

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

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

June 30, 2011

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

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Melcher-Dallas Community School District

Officials

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

Melcher-Dallas Community School District

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CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
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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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principals.

In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2012 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 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 seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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

April 20, 2012

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

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,501,008 in fiscal year 2010 to \$3,483,529 in FY 2011, and General Fund expenditures increased from \$3,305,804 in FY 2010 to \$3,334,272 in FY 2011. The District's General Fund balance increased from \$666,584 at the end of FY 2010 to \$815,841 at the end of FY 2011, an increase of 22%.
- The decrease in General Fund revenues was attributable to a significant decrease in federal funds, as well as less money received from the State due to declining enrollment the past several years. The increase in expenditures was primarily due to additional supply purchases and technology services.

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.

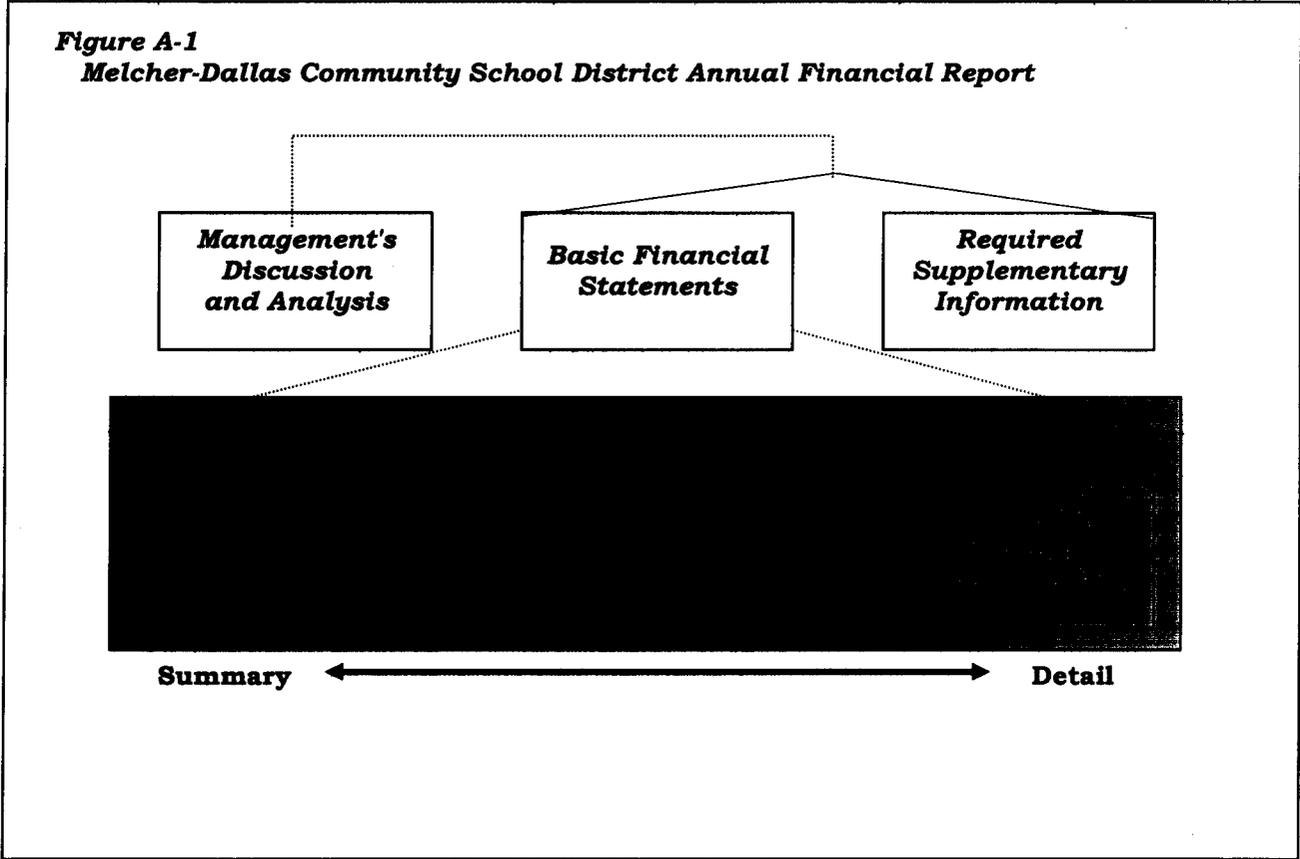


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, 2011 compared to June 30, 2010.

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,
	2011	2010	2011	2010	2011	2010	2010-2011
Current and other assets	\$ 2,855	2,650	30	21	2,885	2,671	8.0%
Capital assets	3,228	3,289	9	12	3,237	3,301	-1.9%
Total assets	<u>6,083</u>	<u>5,939</u>	<u>39</u>	<u>33</u>	<u>6,122</u>	<u>5,972</u>	<u>2.5%</u>
Long-term liabilities	1,350	1,438	5	3	1,355	1,441	-6.0%
Other liabilities	1,549	1,539	56	47	1,605	1,586	1.2%
Total liabilities	<u>2,899</u>	<u>2,977</u>	<u>61</u>	<u>50</u>	<u>2,960</u>	<u>3,027</u>	<u>-2.2%</u>
Net assets							
Invested in capital assets, net of related debt	1,943	1,899	9	12	1,952	1,911	2.1%
Restricted	452	360	-	-	452	360	25.6%
Unrestricted	789	703	(31)	(29)	758	674	12.5%
Total net assets	<u>\$ 3,184</u>	<u>2,962</u>	<u>(22)</u>	<u>(17)</u>	<u>3,162</u>	<u>2,945</u>	<u>7.4%</u>

The District's combined net assets increased by 7.4%, or approximately \$217,000 over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), 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 \$92,000, or 25.6% over the prior year. The increase was primarily a result of an increase in net assets restricted for categorical funding and an increase in net assets restricted for management levy purposes.

