MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT
MELCHER-DALLAS, IOWA

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

June 30, 2009

Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
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Melcher-Dallas Community School District

Officials

NAME	TITLE	TERM EXPIRES
	Board of Education (Before September, 2008 Election)	
Lary Willoughby	President	2009
Lee Franck	Vice-President	2008
Ken Schneider	Board Member	2008
Robert Lepley	Board Member	2010
Ann Fee	Board Member	2009
	Board of Election (After September, 2008 Election)	
Lary Willoughby	President	2009
Lee Franck	Vice-President	2011
Mark Herold	Board Member	2011
Robert Lepley	Board Member	2011*
Ann Fee	Board Member	2009
	School Officials	
Steve Mitchell	Superintendent	2009
Shelia Williamson	District Secretary and Treasurer	2009
Ahlers Law Firm	Attorney	2009

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

Melcher-Dallas Community School District

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
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CLIVE, IA 50325

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Independent Auditor's Report

To the Board of Education of
Melcher-Dallas Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District, Melcher-Dallas, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2009 on our consideration of Melcher-Dallas Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit preformed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 40 through 41 are not required parts of the basic financial statements, but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Melcher-Dallas Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Co., LLP
Certified Public Accountants

September 1, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Melcher-Dallas Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $3,549,730 in fiscal 2008 to $3,610,580 in fiscal 2009, while General Fund expenditures decreased from $3,623,665 in fiscal 2008 to $3,476,817 in fiscal 2009. The District's General Fund balance increased from $337,617 at the end of fiscal 2008 to $471,380 at the end of fiscal 2009, an increase of 40%.

- The increase in General Fund revenues was attributable to an increase in local and federal money as state dollars decreased. The decrease in expenditures was primarily due to reductions in force that was necessary as a result of decreased enrollment.

- The Capital Projects Fund decreased significantly from $323,939 in 2008 to $109,665 in 2009. This was due to the demolition of the old building at a cost of over $425,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Melcher-Dallas Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Melcher-Dallas Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Melcher-Dallas Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

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

Figure A-1
Melcher-Dallas Community School District Annual Financial Report

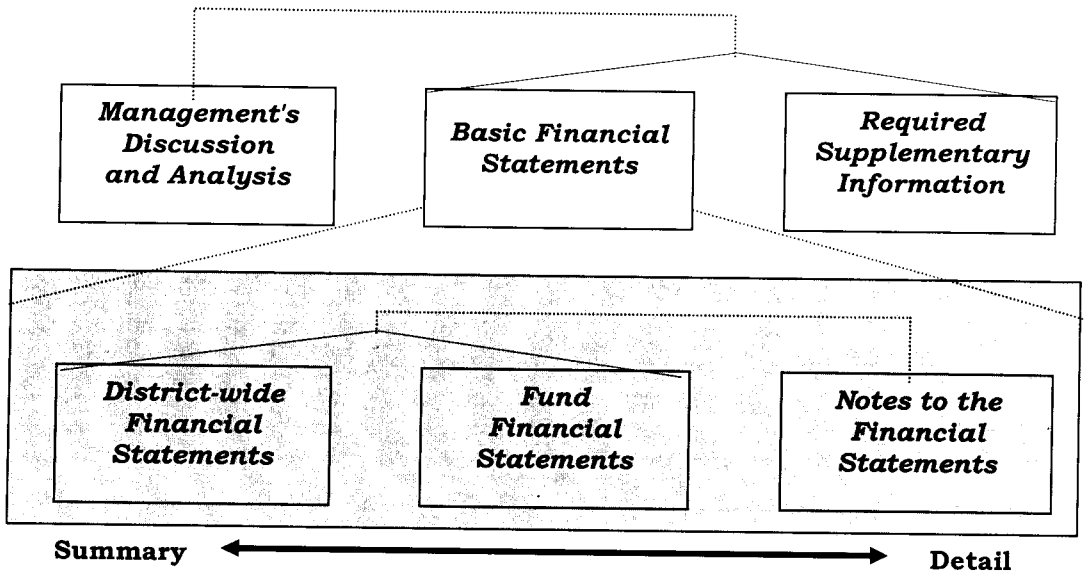

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures and changes in fund balances	• Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or

decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

   The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. Internal Service Funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one Internal Service Fund, the HRA Fund.

   The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-2009
Current and other assets	$ 4,078	3,198	26	23	4,104	3,221	27.4%
Capital assets	3,389	3,524	15	15	3,404	3,539	-3.8%
Total assets	7,467	6,722	41	38	7,508	6,760	11.1%
Long-term liabilities	1,521	1,636	-	-	1,521	1,636	-7.0%
Other liabilities	3,246	2,295	49	33	3,295	2,328	41.5%
Total liabilities	4,767	3,931	49	33	4,816	3,964	21.5%
Net assets							
Invested in capital assets, net of related debt	1,899	1,934	15	15	1,914	1,949	-1.8%
Restricted	136	125	-	-	136	125	8.8%
Unrestricted	665	732	(23)	(10)	642	722	-11.1%
Total net assets	$ 2,700	2,791	(8)	5	2,692	2,796	-3.7%

The District's combined net assets decreased by 3.7%, or approximately $104,000 under the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately $11,000, or 8.8% over the prior year. The increase was primarily due to the result of decreased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately $80,000, or 11.1% from the previous year. The decrease in unrestricted net assets was primarily due to the approximate $425,000 cost associated with the demolition of the old elementary building.

