

**MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT
MELCHER-DALLAS, IOWA**

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

June 30, 2010

**Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
Clive, IA 50325**

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-16
 Basic Financial Statements:	
	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 18
Statement of Activities	B 19
Governmental Fund Financial Statements:	
Balance Sheet	C 20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 21
Statement of Revenues, Expenditures and Changes in Fund Balances	E 22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 23
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 25
Statement of Cash Flows	I 26
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	J 27
Statement of Changes in Fiduciary Net Assets	K 28
Notes to Financial Statements	29-40
 Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	42
Notes to Required Supplementary Information - Budgetary Reporting	43
Schedule of Funding Progress for the Retiree Health Plan	44
 Other Supplementary Information:	
	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 46
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 47
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 48
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4 49
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	50-51
Schedule of Findings	52-59

Melcher-Dallas Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>Board of Education</u> (Before September, 2009 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
<u>Board of Election</u> (After September, 2009 Election)		
Lee Franck	President	2011
Robert Lepley	Vice-President	2011
Mark Herold	Board Member	2011
Shane Ripperger	Board Member	2013
Ann Fee	Board Member	2013
<u>School Officials</u>		
Steve Mitchell	Superintendent	2010
Shelia Williamson	District Secretary and Treasurer	Indefinite
Ahlers Law Firm	Attorney	Indefinite

Melcher-Dallas Community School District

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principals.

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2011 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 performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 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 six years ended June 30, 2009 (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

January 15, 2011

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

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,610,580 in fiscal year 2009 to \$3,501,008 in FY 2010, and General Fund expenditures decreased from \$3,476,817 in FY 2009 to \$3,305,804 in FY 2010. The District's General Fund balance increased from \$471,380 at the end of FY 2009 to \$666,584 at the end of FY 2010, an increase of 41%.
- The decrease in General Fund revenues was attributable to a decrease in local and state money. The decrease in expenditures was primarily due to reductions in force that was necessary as a result of decreased enrollment.

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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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.

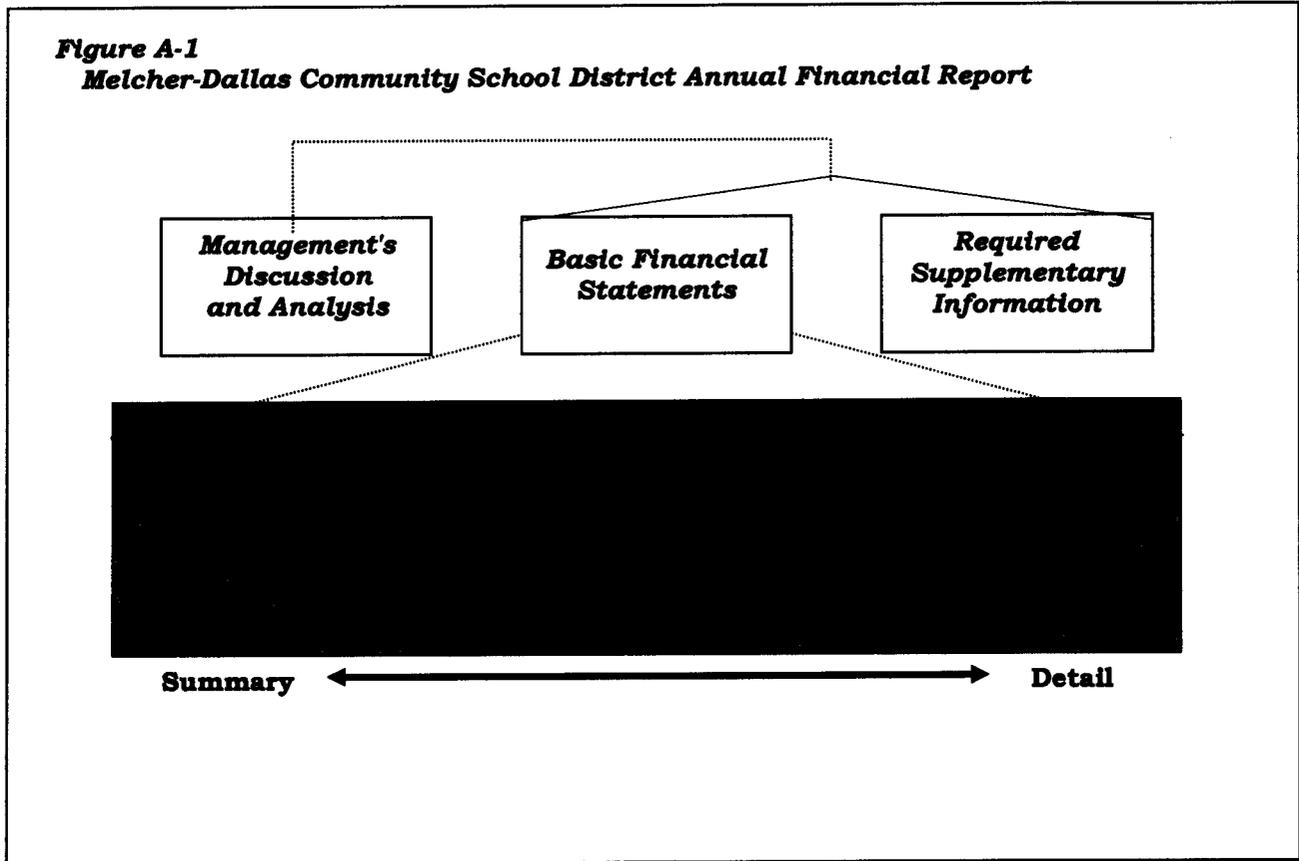


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • 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, 2010 compared to June 30, 2009.