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 \$84,000, or 12.5%. The increase in unrestricted net assets was primarily the result of an increase in the net assets in the General Fund.

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

Figure A-4							
Change in Net Assets							
(Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2011	2010	2011	2010	2011	2010	2010-2011
Revenues							
Program revenues:							
Charges for service	\$ 204	219	56	56	260	275	-5.5%
Operating grants, contributions and restricted interest	657	859	89	91	746	950	-21.5%
Capital grants, contributions and restricted interest	-	-	-	-	-	-	0.0%
General revenues:							
Property tax	1,105	1,138	-	-	1,105	1,138	-2.9%
Income surtax	107	117	-	-	107	117	-8.5%
Statewide sales, services and use tax	215	184	-	-	215	184	16.8%
Unrestricted state grants	1,572	1,421	-	-	1,572	1,421	10.6%
Unrestricted investment earnings	2	26	-	-	2	26	-92.3%
Other	86	55	-	-	86	55	56.4%
Total revenues	3,948	4,019	145	147	4,093	4,166	-1.8%
Program expenses:							
Governmental activities:							
Instruction	2,414	2,504	-	-	2,414	2,504	-3.6%
Support services	1,029	960	-	-	1,029	960	7.2%
Non-instructional programs	-	-	150	156	150	156	-3.8%
Other expenses	283	293	-	-	283	293	-3.4%
Total expenses	3,726	3,757	150	156	3,876	3,913	-0.9%
Increase (decrease) in net assets	222	262	(5)	(9)	217	253	-14.2%
Net assets beginning of year	2,962	2,700	(17)	(8)	2,945	2,692	9.4%
Net assets end of year	\$ 3,184	2,962	(22)	(17)	3,162	2,945	7.4%

In fiscal 2011, property tax and unrestricted state grants accounted for 67.8% of governmental activities revenue while charges for service and operating grants, contributions and restricted interest accounted for 100% of business type activities revenue.

The District's total revenues were approximately \$4.1 million, of which approximately \$3.95 million was for governmental activities and approximately \$145,000 for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.8% decrease in revenues and a .9% decrease in expenses. The property tax rate for fiscal 2011 was \$19.662/\$1,000 representing an decrease of approximately \$.05/\$1,000 from the fiscal 2010 rate of \$19.712/\$1,000. With declining enrollments, the District has made reductions in its workforce.

Governmental Activities

Revenues for governmental activities were \$3,948,963 and expenses were \$3,727,116 for the year ended June 30, 2011. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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, 2011 compared to the year ended June 30, 2010.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-2011	2011	2010	Change 2010-2011
Instruction	\$ 2,414	2,504	-3.6%	1,695	1,569	8.0%
Support services	1,029	960	7.2%	1,029	960	7.2%
Non-instructional programs	-	-	0.0%	-	-	0.0%
Other expenses	283	293	-3.4%	142	150	-5.3%
Total	<u>\$ 3,726</u>	<u>3,757</u>	<u>-0.8%</u>	<u>2,866</u>	<u>2,679</u>	<u>7.0%</u>

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$204,364.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$656,746.
- The net cost of governmental activities was financed with \$1,428,118 in property and other taxes and \$1,571,804 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$146,283 representing a -.02% decrease under the prior year while expenses totaled \$149,869, a 3.96% 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 \$1,136,428, well above last years ending fund balances of \$955,004. The increase in the combined fund balances at the end fiscal year 2011 is due to an approximate \$149,000 increase in the General Fund.

Governmental Fund Highlights

- The District's increasing General Fund financial position is the result of many factors. An increase in local and state 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 2011.
- The General Fund balance increased from \$666,584 to \$815,841. This represents a \$149,257 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 Capital Projects, Physical Plant and Equipment Levy (PPEL) Fund balance decreased by \$4,759 from fiscal 2010 to fiscal 2011. 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 2011. Total revenue in this fund is around \$18,000.
- In regards to the Capital Projects, Statewide Sales, Services and Use Tax Fund, we began receiving revenue from this source in fiscal 2005. In this fund, total revenue for the year was \$215,623 and expenditures were \$86,830. In addition, the District transferred \$125,204 of these funds in fiscal 2011 to the Debt Service Fund, and these funds were used 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, 2011 were \$146,283, while expenses totaled \$149,869, representing a \$3,586 decrease for the year. In relation to the school nutrition program, the District entered into an agreement with Knoxville Community School District 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 2010-11 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 ala carte. The district continued an agreement with Knoxville Community School District for Food Service Management and Food Purchasing.