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

Figure A-4
Change in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	2009	2008	2009	2008	2009	2008	2008-2009
Revenues							
Program revenues:							
Charges for service	$ 239	301	67	80	306	381	-19.7%
Operating grants, contributions and restricted interest	614	403	81	84	695	487	42.7%
Capital grants, contributions and restricted interest	2	9	-	-	2	9	-77.8%
General revenues:							
Property tax	896	905	-	-	896	905	-1.0%
Income surtax	76	67	-	-	76	67	13.4%
Local option sales and services tax	251	224	-	-	251	224	12.1%
Unrestricted state grants	1,983	2,101	-	-	1,983	2,101	-5.6%
Unrestricted investment earnings	66	58	-	-	66	58	13.8%
Other	44	55	-	-	44	55	-20.0%
Total revenues	4,171	4,123	148	164	4,319	4,287	0.7%
Program expenses:							
Governmental activities:							
Instruction	2,510	2,478	-	-	2,510	2,478	1.3%
Support services	1,085	1,174	-	-	1,085	1,174	-7.6%
Non-instructional programs	-	-	161	164	161	164	-1.8%
Other expenses	667	318	-	-	667	318	109.7%
Total expenses	4,262	3,970	161	164	4,423	4,134	7.0%
Increase (decrease) in net assets	$ (91)	153	(13)	-	(104)	153	-168.0%

In fiscal 2009, property tax and unrestricted state grants account for 69% of the revenue from governmental activities while charges for service and operating grants and contributions account for 100% of the revenue from business type activities.

The District's total revenues were approximately $4.3 million of which $4.17 million was for governmental activities and approximately $148,000 for business type activities.

As shown in Figure A-4, the District as a whole experienced a .7% decrease in revenues and a 7% increase in expenses. Unrestricted state grants decreased approximately $118,000. The property tax rate for fiscal 2009 was $17.098/$1,000 representing a decrease of approximately $1.69/$1,000 from the fiscal 2008 rate of $18.794/$1,000. The main reasons for this were due to levy decreases in three different funds, the General Fund, the Management Levy Fund, and the Debt Service Fund. The decrease in Management Levy Fund was a result of having less expense due to early retirements, and the decrease in the General Fund was the result of legislative changes which are intended to create more equity among school districts from the additional levy needed to fund the General Fund regular programs.

Governmental Activities

Revenues for governmental activities were $4,171,299 and expenses were $4,262,042. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and balances.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-2009	2009	2008	Change 2008-2009
Instruction	$ 2,510	2,478	1.3%	1,795	1,910	-6.0%
Support services	1,085	1,174	-7.6%	1,085	1,174	-7.6%
Non-instructional programs	-	-		-	-	
Other expenses	667	318	109.7%	527	174	202.9%
Total	$ 4,262	3,970	7.4%	3,407	3,258	4.6%

- The cost financed by users of the District's programs was $239,050.
- Federal and state governments subsidized certain programs with grants and contributions totaling $614,304.
- The net cost of governmental activities was financed with $1,222,737 in property and other taxes and $1,983,383 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were $147,967 representing a 9.7% decrease under the prior year while expenses totaled $160,582, a 2.2% decrease under the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Melcher-Dallas Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of $723,412, well below last years ending fund balances of $802,881.

Governmental Fund Highlights

- The District's increasing General Fund financial position is the result of many factors. An increase in local and federal revenues helped with this increase. In addition, a reduction in personnel helped lower our personnel related costs. As a result, the District was able to increase its fund balance in the General Fund for fiscal 2009.

- The General Fund balance increased from $337,617 to $471,380. This represents a $133,763 increase from the previous year. Reducing the costs associated with staff, along with aggressively managing the District's costs has resulted in an increased fund balance.

- The Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund balance increased by $9,294 from fiscal 2008 to fiscal 2009. Expenditures from this fund were primarily made only for improvements to the facilities for fire codes. Revenues were from property taxes as there was no fire/safety grant in fiscal 2009. Total revenue in this fund is around $18,000.

- In regards to the Capital Projects Fund, Marion County passed the local option sales and services tax in fiscal 2004, and we began receiving revenue from this source in fiscal 2005. In this fund, total revenue for the year was $252,247 and expenditures were $380,061. In addition, the District used $62,188 of these funds in fiscal 2009 to pay general obligation bonds of the District. The District had been saving money in this fund for several years with the intent of addressing the facilities needs associated with the old elementary school. Now that this project is completed the district will plan to use the resources in this fund to maintain current facilities, technology, transportation, and use what they can to pay off the debt from the new building.

Proprietary Fund Highlights

School Nutrition Fund balances continue to decline. Revenues for business type activities during the year ended June 30, 2009 were $147,967, representing a 9.7% decrease under the prior year, while expenses totaled $160,582, representing a 2.2% decrease under the prior year. The District's business type activities include the School Nutrition Fund.

Meal prices were raised again for the third year in a row for the 2009-10 school year. The high school closed their campus to students in grades 7-11 leaving it open for lunches only for the seniors, and eliminated the ale carte. The district is currently researching possible solutions to the continual decline of the nutrition program. Salaries and benefits paid in this program need reduced somehow.

BUDGETARY HIGHLIGHTS

Over the course of the year, Melcher-Dallas Community School District amended its budget one time to reflect additional expenditures associated with the elementary school demolition project.

The District's total revenues were $193,741 less than total budgeted revenues, a variance of less than 5%. Even though local tax revenues increased in fiscal 2009, a reduction in state resources caused the total amount received to be less than originally anticipated.

Total expenditures were less than budgeted expenditures, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional functional area due to over spending in the Nutrition Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested, net of accumulated depreciation, $3.4 million in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). This represents a net decrease of 3.8% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was $159,557 for both governmental and business type activities.

The original cost of the District's capital assets was $5.3 million. Governmental funds account for $5.2 million, with the remaining $0.1 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-2009
Land	$ 14	14	-	-	14	14	0.0%
Buildings	2,938	3,019	-	-	2,938	3,019	-2.7%
Improvements other than buildings	87	79	-	-	87	79	10.1%
Furniture and equipment	350	412	15	15	365	427	-14.5%
Total assets	$ 3,389	3,524	15	15	3,404	3,539	-3.8%

Long-Term Debt

At June 30, 2009, the District had $1,520,954 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 7% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District June 30, 2009	Total District June 30, 2008	Total Change June 30, 2008-2009
General obligation bonds	$ 1,490	1,590	-6.3%
Early retirement	31	46	-32.6%
Total	$ 1,521	1,636	-7.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District experienced a decrease in enrollment for the 2008-09 school year. The District is expecting to decline for another several years until the single section classes below 20, which are in the high school now, graduate out. There are kindergarten numbers expected in the mid to upper 20's, as reported through the preschool program.
- The instructional support levy was renewed for 5 years and increased from 6% to the maximum of 10%.
- The District will need to look for ways to cut costs in the coming years to address the declining enrollment.
- Staff turn-over in several key positions will present a challenge.
- Down-sizing facilities will result in less maintenance costs while having a better inventory of equipment will help to prevent unnecessary expenditures.
- The District will negotiate a new agreement with the Melcher-Dallas Education Association during fiscal 2010, effective with the 2010-11 school year. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the Districts General Fund budget and related fund balance.
- The District was one of the Districts that received a grant for their preschool program. We continue to look for ways to serve the youngest students in the District.
- The state budget is experiencing great difficulties. Unemployment is up and the economy is in a recession.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Shelia Williamson, District Secretary/Treasurer and Business Manager, Melcher-Dallas Community School District, 210 South Main, Melcher, Iowa, 50163.