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,
	2010	2009	2010	2009	2010	2009	2009-2010
Current and other assets	\$ 2,650	4,078	21	26	2,671	4,104	-34.9%
Capital assets	3,289	3,389	12	15	3,301	3,404	-3.0%
Total assets	<u>5,939</u>	<u>7,467</u>	<u>33</u>	<u>41</u>	<u>5,972</u>	<u>7,508</u>	<u>-20.5%</u>
Long-term liabilities	1,438	1,521	3	-	1,441	1,521	-5.3%
Other liabilities	1,539	3,246	47	49	1,586	3,295	-51.9%
Total liabilities	<u>2,977</u>	<u>4,767</u>	<u>50</u>	<u>49</u>	<u>3,027</u>	<u>4,816</u>	<u>-37.1%</u>
Net assets							
Invested in capital assets, net of related debt	1,899	1,899	12	15	1,911	1,914	-0.2%
Restricted	360	136	-	-	360	136	164.7%
Unrestricted	703	665	(29)	(23)	674	642	5.0%
Total net assets	<u>\$ 2,962</u>	<u>2,700</u>	<u>(17)</u>	<u>(8)</u>	<u>2,945</u>	<u>2,692</u>	<u>9.4%</u>

The District's combined net assets decreased by 20.5%, or approximately \$1,536,000 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 \$224,000, or 164.7% over the prior year. The changes were primarily due to increases in unspent categorical funding monies, and an increase in the balance of the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$32,000 or 5.0% from the previous year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4							
Change in Net Assets							
(Expressed in Thousands)							
	<u>Governmental</u>		<u>Business type</u>		<u>Total</u>		<u>Total</u>
	<u>Activities</u>		<u>Activities</u>		<u>District</u>		<u>Change</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Revenues							
Program revenues:							
Charges for service	\$ 219	239	56	67	275	306	-10.1%
Operating grants, contributions and restricted interest	859	614	91	81	950	695	36.7%
Capital grants, contributions and restricted interest	-	2	-	-	-	2	-100.0%
General revenues:							
Property tax	1,138	896	-	-	1,138	896	27.0%
Income surtax	117	76	-	-	117	76	53.9%
Local option sales, services and use	184	251	-	-	184	251	-26.7%
Unrestricted state grants	1,421	1,983	-	-	1,421	1,983	-28.3%
Unrestricted investment earnings	26	66	-	-	26	66	-60.6%
Other	55	44	-	-	55	44	25.0%
Total revenues	4,019	4,171	147	148	4,166	4,319	-3.5%
Program expenses:							
Governmental activities:							
Instruction	2,504	2,510	-	-	2,504	2,510	-0.2%
Support services	960	1,085	-	-	960	1,085	-11.5%
Non-instructional programs	-	-	156	161	156	161	-3.1%
Other expenses	293	667	-	-	293	667	-56.1%
Total expenses	3,757	4,262	156	161	3,913	4,423	-11.5%
Increase (decrease) in net assets	262	(91)	(9)	(13)	253	(104)	343.3%
Net assets beginning of year	2,700	2,791	(8)	5	2,692	2,796	-3.7%
Net assets end of year	\$ 2,962	2,700	(17)	(8)	2,945	2,692	9.4%

In fiscal 2010, property tax and unrestricted state grants account for 64% 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 \$4.2 million of which \$4.02 million was for governmental activities and approximately \$147,000 for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.5% decrease in revenues and a 11.5% decrease in expenses. Unrestricted state grants decreased approximately \$562,000. The property tax rate for fiscal 2010 was \$19.712/\$1,000 representing an increase of approximately \$2.62/\$1,000 from the fiscal 2009 rate of \$17.098/\$1,000. With declining enrollments, the District has made reductions in its workforce.

Governmental Activities

Revenues for governmental activities were \$4,018,983 and expenses were \$3,757,139. 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, 2010 compared to the year ended June 30, 2009.

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

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-2010	2010	2009	Change 2009-2010
Instruction	\$ 2,504	2,510	-0.2%	1,569	1,795	-12.6%
Support services	960	1,085	-11.5%	960	1,085	-11.5%
Non-instructional programs	-	-		-	-	
Other expenses	293	667	-56.1%	150	527	-71.5%
Total	\$ 3,757	4,262	-11.8%	2,679	3,407	-21.4%

- The cost financed by users of the District's programs was \$219,248.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$858,330.
- The net cost of governmental activities was financed with \$1,439,433 in property and other taxes and \$1,421,189 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$146,314 representing a 1.12% decrease under the prior year while expenses totaled \$156,052, a 2.82% 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 \$955,004, well above last years ending fund balances of \$723,412.

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 2010.
- The General Fund balance increased from \$471,380 to \$666,584. This represents a \$195,204 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 \$4,800 from fiscal 2009 to fiscal 2010. 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 2010. 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 \$184,752 and expenditures were \$86,359. In addition, the District used \$68,133 of these funds in fiscal 2010 to pay general obligation bonds of the District. The District will now be using these funds in the future to address immediate facility needs. After that excess funds will be used to repay debt in order to lower property taxes.

Proprietary Fund Highlights

School Nutrition Fund balances continue to decline. Revenues for business type activities during the year ended June 30, 2010 were \$146,314, while expenses totaled \$156,052, representing a \$9,738 decrease. Prior to the end of this year, the District entered into an agreement with Knoxville to provide the District with assistance. The goal of this arrangement was to monitor inventory, supervise health and safety standards, and to provide guidance with food purchases, menus, and staffing hours. The District recognizes the need to make significant changes in the food program. The District also realizes the need to make continuous changes for several reasons as dictated at the local, state, and federal levels. 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 entered into an agreement with Knoxville for Food Service Management and Food Purchasing.