BUDGETARY HIGHLIGHTS

The District's total revenues were \$268,910 less than total budgeted revenues, a variance of approximately 6%.

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, 2011, the District had invested, net of accumulated depreciation, \$3.2 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 1.9% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$162,728.

The original cost of the District's capital assets was \$5.4 million. Governmental funds account for \$5.3 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,
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 14	14	-	-	14	14	0.0%
Buildings	2,779	2,857	-	-	2,779	2,857	-2.7%
Improvements other than buildings	84	80	-	-	84	80	5.0%
Furniture and equipment	351	338	9	12	360	350	2.9%
Total assets	\$ 3,228	3,289	9	12	3,237	3,301	-1.9%

Long-Term Debt

At June 30, 2011, the District had \$1,355,291 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 6.0% 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,
	2011	2010	2010-2011
General obligation bonds	\$ 1,285	1,390	-7.6%
Early retirement	-	14	-100.0%
Net OPEB liability	70	37	89.2%
Total	\$ 1,355	1,441	-6.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District experienced a decrease in enrollment for the 2011-2012 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. Under Iowa's school funding formula, District funding is highly dependent upon District enrollment.
- 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 2012, effective with the 2012-13 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.

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, 2011

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,357,950	23,575	1,381,525
Receivables:			
Property tax:			
Delinquent	36,868	-	36,868
Succeeding year	1,148,219	-	1,148,219
Accounts	21,677	-	21,677
Due from other funds	44,776	-	44,776
Due from other governments	245,158	-	245,158
Inventories	-	6,678	6,678
Capital assets, net of accumulated depreciation	3,228,318	9,160	3,237,478
Total assets	6,082,966	39,413	6,122,379
Liabilities			
Accounts payable	17,326	-	17,326
Salaries and benefits payable	343,333	11,062	354,395
Due to other governments	26,844	-	26,844
Due to other funds	-	44,776	44,776
Accrued interest payable	9,147	-	9,147
Deferred revenue:			
Succeeding year property tax	1,148,219	-	1,148,219
Other	3,916	-	3,916
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	110,000	-	110,000
Portion due after one year:			
General obligation bonds	1,175,000	-	1,175,000
Net OPEB liability	65,371	4,920	70,291
Total liabilities	2,899,156	60,758	2,959,914
Net assets			
Invested in capital assets, net of related debt	1,943,318	9,160	1,952,478
Restricted for:			
Categorical funding	131,350	-	131,350
Management levy purposes	103,961	-	103,961
Physical plant and equipment	37,629	-	37,629
School infrastructure	143,514	-	143,514
Student activities	31,899	-	31,899
Debt service	3,584	-	3,584
Unrestricted	788,555	(30,505)	758,050
Total net assets	\$ 3,183,810	(21,345)	3,162,465

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit B

Statement of Activities
Year ended June 30, 2011

	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	\$ 1,393,212	69,656	434,001	-	(889,555)	-	(889,555)
Special instruction	545,231	54,884	75,665	-	(414,682)	-	(414,682)
Other instruction	476,073	79,824	5,344	-	(390,905)	-	(390,905)
	<u>2,414,516</u>	<u>204,364</u>	<u>515,010</u>	<u>-</u>	<u>(1,695,142)</u>	<u>-</u>	<u>(1,695,142)</u>
Support services:							
Student	37,383	-	-	-	(37,383)	-	(37,383)
Instructional staff	71,045	-	-	-	(71,045)	-	(71,045)
Administration	470,804	-	-	-	(470,804)	-	(470,804)
Operation and maintenance of plant	242,498	-	-	-	(242,498)	-	(242,498)
Transportation	207,155	-	131	-	(207,024)	-	(207,024)
	<u>1,028,885</u>	<u>-</u>	<u>131</u>	<u>-</u>	<u>(1,028,754)</u>	<u>-</u>	<u>(1,028,754)</u>
Non-instructional programs	355	-	-	-	(355)	-	(355)
Other expenditures:							
Facilities acquisition	1,126	-	-	172	(954)	-	(954)
Long-term debt interest	59,258	-	9	-	(59,249)	-	(59,249)
AEA flowthrough	141,596	-	141,596	-	-	-	-
Depreciation (unallocated)*	81,380	-	-	-	(81,380)	-	(81,380)
	<u>283,360</u>	<u>-</u>	<u>141,605</u>	<u>172</u>	<u>(141,583)</u>	<u>-</u>	<u>(141,583)</u>
Total governmental activities	3,727,116	204,364	656,746	172	(2,865,834)	-	(2,865,834)
Business type activities:							
Non-instructional programs:							
Food service operations	149,869	56,530	89,738	-	-	(3,601)	(3,601)
Total	<u>\$ 3,876,985</u>	<u>260,894</u>	<u>746,484</u>	<u>172</u>	<u>(2,865,834)</u>	<u>(3,601)</u>	<u>(2,869,435)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 1,056,316	-	1,056,316
Debt service					30,457	-	30,457
Capital outlay					18,504	-	18,504
Statewide sales, services and use tax					215,452	-	215,452
Income surtax					107,389	-	107,389
Unrestricted state grants					1,571,804	-	1,571,804
Unrestricted investment earnings					1,822	15	1,837
Other					85,937	-	85,937
Total general revenues					<u>3,087,681</u>	<u>15</u>	<u>3,087,696</u>
Change in net assets					221,847	(3,586)	218,261
Net assets beginning of year					2,961,963	(17,759)	2,944,204
Net assets end of year					<u>\$ 3,183,810</u>	<u>(21,345)</u>	<u>3,162,465</u>