Basic Financial Statements

Melcher-Dallas Community School District

Exhibit A

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	$ 1,612,599	-	1,612,599
Other	1,112,953	23,814	1,136,767
Receivables:			
Property tax:			
Delinquent	28,538	-	28,538
Succeeding year	1,145,220	-	1,145,220
Accounts	5,786	-	5,786
Accrued interest:			
ISCAP	10,037	-	10,037
Due from other funds	33,776	-	33,776
Due from other governments	129,357	-	129,357
Inventories	-	2,054	2,054
Capital assets, net of accumulated depreciation	3,388,508	14,903	3,403,411
Total assets	7,466,774	40,771	7,507,545
Liabilities			
Accounts payable	41,093	2,708	43,801
Salaries and benefits payable	369,821	12,308	382,129
Due to other governments	5,249	-	5,249
Other liabilities	26,384	-	26,384
Due to other funds	-	33,776	33,776
Accrued interest payable	10,513	-	10,513
Deferred revenue:			
Succeeding year property tax	1,145,220	-	1,145,220
Other	51,242	-	51,242
ISCAP warrants payable	1,589,000	-	1,589,000
ISCAP accrued interest payable	7,179	-	7,179
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	100,000	-	100,000
Early retirement payable	14,687	-	14,687
Portion due after one year:			
General obligation bonds payable	1,390,000	-	1,390,000
Early retirement payable	16,267	-	16,267
Total liabilities	4,766,655	48,792	4,815,447
Net assets			
Invested in capital assets, net of related debt	1,898,508	14,903	1,913,411
Restricted for:			
Categorical funding	7,909	-	7,909
Management levy	47,803	-	47,803
Physical plant and equipment levy	37,588	-	37,588
Other special revenue purposes	42,783	-	42,783
Unrestricted	665,528	(22,924)	642,604
Total net assets	$ 2,700,119	(8,021)	2,692,098

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit B

Statement of Activities

Year ended June 30, 2009

Functions / Programs	Expenses	Program Revenues: Charges for Service	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:							
Instruction:							
Regular instruction	$ 1,424,876	115,751	426,768	-	(882,357)	-	(882,357)
Special instruction	691,247	20,806	46,802	-	(623,639)	-	(623,639)
Other instruction	393,658	102,493	2,804	-	(288,361)	-	(288,361)
	2,509,781	239,050	476,374	-	(1,794,357)	-	(1,794,357)
Support services:							
Student	51,738	-	-	-	(51,738)	-	(51,738)
Instructional staff	42,090	-	-	-	(42,090)	-	(42,090)
Administration	471,157	-	-	-	(471,157)	-	(471,157)
Operation and maintenance of plant	323,187	-	-	-	(323,187)	-	(323,187)
Transportation	197,075	-	-	-	(197,075)	-	(197,075)
	1,085,247	-	-	-	(1,085,247)	-	(1,085,247)
Non-instructional programs	428	-	-	-	(428)	-	(428)
Other expenditures:							
Facilities acquisition	380,061	-	-	1,553	(378,508)	-	(378,508)
Long-term debt interest	67,522	-	226	-	(67,296)	-	(67,296)
AEA flowthrough	137,704	-	137,704	-	-	-	-
Depreciation (unallocated)*	81,299	-	-	-	(81,299)	-	(81,299)
	666,586	-	137,930	1,553	(527,103)	-	(527,103)
Total governmental activities	4,262,042	239,050	614,304	1,553	(3,407,135)	-	(3,407,135)
Business type activities:							
Non-instructional programs:							
Food service operations	160,582	67,331	80,588	-	-	(12,663)	(12,663)
Total	$ 4,422,624	306,381	694,892	1,553	(3,407,135)	(12,663)	(3,419,798)
General Revenues:							
Property tax levied for:							
General purposes					$ 774,652	-	774,652
Debt service					104,009	-	104,009
Capital outlay					17,293	-	17,293
Statewide sales and services tax					250,694	-	250,694
Income surtax					76,089	-	76,089
Unrestricted state grants					1,983,383	-	1,983,383
Unrestricted investment earnings					65,650	48	65,698
Other					44,622	-	44,622
Total general revenues					3,316,392	48	3,316,440
Change in net assets					(90,743)	(12,615)	(103,358)
Net assets beginning of year					2,790,862	4,594	2,795,456
Net assets end of year					$ 2,700,119	(8,021)	2,692,098

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

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2009

	General	Capital Projects	Nonmajor	Total
Assets				
Cash and pooled investments:				
ISCAP	$ 1,612,599	-	-	1,612,599
Other	855,339	86,358	117,264	1,058,961
Receivables:				
Property tax:				
Delinquent	22,132	-	6,406	28,538
Succeeding year	942,560	-	202,660	1,145,220
Accounts	5,105	-	681	5,786
Accrued interest:				
ISCAP	10,037	-	-	10,037
Due from other funds	39,660	-	21,861	61,521
Due from other governments	82,484	46,873	-	129,357
Total assets	$ 3,569,916	133,231	348,872	4,052,019
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 17,065	20,481	1,046	38,592
Salaries and benefits payable	369,821	-	-	369,821
Due to other governments	5,249	-	-	5,249
Other liabilities	26,384	-	-	26,384
Due to other funds	21,861	3,085	2,799	27,745
ISCAP warrants payable	1,589,000	-	-	1,589,000
ISCAP accrued interest payable	7,179	-	-	7,179
Deferred revenue:				
Succeeding year property tax	942,560	-	202,660	1,145,220
Other	119,417	-	-	119,417
Total liabilities	3,098,536	23,566	206,505	3,328,607
Fund balances:				
Reserved for categorical funding	7,909	-	-	7,909
Reserved for debt service	-	-	14,193	14,193
Unreserved	463,471	109,665	128,174	701,310
Total fund balances	471,380	109,665	142,367	723,412
Total liabilities and fund balances	$ 3,569,916	133,231	348,872	4,052,019