BUDGETARY HIGHLIGHTS

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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested, net of accumulated depreciation, \$3.3 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 3.0% from last year. More detailed information about the District’s capital assets is presented in Note 6 to the financial statements.

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,
	2010	2009	2010	2009	2010	2009	2009-2010
Land	\$ 14	14	-	-	14	14	0.0%
Buildings	2,857	2,938	-	-	2,857	2,938	-2.8%
Improvements other than buildings	80	87	-	-	80	87	-8.0%
Furniture and equipment	338	350	12	15	350	365	-4.1%
Total assets	\$ 3,289	3,389	12	15	3,301	3,404	-3.0%

Long-Term Debt

At June 30, 2010, the District had \$1,438,000 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 5.5% 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		Total Change
	June 30,		June 30,
	2010	2009	2009-2010
General obligation bonds	\$ 1,390	1,490	-6.7%
Early retirement	14	31	-54.8%
Net OPEB liability	34	-	100.0%
Total	\$ 1,438	1,521	-5.5%

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 2010-2011 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 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 2011, effective with the 2011-12 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 Sheila Williamson, Board Secretary/Treasurer and Business Manager, Melcher-Dallas Community School District, 1003 Park Street, Melcher-Dallas, Iowa, 50062.

Basic Financial Statements

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,266,957	17,502	1,284,459
Receivables:			
Property tax:			
Delinquent	31,805	-	31,805
Succeeding year	1,106,027	-	1,106,027
Accounts	1,178	-	1,178
Due from other funds	33,776	-	33,776
Due from other governments	210,097	-	210,097
Inventories	-	3,057	3,057
Capital assets, net of accumulated depreciation	3,289,273	12,031	3,301,304
Total assets	5,939,113	32,590	5,971,703
Liabilities			
Accounts payable	31,279	436	31,715
Salaries and benefits payable	368,051	13,547	381,598
Due to other governments	6,764	-	6,764
Due to other funds	-	33,776	33,776
Accrued interest payable	9,875	-	9,875
Deferred revenue:			
Succeeding year property tax	1,106,027	-	1,106,027
Other	16,351	-	16,351
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	105,000	-	105,000
Early retirement	14,393	-	14,393
Portion due after one year:			
General obligation bonds	1,285,000	-	1,285,000
Net OPEB liability	34,410	2,590	37,000
Total liabilities	2,977,150	50,349	3,027,499
Net assets			
Invested in capital assets, net of related debt	1,899,273	12,031	1,911,304
Restricted for:			
Categorical funding	71,637	-	71,637
Management levy	62,523	-	62,523
Physical plant and equipment levy	42,388	-	42,388
School infrastructure	139,925	-	139,925
Debt service	12,900	-	12,900
Other special revenue purposes	30,684	-	30,684
Unrestricted	702,633	(29,790)	672,843
Total net assets	\$ 2,961,963	(17,759)	2,944,204

See notes to financial statements.

Statement of Activities

Year ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,397,093	109,217	573,458	-	(714,418)	-	(714,418)
Special instruction	545,051	23,850	141,127	-	(380,074)	-	(380,074)
Other instruction	561,778	86,181	878	-	(474,719)	-	(474,719)
	<u>2,503,922</u>	<u>219,248</u>	<u>715,463</u>	<u>-</u>	<u>(1,569,211)</u>	<u>-</u>	<u>(1,569,211)</u>
Support services:							
Student	32,308	-	-	-	(32,308)	-	(32,308)
Instructional staff	85,969	-	-	-	(85,969)	-	(85,969)
Administration	425,708	-	-	-	(425,708)	-	(425,708)
Operation and maintenance of plant	209,646	-	-	-	(209,646)	-	(209,646)
Transportation	206,031	-	-	-	(206,031)	-	(206,031)
	<u>959,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(959,662)</u>	<u>-</u>	<u>(959,662)</u>
Non-instructional programs	348	-	-	-	(348)	-	(348)
Other expenditures:							
Facilities acquisition	5,842	-	-	265	(5,577)	-	(5,577)
Long-term debt interest	63,242	-	43	-	(63,199)	-	(63,199)
AEA flowthrough	142,824	-	142,824	-	-	-	-
Depreciation (unallocated)*	81,299	-	-	-	(81,299)	-	(81,299)
	<u>293,207</u>	<u>-</u>	<u>142,867</u>	<u>265</u>	<u>(150,075)</u>	<u>-</u>	<u>(150,075)</u>
Total governmental activities	3,757,139	219,248	858,330	265	(2,679,296)	-	(2,679,296)
Business type activities:							
Non-instructional programs:							
Food service operations	156,052	55,549	90,743	-	-	(9,760)	(9,760)
Total	<u>\$ 3,913,191</u>	<u>274,797</u>	<u>949,073</u>	<u>265</u>	<u>(2,679,296)</u>	<u>(9,760)</u>	<u>(2,689,056)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 1,025,546	-	1,025,546
Debt service					94,408	-	94,408
Capital outlay					17,964	-	17,964
Statewide sales, services and use tax					184,541	-	184,541
Income surtax					116,974	-	116,974
Unrestricted state grants					1,421,189	-	1,421,189
Unrestricted investment earnings					25,585	22	25,607
Other					54,933	-	54,933
Total general revenues					<u>2,941,140</u>	<u>22</u>	<u>2,941,162</u>
Change in net assets					261,844	(9,738)	252,106
Net assets beginning of year					2,700,119	(8,021)	2,692,098
Net assets end of year					<u>\$ 2,961,963</u>	<u>(17,759)</u>	<u>2,944,204</u>

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

See notes to financial statements.

