deposit was less than that allowed by the State of Iowa, State Rate Setting Committee.

During the year, the City had in excess of \$500,000 at all times in their checking account, which paid an approximate 2% rate of interest. If these funds were invested in the Iowa Public Agency Investment Trust (IPAIT), the City could have conservatively earned at least \$10,000 more in interest income during fiscal year 2007. The investments in IPAIT earned over a 4 ½% rate of interest during fiscal year 2007.

Recommendation – The City credit some interest earned on Debt Service Fund monies to the Debt Service Fund. In addition, the City should ensure that the interest rate earned on certificate of deposits meet or exceed the interest rates established by the State of Iowa, State Rate Setting Committee. Also, the City should be more aggressive in investing excess funds into higher yielding investments.

Response – We will review this area.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

IV-N-07 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will implement this recommendation.

Conclusion – Response accepted.

IV-O-07 Taxes – Chapter 384.12 of the Code of Iowa allows the City to levy an Insurance levy at an amount necessary to fund liability, property and self insurance costs. Our review noted that it appears the City's Insurance levy for this purpose is excessive given the amount paid by the City for these costs.

The local option sales tax ballot states that the monies from the local option sales taxes are to be used for the "payment of debt, construction costs, and any other costs associated with street improvement projects, and for employee benefits." Our review noted that the costs charged to the Local Option Sales Tax Fund consist of such disbursements as gas, vehicle parts, signs, equipment, tires, insurance, snow removal costs, etc.... These types of costs appear to relate to normal City operating costs, which may not meet the intent of the requirements as noted on the local option sales tax ballot.

Recommendation – The City consult with their Attorney on the above issues to determine a proper resolution.

Response – We will take the above under advisement.

Conclusion – Response accepted.

IV-P-07 Construction Projects Bid and Hearing Requirements – For a street construction project which cost approximately \$40,000, it does not appear the City followed the bidding requirements as required pursuant to Chapters 384.96 to 384.103 of the Code of Iowa. Specifically, sealed bids were not obtained and a public hearing was not held on this project.

For Division III of the Water Treatment Plant Improvements, the City obtained bids and held a public hearing on this project. The newspaper publication indicated that sealed bids for the construction work would be accepted until June 29, 2006. On June 28, 2006, the engineer made an addendum and allowed the sealed bids for the construction work to be accepted for Division III of the Water Treatment Plant Improvements, with a revised sealed bid deadline date of July 6, 2006. However, this date extension was not published in the newspaper as required pursuant to Chapter 384.96 of the Iowa Code. As a result, it does not appear the City met the Iowa Code requirements in relation to the construction bidding on this project.

Recommendation – The City should follow the applicable Code requirements in relation to construction project bids, hearings and newspaper publication requirements.

Response – We will implement this recommendation.

Conclusion – Response accepted.