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2009

Total fund balances of governmental funds (page 20)	$ 723,412
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,388,508
The Internal Service Fund is used by management to charge the costs of funding the District's HRA benefit plan. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	51,491
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	68,175
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(10,513)
Long-term liabilities, including bonds payable, early retirement payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(1,520,954)
Net assets of governmental activities (page 18)	$ 2,700,119

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2009

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	$ 766,783	250,694	201,131	1,218,608
Tuition	115,752	-	-	115,752
Other	108,483	1,553	103,212	213,248
State sources	2,502,678	-	-	2,502,678
Federal sources	116,884	-	-	116,884
Total revenues	3,610,580	252,247	304,343	4,167,170
Expenditures:				
Current:				
Instruction:				
Regular	1,418,622	56	28,755	1,447,433
Special	657,296	-	3,666	660,962
Other	289,878	-	100,922	390,800
	2,365,796	56	133,343	2,499,195
Support services:				
Student	51,512	-	226	51,738
Instructional staff	41,897	-	193	42,090
Administration	457,678	-	12,040	469,718
Operation and maintenance of plant	261,506	24,216	40,478	326,200
Transportation	160,724	-	10,582	171,306
	973,317	24,216	63,519	1,061,052
Non-instructional programs	-	-	428	428
Other expenditures:				
Facilities acquisition	-	380,061	-	380,061
Long-term debt:				
Principal	-	-	100,000	100,000
Interest and fiscal charges	-	-	68,199	68,199
AEA flowthrough	137,704	-	-	137,704
	137,704	380,061	168,199	685,964
Total expenditures	3,476,817	404,333	365,489	4,246,639
Excess (deficiency) of revenues over (under) expenditures	133,763	(152,086)	(61,146)	(79,469)
Other financing sources (uses):				
Operating transfers in	-	-	62,188	62,188
Operating transfers out	-	(62,188)	-	(62,188)
Total other financing sources (uses)	-	(62,188)	62,188	-
Net change in fund balances	133,763	(214,274)	1,042	(79,469)
Fund balances beginning of year	337,617	323,939	141,325	802,881
Fund balances end of year	$ 471,380	109,665	142,367	723,412

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2009

Net change in fund balances - total governmental funds (page 22)		$ (79,469)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was less than depreciation expense in the current year, as follows:		
Expenditures for capital assets	$ 21,131	
Depreciation expense	(156,786)	(135,655)
Income surtax is not collected until several months after year end and is not considered available revenue and is deferred in the governmental funds.		4,129
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:		
Issued	-	
Repaid	100,000	100,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		677
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds as follows:		
Compensated absences	273	
Early retirement	14,687	14,960
The Internal Service Fund is used by management to charge the costs of funding the District's HRA benefit plan. The change in net assets of the Internal Service Fund is reported in governmental activities.		4,615
Change in net assets of governmental activities (page 19)		$ (90,743)

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit G

Statement of Net Assets
Proprietary Funds

June 30, 2009

	Business Type Activities	Governmental Activities
	Enterprise - School Nutrition	Internal Service - HRA
Assets		
Cash and cash equivalents	$ 23,814	53,992
Inventories	2,054	-
Capital assets, net of accumulated depreciation	14,903	-
Total assets	40,771	53,992
Liabilities		
Accounts payable	2,708	2,501
Salaries and benefits payable	12,308	-
Due to other funds	33,776	-
Total liabilities	48,792	2,501
Net Assets		
Invested in capital assets	14,903	-
Unrestricted	(22,924)	51,491
Total net assets	$ (8,021)	51,491

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2009

	Business Type Activities	Governmental Activities
	Enterprise - School Nutrition	Internal Service - HRA
Operating revenues:		
Local sources:		
Charges for service	$ 67,331	-
Employer contributions	-	25,466
Total operating revenue	67,331	25,466
Operating expenses:		
Non-instructional programs:		
Salaries	50,117	-
Benefits	24,104	-
Supplies	83,590	-
Other	-	20,851
Depreciation	2,771	-
Total operating expenses	160,582	20,851
Operating income (loss)	(93,251)	4,615
Non-operating revenues:		
State sources	2,258	-
Federal sources	78,330	-
Interest income	48	-
Total non-operating revenues	80,636	-
Net income (loss)	(12,615)	4,615
Net assets beginning of year	4,594	46,876
Net assets end of year	$ (8,021)	51,491

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit I

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2009

	Business Type Activities	Governmental Activities
	Enterprise - School Nutrition	Internal Service - HRA
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	$ 67,331	-
Cash received from miscellaneous operating activities	-	25,466
Cash paid to employees for services	(61,913)	-
Cash paid to suppliers for goods and services	(70,707)	(18,350)
Net cash provided (used) by operating activities	(65,289)	7,116
Cash flows from non-capital financing activities:		
State grants received	2,258	-
Federal grants received	70,059	-
Net cash provided by non-capital financing activities	72,317	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,405)	-
Cash flows from investing activities:		
Interest on investments	48	-
Net increase in cash and cash equivalents	4,671	7,116
Cash and cash equivalents beginning of year	19,143	46,876
Cash and cash equivalents end of year	$ 23,814	53,992
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (93,251)	4,615
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Commodities used	8,271	-
Depreciation	2,771	-
Decrease in inventories	1,284	-
Increase in accounts payable	2,708	2,501
Increase in salaries and benefits payable	12,308	-
Increase in due to other funds	620	-
Net cash provided (used) by operating activities	$ (65,289)	7,116

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received $8,271 of federal commodities.