Balance Sheet
Governmental Funds

June 30, 2010

	General	Nonmajor	Total
Assets			
Cash and pooled investments	\$ 958,795	251,859	1,210,654
Receivables:			
Property tax:			
Delinquent	26,155	5,650	31,805
Succeeding year	947,033	158,994	1,106,027
Accounts	1,178	-	1,178
Due from other funds	37,095	12,125	49,220
Due from other governments	174,339	35,758	210,097
Total assets	\$ 2,144,595	464,386	2,608,981
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 16,221	12,284	28,505
Salaries and benefits payable	368,051	-	368,051
Due to other governments	5,395	1,369	6,764
Due to other funds	12,125	3,319	15,444
Deferred revenue:			
Succeeding year property tax	947,033	158,994	1,106,027
Other	129,186	-	129,186
Total liabilities	1,478,011	175,966	1,653,977
Fund balances:			
Reserved for:			
Categorical funding	71,637	-	71,637
Debt service	-	12,900	12,900
Unreserved, reported in:			
General fund	594,947	-	594,947
Special revenue fund	-	135,595	135,595
Capital projects fund	-	139,925	139,925
Total fund balances	666,584	288,420	955,004
Total liabilities and fund balances	\$ 2,144,595	464,386	2,608,981

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, 2010

Total fund balances of governmental funds (page 20)	\$ 955,004
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,289,273
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.	53,529
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	112,835
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.	(9,875)
Long-term liabilities, including bonds payable, early retirement payable and other post employment benefits payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(1,438,803)</u>
Net assets of governmental activities (page 18)	<u><u>\$ 2,961,963</u></u>

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, 2010

	General	Nonmajor	Total
Revenues:			
Local sources:			
Local tax	\$ 1,008,090	386,686	1,394,776
Tuition	123,082	-	123,082
Other	85,361	86,629	171,990
State sources	1,896,360	-	1,896,360
Federal sources	383,115	-	383,115
Total revenues	3,496,008	473,315	3,969,323
Expenditures:			
Current:			
Instruction:			
Regular	1,370,672	30,351	1,401,023
Special	507,553	3,258	510,811
Other	452,815	101,665	554,480
	2,331,040	135,274	2,466,314
Support services:			
Student	32,051	257	32,308
Instructional staff	77,575	254	77,829
Administration	395,946	50,895	446,841
Operation and maintenance of plant	159,535	64,174	223,709
Transportation	166,833	16,003	182,836
	831,940	131,583	963,523
Non-instructional programs	-	348	348
Other expenditures:			
Facilities acquisition	-	5,842	5,842
Long-term debt:			
Principal	-	100,000	100,000
Interest and fiscal charges	-	63,880	63,880
AEA flowthrough	142,824	-	142,824
	142,824	169,722	312,546
Total expenditures	3,305,804	436,927	3,742,731
Excess (deficiency) of revenues over (under) expenditures	190,204	36,388	226,592
Other financing sources (uses):			
Sale of capital assets	5,000	-	5,000
Operating transfers in	-	68,133	68,133
Operating transfers out	-	(68,133)	(68,133)
Total other financing sources (uses)	5,000	-	5,000
Net change in fund balances	195,204	36,388	231,592
Fund balances beginning of year	471,380	252,032	723,412
Fund balances end of year	\$ 666,584	288,420	955,004

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, 2010

Net change in fund balances - total governmental funds (page 22) **\$ 231,592**

***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	\$ 65,060	
Depreciation expense	<u>(154,340)</u>	(89,280)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. (9,955)

Income surtax is not collected until several months after year end and is not considered available revenue and is deferred in the governmental funds. 44,660

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. 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. 638

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:

Early retirement	16,561	
Other postemployment benefits	<u>(34,410)</u>	(17,849)

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. 2,038

Change in net assets of governmental activities (page 19) **\$ 261,844**

See notes to financial statements.

Statement of Net Assets
Proprietary Funds

June 30, 2010

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	Nonmajor Enterprise Fund - School Nutrition	Internal Service - HRA
Assets		
Cash and cash equivalents	\$ 17,502	56,303
Inventories	3,057	-
Capital assets, net of accumulated depreciation	12,031	-
Total assets	<u>32,590</u>	<u>56,303</u>
Liabilities		
Accounts payable	436	2,774
Salaries and benefits payable	13,547	-
Due to other funds	33,776	-
Net OPEB liability	2,590	-
Total liabilities	<u>50,349</u>	<u>2,774</u>
Net Assets		
Invested in capital assets	12,031	-
Unrestricted	<u>(29,790)</u>	<u>53,529</u>
Total net assets	<u>\$ (17,759)</u>	<u>53,529</u>

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, 2010

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	<u>Nonmajor Enterprise Fund School Nutrition</u>	<u>Internal Service - HRA</u>
Operating revenues:		
Local sources:		
Charges for service	\$ 55,549	-
Employer contributions	-	22,662
Total operating revenue	<u>55,549</u>	<u>22,662</u>
Operating expenses:		
Non-instructional programs:		
Salaries	41,236	-
Benefits	31,231	-
Purchased services	4,036	-
Supplies	76,678	-
Other	-	20,624
Depreciation	2,871	-
Total operating expenses	<u>156,052</u>	<u>20,624</u>
Operating income (loss)	<u>(100,503)</u>	<u>2,038</u>
Non-operating revenues:		
State sources	1,633	-
Federal sources	89,110	-
Interest income	22	-
Total non-operating revenues	<u>90,765</u>	<u>-</u>
Net income (loss)	(9,738)	2,038
Net assets beginning of year	<u>(8,021)</u>	<u>51,491</u>
Net assets end of year	<u>\$ (17,759)</u>	<u>53,529</u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit I