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

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2011

	General	Nonmajor	Total
Assets			
Cash and pooled investments	\$ 1,034,986	267,534	1,302,520
Receivables:			
Property tax:			
Delinquent	31,568	5,300	36,868
Succeeding year	966,550	181,669	1,148,219
Accounts	21,677	-	21,677
Due from other funds	48,095	12,125	60,220
Due from other governments	196,137	49,021	245,158
Total assets	\$ 2,299,013	515,649	2,814,662
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 12,188	4,536	16,724
Salaries and benefits payable	343,333	-	343,333
Due to other governments	21,306	5,538	26,844
Due to other funds	12,125	3,319	15,444
Deferred revenue:			
Succeeding year property tax	966,550	181,669	1,148,219
Other	127,670	-	127,670
Total liabilities	1,483,172	195,062	1,678,234
Fund balances:			
Restricted for:			
Categorical funding	131,350	-	131,350
Management levy purposes	-	103,961	103,961
Student activities	-	31,899	31,899
Debt service	-	3,584	3,584
School infrastructure	-	143,514	143,514
Physical plant and equipment	-	37,629	37,629
Unassigned	684,491	-	684,491
Total fund balances	815,841	320,587	1,136,428
Total liabilities and fund balances	\$ 2,299,013	515,649	2,814,662

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, 2011

Total fund balances of governmental funds (page 20) \$ 1,136,428

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 3,228,318

The Internal Service Fund is used by management to charge the costs of funding the District's HRA benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets. 54,828

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 123,754

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. (9,147)

Long-term liabilities, including bonds 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. (1,350,371)

Net assets of governmental activities (page 18) \$ 3,183,810

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, 2011

	General	Nonmajor	Total
Revenues:			
Local sources:			
Local tax	\$ 1,055,295	374,262	1,429,557
Tuition	107,201	-	107,201
Other	87,588	80,252	167,840
State sources	1,995,950	-	1,995,950
Federal sources	237,495	-	237,495
Total revenues	3,483,529	454,514	3,938,043
Expenditures:			
Current:			
Instruction:			
Regular	1,362,714	30,200	1,392,914
Special	521,152	3,200	524,352
Other	385,190	84,030	469,220
	2,269,056	117,430	2,386,486
Support services:			
Student	37,126	257	37,383
Instructional staff	63,405	316	63,721
Administration	438,157	26,671	464,828
Operation and maintenance of plant	222,705	26,677	249,382
Transportation	162,227	84,529	246,756
	923,620	138,450	1,062,070
Non-instructional programs	-	355	355
Other expenditures:			
Facilities acquisition	-	1,126	1,126
Long-term debt:			
Principal	-	105,000	105,000
Interest and fiscal charges	-	59,986	59,986
AEA flowthrough	141,596	-	141,596
	141,596	166,112	307,708
Total expenditures	3,334,272	422,347	3,756,619
Excess of revenues over expenditures	149,257	32,167	181,424
Other financing sources (uses):			
Operating transfers in	-	125,204	125,204
Operating transfers out	-	(125,204)	(125,204)
Total other financing sources (uses)	-	-	-
Net change in fund balances	149,257	32,167	181,424
Fund balances beginning of year, as restated	666,584	288,420	955,004
Fund balances end of year	\$ 815,841	320,587	1,136,428

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, 2011

Net change in fund balances - total governmental funds (page 22) \$ 181,424

*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	\$ 99,042	
Depreciation expense	<u>(159,857)</u>	(60,815)

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. (140)

Certain revenues not collected until several months after year end are not considered available revenue and are deferred in the governmental funds. 10,919

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. 105,000

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 governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 728

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	14,393	
Other postemployment benefits	<u>(30,961)</u>	(16,568)

The Internal Service Fund is used by management to charge the costs of funding the District's HRA benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported in governmental activities. 1,299

Change in net assets of governmental activities (page 19) \$ 221,847

Melcher-Dallas Community School District

Exhibit G

Statement of Net Assets
Proprietary Funds

June 30, 2011

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	Nonmajor Enterprise Fund - School Nutrition	Internal Service - HRA
Assets		
Cash and cash equivalents	\$ 23,575	55,430
Inventories	6,678	-
Capital assets, net of accumulated depreciation	9,160	-
Total assets	<u>39,413</u>	<u>55,430</u>
Liabilities		
Accounts payable	-	602
Salaries and benefits payable	11,062	-
Due to other funds	44,776	-
Net OPEB liability	4,920	-
Total liabilities	<u>60,758</u>	<u>602</u>
Net Assets		
Invested in capital assets	9,160	-
Unrestricted	<u>(30,505)</u>	<u>54,828</u>
Total net assets	<u>\$ (21,345)</u>	<u>54,828</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, 2011