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2009

	Private Purpose Trust Scholarship
Assets	
Cash and pooled investments	$ 12,637
Accounts receivable	1,000
Total assets	13,637
Liabilities	-
Net Assets	
Reserved for scholarships	$ 13,637

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit K

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2009

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Gifts and contributions	$ 1,000
Interest income	206
Total additions	1,206
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	1,500
Changes in net assets	(294)
Net assets beginning of year	13,931
Net assets end of year	$ 13,637

See notes to financial statements.

(1) Summary of Significant Accounting Policies

Melcher-Dallas Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Melcher-Dallas, Iowa, and the predominate agricultural territory of Marion County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Melcher-Dallas Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Melcher-Dallas Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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 two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even thought the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues 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 expenditures, including instructional, support and other costs.

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

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

Additionally, the District reports a nonmajor proprietary fund. The Internal Service – HRA Fund is utilized to account for the health reimbursement account monies.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities, and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For the purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2008.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in applicable government or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures in the non-instructional programs functional area exceeded the amounts budgeted.

(2) Cash, Pooled Investments and Investments

The District's deposits in banks at June 30, 2009 were 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 District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust in the Diversified Portfolio Fund. The amortized cost of these investments was $117,275 at June 30, 2009.

The Iowa Schools Joint Investment Trust investment is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

At June 30, 2008, the District had an investment in a Federal Home Loan Mortgage Corporation (FHLMC) Medium Term Note. This investment was sold in fiscal year 2009.

Credit Risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investment Service.

(3) **Due From and Due to Other Funds**

The details of interfund receivables and payables at June 30, 2009 are as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	$ 3,085
	Special Revenue: Management Levy	2,565
	Debt Service	234
	Proprietary: School Nutrition	33,776
		39,660
Special Revenue: Management Levy	General	18,888
Physical Plant and Equipment Levy		2,973
		21,861
Total		$ 61,521

The above due from/to amounts primarily represent loans between funds, and corrections of incorrect recording of transactions.

(4) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 62,188
Total		$ 62,188

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2009 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrents Payable	Accrued Interest Payable
2008-09A	6/26/2008	6/25/2009	$ -	5,050	-	-
2008-09B	1/21/2009	1/21/2010	524,641	4,853	518,000	6,812
2009-10A	6/25/2009	6/23/2010	1,087,958	134	1,071,000	367
			$ 1,612,599	10,037	1,589,000	7,179

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity for the year ended June 30, 2009.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2008-09A	3.500%	3.469%
2008-09B	3.000%	2.110%
2009-10A	2.500%	0.902%

(6) **Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 13,925	-	-	13,925
Total capital assets not being depreciated	13,925	-	-	13,925
Capital assets being depreciated:				
Buildings	4,111,700	-	52,000	4,059,700
Improvements other than buildings	214,581	13,631	-	228,212
Furniture and equipment	943,245	7,500	-	950,745
Total capital assets being depreciated	5,269,526	21,131	52,000	5,238,657
Less accumulated depreciation for:				
Buildings	1,092,333	81,299	52,000	1,121,632
Improvements other than buildings	135,569	6,103	-	141,672
Furniture and equipment	531,386	69,384	-	600,770
Total accumulated depreciation	1,759,288	156,786	52,000	1,864,074
Total capital assets being depreciated, net	3,510,238	(135,655)	-	3,374,583
Governmental activities capital assets, net	$ 3,524,163	(135,655)	-	3,388,508

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	$ 49,090	2,405	-	51,495
Less accumulated depreciation	33,821	2,771	-	36,592
Business type activities capital assets, net	$ 15,269	(366)	-	14,903

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	
Regular	$ 4,246
Special	30,285
Other	2,858
Support services:	
Administration	1,712
Operation and maintenance of plant	10,617
Transportation	25,769
	75,487
Unallocated	81,299
Total depreciation expense - governmental activities	$ 156,786
Business type activities:	
Food service operations	$ 2,771

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	$ 1,590,000	-	100,000	1,490,000	100,000
Early retirement	45,641	-	14,687	30,954	14,687
Compensated absences	273	-	273	-	-
Total	$ 1,635,914	-	114,960	1,520,954	114,687

General Obligation Bonds

Details of the District's June 30, 2009 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 29, 2008			Bond Issue of December 1, 2001			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2010	3.96%	$ 90,000	42,372	4.30%	10,000	20,707	100,000	63,079	163,079
2011	3.96%	95,000	38,808	4.40%	10,000	20,278	105,000	59,086	164,086
2012	3.96%	100,000	35,046	4.50%	10,000	19,838	110,000	54,884	164,884
2013	3.96%	100,000	31,086	4.60%	10,000	19,388	110,000	50,474	160,474
2014	3.96%	105,000	27,126	4.70%	10,000	18,928	115,000	46,054	161,054
2015-2019	3.96%	580,000	70,482	4.80-5.00%	70,000	85,928	650,000	156,410	806,410
2020-2021	-	-	-	5.00%	300,000	22,500	300,000	22,500	322,500
Total		$ 1,070,000	244,920		420,000	207,567	1,490,000	452,487	1,942,487

Early Retirement

In a prior year, the District offered a voluntary early retirement plan to its certified employees. Eligible employees must have been at least age fifty-five on or before June 30 in the calendar year in which early retirement commences and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to 100% of the employees annual salary in effect at the date of the request for early retirement. The District's policy is that benefits are to be prorated from the employees retirement date until the employee turns 65 years of age. Eligible employees retiring under the early retirement program are eligible to continue with the same insurance coverage until 65 years of age, with all premiums paid by the employee. The employee's spouse is also eligible to continue with the same insurance coverage until 65 years of age, with all premiums to be paid by the employee. At June 30, 2009, the District has obligations to two participants with a total liability of $30,954. Actual early retirement expenditures for the year ended June 30, 2009 totaled $14,687. This program expired after the 2004-05 fiscal year and has not been renewed.

(8) Operating Lease

The District has entered into an operating lease for various electronic equipment.

During the fiscal year, payments made under this lease amounted to $15,694. This agreement expired on June 30, 2009, and the equipment was returned to the owner.

(9) Pension and Retirement Benefits

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

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were $129,621, $117,564, and $108,063, respectively, equal to the required contributions for each ear.