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2010

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	<u>Nonmajor Enterprise Fund School Nutrition</u>	<u>Internal Service - HRA</u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 55,549	-
Cash received from miscellaneous operating activities	-	22,663
Cash paid to employees for services	(71,318)	-
Cash paid to suppliers for goods and services	(68,518)	(20,352)
Net cash provided (used) by operating activities	<u>(84,287)</u>	<u>2,311</u>
Cash flows from non-capital financing activities:		
State grants received	1,633	-
Federal grants received	76,320	-
Net cash provided by non-capital financing activities	<u>77,953</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	-	-
Cash flows from investing activities:		
Interest on investments	22	-
Net increase (decrease) in cash and cash equivalents	(6,312)	2,311
Cash and cash equivalents beginning of year	23,814	53,992
Cash and cash equivalents end of year	<u>\$ 17,502</u>	<u>56,303</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (100,503)	2,038
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Commodities used	12,791	-
Depreciation	2,871	-
(Increase) in inventories	(1,003)	-
Increase (Decrease) in accounts payable	(2,272)	273
Increase in salaries and benefits payable	1,239	-
Increase in other postemployment benefits	2,590	-
Net cash provided (used) by operating activities	<u>\$ (84,287)</u>	<u>2,311</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received \$12,791 of federal commodities.

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2010

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Assets	
Cash and pooled investments	<u>\$ 12,151</u>
Total assets	<u>12,151</u>
Liabilities	
	<u>-</u>
Net Assets	
Reserved for scholarships	<u>\$ 12,151</u>

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, 2010

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest income	<u>\$ 14</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u> 1,500</u>
Change in net assets	(1,486)
Net assets beginning of year	<u> 13,637</u>
Net assets end of year	<u><u> \$ 12,151</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Notes to Financial Statements

June 30, 2010

(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 in 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. The 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 the following 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 though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

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 District reports the following non-major proprietary funds:

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the health reimbursement account (HRA) monies. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

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

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

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

Capital Assets – Capital assets, which include property, furniture and equipment and intangibles 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
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated/amortized 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
Intangibles	5-10 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 and unspent grant proceeds.

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 District had no compensated absence liability at June 30, 2010.

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, 2010, expenditures did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2010 were not entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust in the Diversified Portfolio Fund which are valued at an amortized costs of \$43,235 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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, 2010 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 3,085
	Debt Service	234
	Proprietary: School Nutrition	<u>33,776</u>
		<u>37,095</u>
Special Revenue: Management Levy		2,812
Physical Plant and Equipment Levy		4,881
Capital Projects	General	<u>4,432</u>
		<u>12,125</u>
	Total	<u>\$ 49,220</u>

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, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 68,133</u>
	Total	<u>\$ 68,133</u>

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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. N.A. is the trustee for the program.

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. 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. The interest rates on the Series 2009-10B warrants is a variable rate, calculated daily based upon Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year	Interest Payable
2009-10A	6/25/2009	6/23/2010	\$ -	25,000	25,000	-	-
2009-10B	2/1/2010	1/21/2011	-	-	-	-	-
			<u>\$ -</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>

During the year ended June 30, 2010, the District paid \$0 of interest on the ISCAP warrants.

(6) **Capital Assets**

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

	Balance Beginning of Year, as restated	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 13,925	-	-	13,925
Total capital assets not being depreciated	<u>13,925</u>	<u>-</u>	<u>-</u>	<u>13,925</u>
Capital assets being depreciated:				
Buildings	4,059,700	-	-	4,059,700
Improvements other than buildings	228,212	-	-	228,212
Furniture and equipment	962,222	65,060	31,853	995,429
Total capital assets being depreciated	<u>5,250,134</u>	<u>65,060</u>	<u>31,853</u>	<u>5,283,341</u>
Less accumulated depreciation for:				
Buildings	1,121,632	81,299	-	1,202,931
Improvements other than buildings	141,672	6,103	-	147,775
Furniture and equipment	612,247	66,938	21,898	657,287
Total accumulated depreciation	<u>1,875,551</u>	<u>154,340</u>	<u>21,898</u>	<u>2,007,993</u>
Total capital assets being depreciated, net	<u>3,374,583</u>	<u>(89,280)</u>	<u>(9,955)</u>	<u>3,275,348</u>
Governmental activities capital assets, net	<u>\$ 3,388,508</u>	<u>(89,280)</u>	<u>(9,955)</u>	<u>3,289,273</u>
Business type activities:				
Furniture and equipment	\$ 51,495	-	-	51,495
Less accumulated depreciation	36,592	2,872	-	39,464
Business type activities capital assets, net	<u>\$ 14,903</u>	<u>(2,872)</u>	<u>-</u>	<u>12,031</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 4,464
Special	30,910
Other	2,858

Support services:

Administration	3,012
Operation and maintenance of plant	10,797
Transportation	<u>21,000</u>

73,041

Unallocated 81,299

Total depreciation expense - governmental activities \$ 154,340

Business type activities:

Food service operations \$ 2,872

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,490,000	-	100,000	1,390,000	105,000
Early retirement	30,954	-	16,561	14,393	14,393
Net OPEB liability	-	34,410	-	34,410	-
Total	\$ 1,520,954	34,410	116,561	1,438,803	119,393