	<u>Business Type Activities Nonmajor Enterprise Fund - School Nutrition</u>	<u>Governmental Activities Internal Service - HRA</u>
Operating revenues:		
Local sources:		
Charges for service	\$ 56,530	-
Employer contributions	-	16,030
Total operating revenue	<u>56,530</u>	<u>16,030</u>
Operating expenses:		
Non-instructional programs:		
Salaries	41,595	-
Benefits	24,067	-
Purchased services	8,075	-
Supplies	73,261	-
Other	-	14,731
Depreciation	2,871	-
Total operating expenses	<u>149,869</u>	<u>14,731</u>
Operating income (loss)	<u>(93,339)</u>	<u>1,299</u>
Non-operating revenues:		
State sources	3,055	-
Federal sources	86,683	-
Interest income	15	-
Total non-operating revenues	<u>89,753</u>	<u>-</u>
Net income (loss)	(3,586)	1,299
Net assets beginning of year	<u>(17,759)</u>	<u>53,529</u>
Net assets end of year	<u>\$ (21,345)</u>	<u>54,828</u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit I

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2011

	<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	\$ 56,530	-
Cash received from miscellaneous operating activities	-	16,030
Cash paid to employees for services	(65,662)	-
Cash paid to suppliers for goods and services	(70,899)	(16,903)
Net cash (used) by operating activities	<u>(80,031)</u>	<u>(873)</u>
Cash flows from non-capital financing activities:		
State grants received	3,055	-
Federal grants received	72,034	-
Net cash provided by non-capital financing activities	<u>75,089</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Increase in due to other funds	11,000	-
Cash flows from investing activities:		
Interest on investments	15	-
Net increase (decrease) in cash and cash equivalents	6,073	(873)
Cash and cash equivalents beginning of year	17,502	56,303
Cash and cash equivalents end of year	<u>\$ 23,575</u>	<u>55,430</u>
Reconciliation of operating income (loss) to net cash (used) by operating activities:		
Operating income (loss)	\$ (93,339)	1,299
Adjustments to reconcile operating income (loss) to net cash (used) by operating activities:		
Commodities used	14,649	-
Depreciation	2,871	-
(Increase) in inventories	(3,621)	-
(Decrease) in accounts payable	(436)	(2,172)
(Decrease) in salaries and benefits payable	(2,485)	-
Increase in other postemployment benefits	2,330	-
Net cash (used) by operating activities	<u>\$ (80,031)</u>	<u>(873)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received \$14,649 of federal commodities.

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2011

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and pooled investments	\$ 11,666
Total assets	<u>11,666</u>
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u>\$ 11,666</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, 2011

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 1,000
Interest income	15
Total additions	<u>1,015</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>1,500</u>
Change in net assets	(485)
Net assets beginning of year	<u>12,151</u>
Net assets end of year	<u><u>\$ 11,666</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Notes to Financial Statements

June 30, 2011

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

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.

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

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

Proprietary funds distinguish operating revenues and expenses from 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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

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

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

Capital Assets – Capital assets, which include property, 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:	
School Nutrition Fund	500
Other	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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds and income surtax, 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, 2011.

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

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

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

Unassigned – All amounts not included in other spendable classifications.

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

(2) **Cash and Pooled Investments**

Because the Board minutes did not document the name of the depository, it is unclear if the District's deposits in banks at June 30, 2011, and at other times during the fiscal year, were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. In addition, prior to October 18, 2010, the District's deposit in banks were not entirely covered by federal depository insurance or by the State Sinking Fund. 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.

(3) Due From and Due to Other Funds

The details of interfund receivables and payables at June 30, 2011 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects: Statewide Sales, Services and Use Tax	\$ 3,085
	Debt Service	234
	Proprietary: School Nutrition	<u>44,776</u>
		<u>48,095</u>
Special Revenue: Management Levy		2,812
Capital Projects: Physical Plant and Equipment Levy		4,881
Statewide Sales, Services and Use Tax	General	<u>4,432</u>
		<u>12,125</u>
Total		<u>\$ 60,220</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, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 125,204</u>
Total		<u>\$ 125,204</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 2010-11A warrants is 1.20% plus the one-month LIBOR rate, adjusted daily. During the year ended June 30, 2011, the District did not borrow any funds from ISCAP.

(6) **Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 13,925	-	-	13,925
Total capital assets not being depreciated	13,925	-	-	13,925
Capital assets being depreciated:				
Buildings	4,059,700	4,049	-	4,063,749
Improvements other than buildings	228,212	10,685	-	238,897
Furniture and equipment	995,429	84,308	72,271	1,007,466
Total capital assets being depreciated	5,283,341	99,042	72,271	5,310,112
Less accumulated depreciation for:				
Buildings	1,202,931	81,380	-	1,284,311
Improvements other than buildings	147,775	6,816	-	154,591
Furniture and equipment	657,287	71,661	72,131	656,817
Total accumulated depreciation	2,007,993	159,857	72,131	2,095,719
Total capital assets being depreciated, net	3,275,348	(60,815)	140	3,214,393
Governmental activities capital assets, net	\$ 3,289,273	(60,815)	140	3,228,318
Business type activities:				
Furniture and equipment	\$ 51,495	-	-	51,495
Less accumulated depreciation	39,464	2,871	-	42,335
Business type activities capital assets, net	\$ 12,031	(2,871)	-	9,160