(10) Risk Management

Melcher-Dallas Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $137,704 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

Melcher-Dallas Community School District

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
						Original	Final	
Revenues:								
Local sources	$ 1,547,608	92,845	1,640,453	(25,466)	1,614,987	1,750,703	1,750,703	(135,716)
Intermediate sources	-	-	-	-	-	7,000	7,000	(7,000)
State sources	2,502,678	2,258	2,504,936	-	2,504,936	2,521,175	2,521,175	(16,239)
Federal sources	116,884	78,330	195,214	-	195,214	230,000	230,000	(34,786)
Total revenues	4,167,170	173,433	4,340,603	(25,466)	4,315,137	4,508,878	4,508,878	(193,741)
Expenditures / Expenses:								
Instruction	2,499,195	-	2,499,195	-	2,499,195	3,364,216	3,364,216	865,021
Support services	1,061,052	-	1,061,052	-	1,061,052	1,723,764	1,723,764	662,712
Non-instructional programs	428	181,433	181,861	(20,851)	161,010	141,860	141,860	(19,150)
Other expenditures	685,964	-	685,964	-	685,964	408,424	833,000	147,036
Total expenditures/expenses	4,246,639	181,433	4,428,072	(20,851)	4,407,221	5,638,264	6,062,840	1,655,619
Excess (deficiency) of revenues over (under) expenditures/expenses	(79,469)	(8,000)	(87,469)	(4,615)	(92,084)	(1,129,386)	(1,553,962)	1,461,878
Other financing sources, net	-	-	-	-	-	10,000	10,000	(10,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	(79,469)	(8,000)	(87,469)	(4,615)	(92,084)	(1,119,386)	(1,543,962)	1,451,878
Balances beginning of year	802,881	51,470	854,351	(46,876)	807,475	1,266,707	1,266,707	(459,232)
Balances end of year	$ 723,412	43,470	766,882	(51,491)	715,391	147,321	(277,255)	992,646

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard 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 Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by $424,576.

During the year ended June 30, 2009, expenditures in the non-instructional programs function exceed the amounts budgeted.

Other Supplementary Information

Melcher-Dallas Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2009

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Assets					
Cash and pooled investments	$ 28,937	43,148	34,064	11,115	117,264
Receivables:					
Property tax:					
Delinquent	2,543	-	551	3,312	6,406
Succeeding year	90,000	-	18,010	94,650	202,660
Accounts	-	681	-	-	681
Due from other funds	18,888	-	2,973	-	21,861
Total assets	$ 140,368	43,829	55,598	109,077	348,872
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ -	1,046	-	-	1,046
Due to other funds	2,565	-	-	234	2,799
Deferred revenue:					
Succeeding year property tax	90,000	-	18,010	94,650	202,660
Total liabilities	92,565	1,046	18,010	94,884	206,505
Fund balances:					
Reserved for debt service	-	-	-	14,193	14,193
Unreserved	47,803	42,783	37,588	-	128,174
Total fund balances	47,803	42,783	37,588	14,193	142,367
Total liabilities and fund balances	$ 140,368	43,829	55,598	109,077	348,872

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 2

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2009

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Revenues:					
Local sources:					
Local tax	$ 79,829	-	17,293	104,009	201,131
Other	219	102,493	274	226	103,212
Total revenues	80,048	102,493	17,567	104,235	304,343
Expenditures					
Current:					
Instruction:					
Regular	28,755	-	-	-	28,755
Special	3,666	-	-	-	3,666
Other	1,874	99,048	-	-	100,922
Support services:					
Student	226	-	-	-	226
Instructional staff	193	-	-	-	193
Administration	12,040	-	-	-	12,040
Operation and maintenance of plant	32,205	-	8,273	-	40,478
Transportation	10,582	-	-	-	10,582
Non-instructional programs	428	-	-	-	428
Other expenditures:					
Long-term debt:					
Principal	-	-	-	100,000	100,000
Interest and fiscal charges	-	-	-	68,199	68,199
Total expenditures	89,969	99,048	8,273	168,199	365,489
Excess (deficiency) of revenues over (under) expenditures	(9,921)	3,445	9,294	(63,964)	(61,146)
Other financing sources (uses):					
Operating transfers in	-	-	-	62,188	62,188
Total other financing sources (uses)	-	-	-	62,188	62,188
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(9,921)	3,445	9,294	(1,776)	1,042
Fund balances beginning of year	57,724	39,338	28,294	15,969	141,325
Fund balances end of year	$ 47,803	42,783	37,588	14,193	142,367

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Interest	$ -	541	275	(266)	-
H.S. Athletics	8,597	54,307	56,984	266	6,186
Music	246	319	335	-	230
SADD	342	-	-	-	342
Cheerleaders	1,065	1,153	2,192	-	26
FBLA	584	3,479	2,967	-	1,096
Yearbook	6,217	6,967	5,298	380	8,266
FHA	188	-	-	-	188
FFA	1,503	10,786	9,357	-	2,932
Newspaper	125	-	-	-	125
Student Council	9,144	13,616	12,190	380	10,950
Drill Team	2,583	5,082	4,052	-	3,613
Thespian Club	532	900	415	-	1,017
Elementary Student Government	5,787	1,046	957	-	5,876
Class of 09	1,346	990	1,576	(760)	-
Class of 10	-	1,656	1,450	-	206
Class of 11	-	10	-	-	10
Class of 12	-	15	-	-	15
Jr. High	1,079	1,626	1,000	-	1,705
Total	$ 39,338	102,493	99,048	-	42,783