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ -	2,590	-	2,590	-
Total	\$ -	2,590	-	2,590	-

General Obligation Bonds

Details of the District's June 30, 2010 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
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	3.96%	110,000	22,968	4.80%	10,000	18,458	120,000	41,426	161,426
2016-2020	3.96%	470,000	47,520	4.90-5.00%	210,000	82,470	680,000	129,990	809,990
2021	-	-	-	5.00%	150,000	7,500	150,000	7,500	157,500
Total		\$ 980,000	202,554		\$ 410,000	186,860	1,390,000	389,414	1,779,414

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, 2010, the District has obligations to two participants with a total liability of \$14,393. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$13,512. During the year ended June 30, 2010, the District recalculated its early retirement obligations and determined that \$3,049 of its early retirement obligations would not be paid to a retired employee. 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 \$12,600. Future minimum lease payments in relation to this lease are as follows:

Year Ending June 30	Amount
2011	\$ 12,600
2012	12,600
2013	12,600
2014	12,600
Total	\$ 50,400

(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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$127,719, \$129,621 and \$117,654, respectively, equal to the required contributions for each year.

(10) **Other Postemployment Benefits (OPEB)**

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 56 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Coventry. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 49,000
Contributions made	<u>(12,000)</u>
Increase in net OPEB obligation	37,000
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 37,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$12,000 to the medical plan. Plan members eligible for benefits contributed \$54,343, or 17% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 49,000	24.5%	\$ 37,000

Funded Status and Funding Progress - As of July 1, 2000, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$323,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$323,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,000,000 and the ratio of the UAAL to covered payroll was 16.15%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the projected unit credit cost actuarial cost method was used. The actuarial assumptions includes a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. A modest employee turnover rate was assumed for active employees. The assumed rate of retirement was determined by attained age after becoming eligible to retire and continuing health coverage.

Projected claim costs of the medical plan are \$814 per month for retirees less than age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(11) 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.

(12) 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 \$142,824 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(13) Restatement

The capital asset note to the financial statements, note 6, was increased by \$11,477. Furniture and equipment, and the related accumulated depreciation beginning balances were both increased by \$11,477 as of July 1, 2009.

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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Less Funds Not Required to be Budgeted	Net	Budget Amounts	Budget to Net Variance
Revenues:							
Local sources	\$ 1,689,848	78,233	1,768,081	(22,662)	1,745,419	2,067,551	(322,132)
State sources	1,896,360	1,633	1,897,993	-	1,897,993	2,327,252	(429,259)
Federal sources	383,115	89,110	472,225	-	472,225	284,000	188,225
Total revenues	3,969,323	168,976	4,138,299	(22,662)	4,115,637	4,678,803	(563,166)
Expenditures / Expenses:							
Instruction	2,466,314	-	2,466,314	-	2,466,314	3,082,234	615,920
Support services	963,523	-	963,523	-	963,523	1,326,940	363,417
Non-instructional programs	348	176,676	177,024	(20,624)	156,400	163,000	6,600
Other expenditures	312,546	-	312,546	-	312,546	359,294	46,748
Total expenditures/expenses	3,742,731	176,676	3,919,407	(20,624)	3,898,783	4,931,468	1,032,685
Excess (deficiency) of revenues over (under) expenditures/expenses	226,592	(7,700)	218,892	(2,038)	216,854	(252,665)	469,519
Other financing sources, net	5,000	-	5,000	-	5,000	500	4,500
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	231,592	(7,700)	223,892	(2,038)	221,854	(252,165)	474,019
Balances beginning of year	723,412	43,470	766,882	(51,491)	715,391	270,429	444,962
Balances end of year	\$ 955,004	35,770	990,774	(53,529)	937,245	18,264	918,981

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting 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 Internal Service, 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 did not adopt a budget amendment.

During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted.

Melcher-Dallas Community School District

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 323	323	0.0%	\$ 2,000	16.15%

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Other Supplementary Information

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2010

	Special Revenue					Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Capital Projects	
Assets						
Cash and pooled investments	\$ 58,571	31,582	43,842	10,495	107,369	251,859
Receivables:						
Property tax:						
Delinquent	2,509	-	502	2,639	-	5,650
Succeeding year	110,000	-	18,516	30,478	-	158,994
Due from other funds	2,812	-	4,881	-	4,432	12,125
Due from other governments	-	-	-	-	35,758	35,758
Total assets	\$ 173,892	31,582	67,741	43,612	147,559	464,386
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ -	898	6,837	-	4,549	12,284
Due to other governments	1,369	-	-	-	-	1,369
Due to other funds	-	-	-	234	3,085	3,319
Deferred revenue:						
Succeeding year property tax	110,000	-	18,516	30,478	-	158,994
Total liabilities	111,369	898	25,353	30,712	7,634	175,966
Fund balances:						
Reserved for debt service	-	-	-	12,900	-	12,900
Unreserved, reported in:						
Special revenue funds	62,523	30,684	42,388	-	-	135,595
Capital projects fund	-	-	-	-	139,925	139,925
Total fund balances	62,523	30,684	42,388	12,900	139,925	288,420
Total liabilities and fund balances	\$ 173,892	31,582	67,741	43,612	147,559	464,386

See accompanying independent auditor's report.