Depreciation expense was charged to the following functions:

Governmental activities:		
Instruction:		
Regular		\$ 2,341
Special		26,627
Other		2,858
Support services:		
Administration		4,311
Operation and maintenance of plant		11,980
Transportation		30,360
		<u>78,477</u>
Unallocated		<u>81,380</u>
Total depreciation expense - governmental activities		<u>\$ 159,857</u>
Business type activities:		
Food service operations		<u>\$ 2,871</u>

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,390,000	-	105,000	1,285,000	110,000
Early retirement	14,393	-	14,393	-	-
Net OPEB liability	34,410	30,961	-	65,371	-
Total	<u>\$ 1,438,803</u>	<u>30,961</u>	<u>119,393</u>	<u>1,350,371</u>	<u>110,000</u>

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 2,590	2,330	-	4,920	-
Total	<u>\$ 2,590</u>	<u>2,330</u>	<u>-</u>	<u>4,920</u>	<u>-</u>

General Obligation Bonds

Details of the District's June 30, 2011 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
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	3.96%	110,000	18,612	4.90%	15,000	17,978	125,000	36,590	161,590
2017-2021	3.96%	360,000	28,908	4.95-5.00%	345,000	71,992	705,000	100,900	805,900
Total		<u>\$ 885,000</u>	<u>163,746</u>		<u>\$ 400,000</u>	<u>166,582</u>	<u>1,285,000</u>	<u>330,328</u>	<u>1,615,328</u>

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. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$14,393. At June 30, 2011, the District does not owe any monies to any early retirement participants. 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
2012	\$ 12,600
2013	12,600
2014	12,600
Total	<u>\$ 37,800</u>

(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 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$136,082, \$127,719 and \$129,621, respectively, equal to the required contributions for each year.

(10) Other Postemployment Benefits (OPEB)

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. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. 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, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 49,000
Interest on net OPEB obligation	1,665
Adjustment to annual required contribution	<u>(1,374)</u>
Annual OPEB cost	49,291
Contributions made	<u>(16,000)</u>
Increase in net OPEB obligation	33,921
Net OPEB obligation beginning of year	<u>37,000</u>
Net OPEB obligation end of year	<u>\$ 70,291</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, 2011.

For the year ended June 30, 2011, the District contributed \$16,000 to the medical plan. Plan members eligible for benefits contributed \$10,424, or 39% 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, 2011 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 49,000	24.5%	\$ 37,000
June 30, 2011	49,291	32.5%	70,291

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, 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, 2011, 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 \$141,596 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(13) Deficit Fund Balance

The District had a deficit net asset fund balance in the Proprietary, School Nutrition Fund of \$21,345 as of June 30, 2011.

(14) Categorical Funding

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

<u>Program</u>	<u>Amount</u>
At-risk program	\$ 9,542
Returning dropout and dropout prevention program	45,491
Four year old preschool	22,312
Beginning teacher mentoring and induction program	1,844
Teacher salary supplement	36,622
Educator quality, market factor	1,891
Educator quality, model core curriculum	457
Educator quality, professional development	13,191
Total	<u>\$ 131,350</u>

(15) Subsequent Events

The District has evaluated subsequent events through January 15, 2012, which is the date the financial statements were available to be issued.

(16) Accounting Change/Restatement

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

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously reported	\$ 139,925	42,388
Change in fund type classification per implementation of GASB Statement No. 54	42,388	(42,388)
Balances July 1, 2010, as restated	<u>\$ 182,313</u>	<u>-</u>

(17) Litigation

The District is involved in a lawsuit, with the suit filed on September 12, 2011. The probability of loss, if any, is undeterminable.

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, 2011

	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	\$ 1,704,598	72,575	1,777,173	(16,030)	1,761,143	1,954,797	(193,654)
State sources	1,995,950	3,055	1,999,005	-	1,999,005	2,142,439	(143,434)
Federal sources	237,495	86,683	324,178	-	324,178	256,000	68,178
Total revenues	3,938,043	162,313	4,100,356	(16,030)	4,084,326	4,353,236	(268,910)
Expenditures / Expenses:							
Instruction	2,386,486	-	2,386,486	-	2,386,486	2,740,774	354,288
Support services	1,062,070	-	1,062,070	-	1,062,070	1,543,000	480,930
Non-instructional programs	355	164,600	164,955	(14,731)	150,224	290,000	139,776
Other expenditures	307,708	-	307,708	-	307,708	392,553	84,845
Total expenditures/expenses	3,756,619	164,600	3,921,219	(14,731)	3,906,488	4,966,327	1,059,839
Excess (deficiency) of revenues over (under) expenditures/expenses	181,424	(2,287)	179,137	(1,299)	177,838	(613,091)	790,929
Other financing sources, net	-	-	-	-	-	2,000	(2,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	181,424	(2,287)	179,137	(1,299)	177,838	(611,091)	788,929
Balances beginning of year	955,004	35,770	990,774	(53,529)	937,245	827,145	110,100
Balances end of year	\$ 1,136,428	33,483	1,169,911	(54,828)	1,115,083	216,054	899,029

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting 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, 2011, 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%
2011	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, 2011