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 4

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Six Years

	Modified Accrual Basis					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	$1,218,608	1,197,503	1,216,786	1,379,115	1,201,987	934,471
Tuition	115,752	87,076	37,682	65,376	64,011	43,292
Other	213,248	228,925	272,977	222,448	139,860	143,103
Intermediate sources	-	-	1,000	-	-	-
State sources	2,502,678	2,538,309	2,331,711	2,094,760	2,027,764	2,159,338
Federal sources	116,884	67,614	165,426	182,962	142,202	111,001
Total	$4,167,170	4,119,427	4,025,582	3,944,661	3,575,824	3,391,205
Expenditures:						
Instruction:						
Regular	$1,447,433	1,547,492	1,369,143	1,363,106	1,338,034	1,427,204
Special	660,962	624,345	627,223	546,650	570,841	613,493
Other	390,800	416,425	391,935	369,681	333,797	174,289
Support services:						
Student	51,738	45,735	53,398	68,468	62,674	45,289
Instructional staff	42,090	38,563	12,977	48,804	43,767	20,730
Administration	469,718	556,861	486,116	445,826	392,616	378,676
Operation and maintenance of plant	326,200	316,465	317,989	299,611	251,233	251,068
Transportation	171,306	197,068	195,192	203,330	105,591	199,941
Non-instructional programs	428	429	414	352	391	-
Other expenditures:						
Facilities acquisition	380,061	11,950	31,824	-	10,383	177,009
Long-term debt:						
Principal	100,000	90,000	80,000	75,754	70,665	65,586
Interest and other charges	68,199	92,507	86,525	90,724	95,953	98,519
AEA flowthrough	137,704	134,635	130,293	124,015	123,819	127,839
Total	$4,246,639	4,072,475	3,783,029	3,636,321	3,399,764	3,579,643

See accompnaying independent auditor's report.

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of
Melcher-Dallas Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 1, 2009. 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 Melcher-Dallas Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Melcher-Dallas Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Melcher-Dallas Community School District's internal control over financial reporting.

Our consideration of the 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, including deficiencies we consider to be material weaknesses.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Melcher-Dallas Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Melcher-Dallas Community School District and other parties to whom the Melcher-Dallas Community School District may report. 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 Melcher-Dallas Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Co., LLP
Certified Public Accountants

September 1, 2009

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. In addition, at times the Board Secretary also stamps the Board President's name as a signer on the checks.

Recommendation – We realize that it is difficult to segregate duties with a limited number of office employees. However, the District should review its operating procedures to obtain the maximum control possible under the circumstances.

Response – We will continue to investigate available alternatives.

Conclusion – Response accepted.

I-B-09 Financial Reporting – During the audit, we identified material amounts of receivables, payables, and capital asset additions not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation –The District should implement procedures to ensure all receivables, payables, and capital asset additions are identified and included in the District's financial statements.

Response – We will double check these in the future to avoid missing any receivables, payables, and capital asset transactions.

Conclusion – Response accepted.

I-C-09 Disbursements – Activity Fund invoices paid before the Board meeting are not consistently approved by the Board President prior to payment, as required by Chapter 279.29 and 279.30 of the Code of Iowa and the District's policy. The Board Secretary does not sign all checks as required by Chapter 291.8 of the Code of Iowa.

Recommendation – For payments made in advance of Board meetings, the District should maintain documentation of the Board President's approval of claims for payment. The Board Secretary should sign all checks as required by Chapter 291.8 of the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response accepted.

I-D-09 Accounting Records – Bank reconciliations were not performed on some bank accounts. In addition, some transactions were not recorded on the general ledger, and other transactions were improperly recorded on the general ledger. The reconciled bank balance did not consistently agree to the book balances on some funds. Journal entries were made for which there was no support as to why the journal entries were made. Adjustments were subsequently made for audit purposes to properly record all transactions.

Recommendation – The District implement procedures to ensure bank reconciliations are performed for all bank accounts. In addition, procedures should be implemented to ensure all transactions are properly recorded on the general ledger. Also, the reconciled bank balance should agree with the book balances for all funds, and the adequate documentation be maintained for all journal entries.

Response – We will implement these recommendations.

Conclusion – Response accepted.

I-E-09 Preparation of Full Disclosure Financial Statements - Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by generally accepted accounting principles. Melcher-Dallas Community School District does not have the internal resources to prepare the full-disclosure financial statements required by GAAP for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles in preparing full-disclosure financial statements for external reporting purposes is difficult. However, we recommend that District officials continue to review operating procedures and obtain the internal expertise needed to handle all aspects of external financial reporting, rather than rely on external assistance.

Response – We recognize our limitations, however, it is not fiscally responsible to add additional staff for this purpose.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget – Expenditures for the year ended June 30, 2009 exceeded the amended certified budget amounts in the non-instructional programs function.

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

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

II-B-09 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-09 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Larry Willoughby, Board Member	Coach	$ 2,131
Mark Herold, Board Member	Bus Driver	$ 1,732

The board members were included on the District's payroll. The contract with the employees were approved by the Board. Due to the size of the transactions, the above does not appear to represent a conflict of interest pursuant to Chapter 279.7A of the Code of Iowa.

II-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-09 Board Minutes – For Activity Fund disbursements, the Board President does not approve the early payment of invoices in accordance with the District's policy and Code of Iowa requirements. Instances were noted when some invoices were not approved by the Board or published in the newspaper, as required by Chapters 279.29 and 279.35 of the Code of Iowa.

For a closed session, 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.

Recommendation – For payments made in advance of board meetings, the District should require the Board President's approval of invoices prior to payment. The District implement procedures to ensure the requirements as noted in the Code of Iowa are met regarding the approval and publication of invoices. The District should also comply with Chapter 21 of the Code of Iowa regarding the open-meetings law.

Response – We will implement these recommendations.

Conclusion – Response accepted

II-G-09 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for October 2008 was understated by 2 students, line 10 was overstated by .6 students, line 12 was overstated by .18 students, and line 13 was understated by .22 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

II-H-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted, except that the Board specified maximum amount which may be kept on deposit in each depository was exceeded as of June 30, 2009, and at times during the year.

Recommendation – To be in compliance with Chapter 12C of the code of Iowa, the Board should implement procedures to insure the Board minutes document the maximum amount which may be kept on deposit in each depository.

Response – We will implement this recommendation

Conclusion – Response accepted.

II-I-09 Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education.

II-J-09 Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-K-09 Statewide Sales and Services Tax – No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance		$ 323,939
Statewide sales and services tax revenue		252,247
Expenditures/transfers out:		
School infrastructure:		
Land	$ -	
Buildings	378,266	
Equipment	10,587	
Other improvements	15,480	
Debt service for school infrastructure:		
General obligation debt	62,188	
Revenue debt	-	466,521
Ending balance		$ 109,665

II-L-08 Fuel Procedures – The District buys its fuel as needed from a vendor in town. In addition, a vehicle log is kept in each vehicle. However, there is no documented reconciliation between fuel purchased as recorded on the vendor invoices with the vehicle logs.