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

Year ended June 30, 2010

	Special Revenue					Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Capital Projects	
Revenues:						
Local sources:						
Local tax	\$ 89,770	-	17,964	94,411	184,541	386,686
Other	36	86,285	54	43	211	86,629
Total revenues	<u>89,806</u>	<u>86,285</u>	<u>18,018</u>	<u>94,454</u>	<u>184,752</u>	<u>473,315</u>
Expenditures:						
Current:						
Instruction:						
Regular	30,351	-	-	-	-	30,351
Special	3,258	-	-	-	-	3,258
Other	3,281	98,384	-	-	-	101,665
Support services:						
Student	257	-	-	-	-	257
Instructional staff	254	-	-	-	-	254
Administration	11,098	-	-	-	39,797	50,895
Operation and maintenance of plant	18,736	-	13,218	-	32,220	64,174
Transportation	7,503	-	-	-	8,500	16,003
Non-instructional programs	348	-	-	-	-	348
Other expenditures:						
Facilities acquisition	-	-	-	-	5,842	5,842
Long-term debt:						
Principal	-	-	-	100,000	-	100,000
Interest and fiscal charges	-	-	-	63,880	-	63,880
Total expenditures	<u>75,086</u>	<u>98,384</u>	<u>13,218</u>	<u>163,880</u>	<u>86,359</u>	<u>436,927</u>
Excess (deficiency) of revenues over (under) expenditures	<u>14,720</u>	<u>(12,099)</u>	<u>4,800</u>	<u>(69,426)</u>	<u>98,393</u>	<u>36,388</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	68,133	-	68,133
Operating transfers out	-	-	-	-	(68,133)	(68,133)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,133</u>	<u>(68,133)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>14,720</u>	<u>(12,099)</u>	<u>4,800</u>	<u>(1,293)</u>	<u>30,260</u>	<u>36,388</u>
Fund balances beginning of year	<u>47,803</u>	<u>42,783</u>	<u>37,588</u>	<u>14,193</u>	<u>109,665</u>	<u>252,032</u>
Fund balances end of year	<u>\$ 62,523</u>	<u>30,684</u>	<u>42,388</u>	<u>12,900</u>	<u>139,925</u>	<u>288,420</u>

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, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Interest	\$ -	353	250	(103)	-
H.S. Athletics	6,186	40,582	44,674	-	2,094
Music	230	-	-	-	230
SADD	342	1,593	850	(46)	1,039
Cheerleaders	26	776	736	-	66
FBLA	1,096	3,463	3,430	-	1,129
Yearbook	8,266	3,044	8,342	-	2,968
FHA	188	172	-	-	360
FFA	2,932	12,497	11,363	-	4,066
Newspaper	125	-	125	-	-
Student Council	10,950	10,321	15,596	-	5,675
Drill Team	3,613	5,074	5,936	-	2,751
Thespian Club	1,017	3,132	2,475	-	1,674
Elementary Student Government	5,876	1,075	1,927	-	5,024
Class of 10	206	15	370	149	-
Class of 11	10	2,658	1,829	-	839
Class of 12	15	-	-	-	15
Jr. High	1,705	1,530	481	-	2,754
Total	\$ 42,783	86,285	98,384	-	30,684

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 Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 1,394,776	1,218,608	1,197,503	1,216,786	1,379,115	1,201,987	934,471
Tuition	123,082	115,752	87,076	37,682	65,376	64,011	43,292
Other	171,990	213,248	228,925	272,977	222,448	139,860	143,103
Intermediate sources	-	-	-	1,000	-	-	-
State sources	1,896,360	2,502,678	2,538,309	2,331,711	2,094,760	2,027,764	2,159,338
Federal sources	383,115	116,884	67,614	165,426	182,962	142,202	111,001
Total	<u>\$ 3,969,323</u>	<u>4,167,170</u>	<u>4,119,427</u>	<u>4,025,582</u>	<u>3,944,661</u>	<u>3,575,824</u>	<u>3,391,205</u>
Expenditures:							
Instruction:							
Regular	\$ 1,401,023	1,447,433	1,547,492	1,369,143	1,363,106	1,338,034	1,427,204
Special	510,811	660,962	624,345	627,223	546,650	570,841	613,493
Other	554,480	390,800	416,425	391,935	369,681	333,797	174,289
Support services:							
Student	32,308	51,738	45,735	53,398	68,468	62,674	45,289
Instructional staff	77,829	42,090	38,563	12,977	48,804	43,767	20,730
Administration	446,841	469,718	556,861	486,116	445,826	392,616	378,676
Operation and maintenance of plant	223,709	326,200	316,465	317,989	299,611	251,233	251,068
Transportation	182,836	171,306	197,068	195,192	203,330	105,591	199,941
Non-instructional programs	348	428	429	414	352	391	-
Other expenditures:							
Facilities acquisition	5,842	380,061	11,950	31,824	-	10,383	177,009
Long-term debt:							
Principal	100,000	100,000	90,000	80,000	75,754	70,665	65,586
Interest and other charges	63,880	68,199	92,507	86,525	90,724	95,953	98,519
AEA flowthrough	142,824	137,704	134,635	130,293	124,015	123,819	127,839
Total	<u>\$ 3,742,731</u>	<u>4,246,639</u>	<u>4,072,475</u>	<u>3,783,029</u>	<u>3,636,321</u>	<u>3,399,764</u>	<u>3,579,643</u>

See accompanying 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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 15, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-10, I-B-10, I-D-10 and I-E-10 to be material weaknesses.

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

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, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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, and 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

January 15, 2011

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-10 **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. Also vouchers are processed, disbursements are recorded and checks are prepared by the same person.

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-10 **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-10 **Disbursements** – General Fund and 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.

Recommendation – For payments made in advance of Board meetings, the District should maintain documentation of the Board President's approval of claims for payment.

Response – We will implement this recommendation.

Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2010

I-D-10 Accounting Records/Financial Statements – Several transactions were improperly recorded on the general ledger. For example, some interfund loans were shown as revenues and expenditures on the accounting records. This is not appropriate pursuant to generally accepted accounting principles. Other instances were noted where the cash balances in the bank did not reconcile with the cash balances recorded on the books. 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 and classify all transactions. Even though the Board approves the monthly financial statements, District management and the Board either do not review these financial statements, or have the expertise needed in either to perform an adequate review of the financial statements.

Recommendation – Procedures should be implemented to ensure all transactions are properly recorded on the general ledger. Also, adequate documentation should be maintained for all journal entries. In addition procedures should be implemented to ensure the monthly financial statements approved by the Board are materially accurate.

Response – We will implement these recommendations.

Conclusion – Response accepted.

I-E-10 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 noted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget – Expenditures for the year ended June 30, 2010 did not exceed the amounts budgeted.
- II-B-10 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-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-10 Business Transactions – No business transactions between the District and District officials or employees were noted.
- II-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-10 Board Minutes – For General Fund and 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.

There are no procedures in place to determine which invoices are actually approved by the Board.

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 implement procedures which documents the invoices actually approved by the Board.

Response – We will implement these recommendations.

Conclusion – Response accepted

- II-G-10 Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-H-09 Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-10 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, 2010, 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.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2010

II-J-10 Certified Annual Report – The Certified Annual Report was timely certified to the State of Iowa. However, we noted material variances in the amounts reported.

Recommendation – The District should contact the Iowa Department of Education to resolve this situation.

Response – We have contacted the Department of Education and will make adjustments through the certified annual report for the next fiscal year.

Conclusion – Response accepted.

II-K-10 Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds. However, the District did not record revenues and expenditures related to categorical funding until the end of the fiscal year. The Department of Education requires that all categorical funding be recorded to specific account codes. Since the District did not record categorical funding to specific account codes during the year, it appears the District is not in compliance with the Department of Education requirements. In addition, for several of the categorical funding programs, the District is unable to document the specific costs paid for with categorical funding receipts. This procedure does not appear to be in compliance with the Department of Education requirements.

Recommendation – The District should consult the Iowa Department of Education regarding corrective action to be taken.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-L-10 Statewide Sales, Services and Use Tax – No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2010

Beginning balance		\$ 109,665
Statewide sales, services and use tax revenue	\$ 184,541	
Interest on investments	<u>211</u>	184,752
Expenditures/transfers out:		
School infrastructure:		
Land	-	
Buildings	522	
Equipment	80,437	
Other improvements	5,400	
Debt service for school infrastructure:		
General obligation debt	<u>68,133</u>	<u>154,492</u>
Ending balance		<u>\$ 139,925</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 1.2484	\$ 68,133
Physical plant and equipment levy	2.1330	116,408

II-M-10 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-N-09 General Fixed Assets – The general fixed asset records kept by the District are materially inaccurate. As a result, the District is unable to perform an adequate physical inventory of general fixed assets.

Recommendation – An accurate general fixed asset listing should be completed. Fixed assets should then be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets, and who does not maintain the fixed asset records.

Response – We will implement these recommendations.

Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2010

II-O-10 **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 2010	Early Retirement Benefits 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	30,365	7,330	37,695	37,695	-
C	39,444	7,063	46,507	36,325	10,182
	\$ 113,359	14,393	127,752	110,345	17,407

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 \$17,000 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.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2010

Response – In fiscal year 2010, we discontinued what the District was paying to the HSA account on behalf of Mr. Elliott (Employee C).

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. Furthermore, it appears the District still overpaid Employee A and C in excess of \$17,000, regardless of the explanation provided by the District.

- II-P-10 **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-Q-10 **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-R-10 **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.

The District issues admission tickets for athletic events. However, at the conclusion of the event it appears the District just determines how many admission tickets should have been issued based on the amount of money collected for that event. This practice defeats the entire control of issuing admission tickets for athletic events, and reconciling the monies on hand with the dollar value of admission tickets issued.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2010

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. The District should also properly issue admission tickets for athletic events.

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

Conclusion – Response accepted.

- II-S-10 **Compliance Issues** – Maintenance costs on equipment were changed to the physical plant and equipment levy fund and the capital projects 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. A 1099-Misc. form was not issued as required by IRS regulations. A W4 form for an employee could not be located. In some cases, the District could not verify the educational credits of teachers. The amount of educational credits is a factor in the amount of compensation paid to teachers.

Recommendation – The District should insure that all disbursements from the physical plant and equipment levy fund and the capital projects fund are for allowable purposes. 1099-Misc. forms should be issued as required, W4 forms should be obtained for all employees, and that educational credits of teachers be verified to ensure the amount of compensation paid to teachers is accurate.

Response – We will do this.

Conclusion – Response accepted.

- II-T-10 **Construction Project** – On a building demolition project, 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, which could have amounted to several thousand dollars due to the District.

Recommendation – The District 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.

- II-U-10 **Nutrition Fund** – The Nutrition Fund had a deficit balance of \$17,759 at June 30, 2010.

The District does not perform an analysis of its Nutrition Fund general ledger accounting records. As a result, the District does not reconcile the general ledger records with the data recorded on the Nutrition software accounting system. Therefore, there is less assurance that all Nutrition Fund receipts are accounted for properly.

Recommendation – The District take action to return this fund to a positive balance, and implement procedures to reconcile the Nutrition Fund general ledger with the data recorded on the Nutrition software accounting system.

Response – We will review the above, and take action as necessary.

Conclusion – Response accepted.