	Special Revenue				
	Management	Student	Debt Service	Capital	Total
	Levy	Activity		Projects	
Assets					
Cash and pooled investments	\$ 103,020	33,545	2,802	128,167	267,534
Receivables:					
Property tax:					
Delinquent	3,667	-	1,016	617	5,300
Succeeding year	65,000	-	97,334	19,335	181,669
Due from other funds	2,812	-	-	9,313	12,125
Due from other governments	-	-	-	49,021	49,021
Total assets	\$ 174,499	33,545	101,152	206,453	515,649
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	1,646	-	2,890	4,536
Due to other governments	5,538	-	-	-	5,538
Due to other funds	-	-	234	3,085	3,319
Deferred revenue:					
Succeeding year property tax	65,000	-	97,334	19,335	181,669
Total liabilities	70,538	1,646	97,568	25,310	195,062
Fund balances:					
Restricted for:					
Management levy purposes	103,961	-	-	-	103,961
Student activities	-	31,899	-	-	31,899
Debt service	-	-	3,584	-	3,584
School infrastructure	-	-	-	143,514	143,514
Physical plant and equipment	-	-	-	37,629	37,629
Total fund balances	103,961	31,899	3,584	181,143	320,587
Total liabilities and fund balances	\$ 174,499	33,545	101,152	206,453	515,649

See accompanying independent auditor's report.

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

Year ended June 30, 2011

	Special Revenue				Total
	Management	Student	Debt Service	Capital	
	Levy	Activity		Projects	
Revenues:					
Local sources:					
Local tax	\$ 109,926	-	30,457	233,879	374,262
Other	57	79,900	9	286	80,252
Total revenues	109,983	79,900	30,466	234,165	454,514
Expenditures:					
Current:					
Instruction:					
Regular	30,200	-	-	-	30,200
Special	3,200	-	-	-	3,200
Other	2,456	78,685	-	2,889	84,030
Support services:					
Student	257	-	-	-	257
Instructional staff	316	-	-	-	316
Administration	8,686	-	-	17,985	26,671
Operation and maintenance of plant	17,168	-	-	9,509	26,677
Transportation	5,907	-	-	78,622	84,529
Non-instructional programs	355	-	-	-	355
Other expenditures:					
Facilities acquisition	-	-	-	1,126	1,126
Long-term debt:					
Principal	-	-	105,000	-	105,000
Interest and fiscal charges	-	-	59,986	-	59,986
Total expenditures	68,545	78,685	164,986	110,131	422,347
Excess (deficiency) of revenues over (under) expenditures	41,438	1,215	(134,520)	124,034	32,167
Other financing sources (uses):					
Operating transfers in	-	-	125,204	-	125,204
Operating transfers out	-	-	-	(125,204)	(125,204)
Total other financing sources (uses)	-	-	125,204	(125,204)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	41,438	1,215	(9,316)	(1,170)	32,167
Fund balances beginning of year, as restated	62,523	30,684	12,900	182,313	288,420
Fund balances end of year	\$ 103,961	31,899	3,584	181,143	320,587

See accompanying independent auditor's report.

Combining Balance Sheet
Capital Project Accounts

June 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 93,146	35,021	128,167
Receivables:			
Property tax:			
Delinquent	-	617	617
Succeeding year	-	19,335	19,335
Due from other funds	4,432	4,881	9,313
Due from other governments	49,021	-	49,021
Total assets	\$ 146,599	59,854	206,453
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	2,890	2,890
Due to other funds	3,085	-	3,085
Deferred revenue:			
Succeeding year property tax	-	19,335	19,335
Total liabilities	3,085	22,225	25,310
Fund balances:			
Restricted for:			
School infrastructure	143,514	-	143,514
Physical plant and equipment	-	37,629	37,629
Total fund balances	143,514	37,629	181,143
Total liabilities and fund balances	\$ 146,599	59,854	206,453

See accompanying independent auditor's report.

Melcher Dallas Community School District

Schedule 4

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances

Capital Project Accounts

Year ended June 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 215,452	18,427	233,879
Other	171	115	286
Total revenues	215,623	18,542	234,165
Expenditures:			
Current:			
Instruction:			
Other	-	2,889	2,889
Support services:			
Administration	12,800	5,185	17,985
Operation and maintenance of plant	2,277	7,232	9,509
Transportation	70,627	7,995	78,622
Other expenditures:			
Facilities acquisition	1,126	-	1,126
Total expenditures	86,830	23,301	110,131
Excess (deficiency) of revenues over (under) expenditures	128,793	(4,759)	124,034
Other financing sources (uses):			
Operating transfers out	(125,204)	-	(125,204)
Total other financing sources (uses)	(125,204)	-	(125,204)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	3,589	(4,759)	(1,170)
Fund balances beginning of year, as restated	139,925	42,388	182,313
Fund balances end of year	\$ 143,514	37,629	181,143

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 5

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Interest	\$ -	326	250	(76)	-
H.S. Athletics	2,094	33,553	29,121	-	6,526
Music	230	-	-	-	230
SADD	1,039	2,298	2,644	76	769
Cheerleaders	66	2,000	1,900	-	166
FBLA	1,129	5,091	4,319	-	1,901
Yearbook	2,968	4,877	4,755	-	3,090
FHA	360	372	372	-	360
FFA	4,066	11,080	11,424	-	3,722
Student Council	5,675	11,119	10,727	-	6,067
Drill Team	2,751	3,408	5,285	-	874
Thespian Club	1,674	1,972	2,270	-	1,376
Elementary Student Government	5,024	740	2,188	-	3,576
Class of 11	839	1,276	2,115	-	-
Class of 12	15	1,650	1,315	-	350
Class of 14	-	10	-	-	10
Jr. High	2,754	128	-	-	2,882
Total	\$ 30,684	79,900	78,685	-	31,899

See accompanying independent auditor's report.