Recommendation – To provide increased accountability over fuel purchased, the District should periodically reconcile fuel purchased as recorded on the vendor invoices with the vehicle logs. Any differences and any unusual amounts of fuel used should be periodically investigated and followed up on in a timely manner.

Response – We will review our procedures at this time.

Conclusion – Response accepted.

II-M-09 General Fixed Assets – Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person. Also, written authorization was not always obtained prior to the deletion of fixed assets on the accounting system.

Recommendation – Fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets. In addition, written authorization should be obtained prior to the deletion of the fixed assets on the accounting system.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-N-09 Early Retirement – In fiscal year 2005, the District offered eligible employees an early retirement incentive, as outlined in the early retirement Board policy. Also, the policy chosen by the employees and as written by a former superintendent requires that the early retirement incentive be paid out on a pro-rata basis from the employees retirement date until they are 65 years of age. We noted that the employees are not paid their early retirement incentive on a pro-rata basis.

The former Superintendent's early retirement policy states that the "total value of the early retirement benefit shall be 100% of the employees annual salary in effect at the date of the request for early retirement." The District's early retirement policy further allows those retired employees to continue to be covered under the District's health care insurance plan, with all costs to be paid by the employee. However, even after retirement of these employees, the District continues to pay for part of the costs of the health care insurance plan from District funds, and not from the early retiree benefit amount. This situation was addressed by the School Attorney, and the Attorney indicated that the early retiree is required to pay for the health insurance and health savings account costs from the employees early retiree benefit amount. The School Attorney went on to further state that all benefits received by the early retiree, such as the health insurance, the tax sheltered annuity and the health savings account are all part of the early retirement program. However, through Board vote in fiscal year 2007, a majority of the Board voted that the District should continue to pay for part of the costs for the health care insurance plan for early retirees from District funds, as opposed to the employees early retiree benefit amount as recommended by the School Attorney. As a result, in fiscal year 2007, it appears the District retroactively changed the early retirement policy. The chart below documents the differences between what was, or will be paid, compared with the maximum benefit amount as noted in the early retirement policy, by employee.

Employee	Early Retirement Benefits Paid through Fiscal 2009	Early Retirement Benfits Scheduled to be paid in Future	Total	Maximum Early Retirement Benefit Per Policy	Difference - Early Retirement Benefits in Excess of Maximum
A	$ 43,550	-	43,550	36,325	7,225
B	24,083	13,612	37,695	37,695	-
C	32,215	17,343	49,558	36,325	13,233
	$ 99,848	30,955	130,803	110,345	20,458

As noted above, the former Superintendent's early retirement policy stated that the total value of the early retirement benefit shall be 100% of the employee's annual salary in effect at the date of the request for early retirement. It does not appear that the District is following its own policy, or the advice of the School Attorney. Based on the above, it appears that at the conclusion of the early retirement program, the District will pay from District funds in excess of $20,000 too much in early retirement benefits. There was no documentation as to why the Board did not follow the School Attorney's advice, and whether the payment of these costs meet the test of public purpose.

Recommendation – The District should consult with legal counsel to determine the proper disposition of all these issues, including whether the District can legally retroactively change the early retirement policy through a Board vote. If the District can legally change the early retirement policy through Board vote, the Board should document in the Board minutes how these additional costs meet the test of public purpose.

Response – In fiscal year 2010, we discontinued what the District was paying to the HSA account on behalf of Mr. Elliott (Employee C). Therefore, the difference of $13,233 as noted above will be approximately $2,500 less when said and done.

In addition, we did not follow the School Attorney's advice because one of the early retirees (Mr. Oliver – Employee A), came back to the District after sitting out for four months because we were unable to find anyone with his knowledge and experience to teach our children in the areas he taught. As a District, we felt that this was a fair trade off, as our primary focus is to provide the best education possible to our children.

Conclusion – Response accepted. However, the District should implement the original recommendations.

II-O-09 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in the manner to include an image of both the front and the back of each cancelled check. The District retains cancelled checks through electronic image, but does not consistently obtain an image of the back of each cancelled check as required.

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

Response – We will contact the bank and will obtain both sides of each check in the future.

Conclusion – Response accepted.

II-P-09 Interfund Loans – The board does not approve interfund loans between funds. In addition, it does not appear the District has met the Department of Education requirements as outlined in a Declaratory Order Adm. Doc. #4672 in relation to the proper procedure for handling, recording and repayment of interfund loans.

Recommendation – The Board approve all interfund loans. In addition, the District should implement procedures to ensure the Department of Education requirements are met in relation to the handling, recording and repayment of interfund loans.

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

Conclusion – Response accepted.

II-Q-09 Activity Fund – For fundraisers, there are no documented procedures in place to reconcile the cash receipts to the amount of money that should have been collected based on the quantity of merchandise purchased for resale or gross profit percentage.

Recommendation – The District implement procedures for fundraisers which documents the reconciliation of actual monies collected to the amount of money that should have been collected based on quantity of merchandise purchased for resale or gross profit percentages.

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

Conclusion – Response accepted.

II-R-09 Compliance Issues – Maintenance costs on equipment were changed to the physical plant and equipment levy fund. Based on the requirements of the Code of Iowa, it is questionable as to whether these costs should have been charged to this fund. It appears these expenses should have been charged to the General Fund.

Recommendation – The District should insure that all disbursements from the physical plant and equipment levy fund are for allowable purposes.

Response – We will do this.

Conclusion – Response accepted

II-S-09 Construction Project – On a building demolition project, even though the notice of public hearing was published in the newspaper, the Board minutes do not document that a public hearing was held, as required by Chapter 26.12 of the Code of Iowa. Even though required by the contract, the District did not assess liquidated damages on the contractor for failing to complete the project on a timely basis. The District did not apply for a sales tax refund from the State of Iowa on completed construction projects.

Recommendation – The District ensure public hearing requirements are met as required by the Code of Iowa, assess liquidated damages on contractors as applicable, and ensure sales tax refund claim forms are filed with the State of Iowa, as appropriate.

Response – We will implement these recommendations in the future.

Conclusion – Response accepted.