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

For the Last Eight Years

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$1,429,557	1,394,776	1,218,608	1,197,503	1,216,786	1,379,115	1,201,987	934,471
Tuition	107,201	123,082	115,752	87,076	37,682	65,376	64,011	43,292
Other	167,840	171,990	213,248	228,925	272,977	222,448	139,860	143,103
Intermediate sources	-	-	-	-	1,000	-	-	-
State sources	1,995,950	1,896,360	2,502,678	2,538,309	2,331,711	2,094,760	2,027,764	2,159,338
Federal sources	237,495	383,115	116,884	67,614	165,426	182,962	142,202	111,001
Total	\$3,938,043	3,969,323	4,167,170	4,119,427	4,025,582	3,944,661	3,575,824	3,391,205
Expenditures:								
Instruction:								
Regular	\$1,392,914	1,401,023	1,447,433	1,547,492	1,369,143	1,363,106	1,338,034	1,427,204
Special	524,352	510,811	660,962	624,345	627,223	546,650	570,841	613,493
Other	469,220	554,480	390,800	416,425	391,935	369,681	333,797	174,289
Support services:								
Student	37,383	32,308	51,738	45,735	53,398	68,468	62,674	45,289
Instructional staff	63,721	77,829	42,090	38,563	12,977	48,804	43,767	20,730
Administration	464,828	446,841	469,718	556,861	486,116	445,826	392,616	378,676
Operation and maintenance of plant	249,382	223,709	326,200	316,465	317,989	299,611	251,233	251,068
Transportation	246,756	182,836	171,306	197,068	195,192	203,330	105,591	199,941
Non-instructional programs	355	348	428	429	414	352	391	-
Other expenditures:								
Facilities acquisition	1,126	5,842	380,061	11,950	31,824	-	10,383	177,009
Long-term debt:								
Principal	105,000	100,000	100,000	90,000	80,000	75,754	70,665	65,586
Interest and other charges	59,986	63,880	68,199	92,507	86,525	90,724	95,953	98,519
AEA flowthrough	141,596	142,824	137,704	134,635	130,293	124,015	123,819	127,839
Total	\$3,756,619	3,742,731	4,246,639	4,072,475	3,783,029	3,636,321	3,399,764	3,579,643

See accompanying independent auditor's report.

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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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 20, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 another deficiency we consider to be a significant deficiency.

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

April 20, 2012

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) **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, in some cases, 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.

- (B) **Financial Reporting** – During the audit, we identified material amounts of receivables, payables and revenue not properly 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 revenues are identified and properly included in the District's financial statements.

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

Conclusion – Response accepted.

- (C) **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, 2011

- (D) 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, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Expenditures for the year ended June 30, 2011 did not exceed the amounts budgeted.
- (2) 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.
- (3) 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.
- (4) Business Transactions – No business transactions between the District and District officials or employees were noted.
- (5) 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 ensure that the coverage is adequate for current operations.
- (6) 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.

Salary amounts paid to District employees were not properly published, as required by Chapter 279.35 of the Code of Iowa.

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

One Board meeting claims was not timely published. Chapter 279.35 of the Code of Iowa requires the claims to be published within two weeks of the Board meeting.

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 and salary amounts. The District should also implement procedures which documents the invoices actually approved by the Board. In addition, Board meeting claims should be published within two weeks of the Board meeting.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (7) Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- (8) Supplementary Weighting – Variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

For a shared teacher, the District claimed 1.32 as supplementary weighting. However, based on student counts, the District should have only claimed 1.02 as supplementary weighting.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2011

For concurrent community college enrollment, the District claimed .54 as supplementary weighting. However, the District was not eligible to obtain supplementary weighting because the District did not meet the concurrent community college supplementary weighting criteria.

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

Conclusion – Response accepted.

- (9) 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 minutes did not document the name of the depository and that the specified maximum amount which may be kept on deposit in each depository was exceeded at times during the year.

Recommendation – To be in compliance with Chapter 12C of the Code of Iowa, the Board should implement procedures to ensure the Board minutes document the name of the depository, and that the maximum amount which may be kept on deposit in each depository exceeds the cash in bank amount at all times.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (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.

- (11) Categorical Funding – No instances of categorical funding being used to supplant rather than supplement other funds were noted.

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

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2011 audit.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2011

Beginning balance		\$ 139,925
Revenues/transfers in:		
Sales tax revenues	\$ 215,452	
Other local revenues	171	215,623
		<u>355,548</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 1,126	
Equipment	83,427	
Other	2,277	
Transfers to other funds:		
Debt service fund	125,204	212,034
		<u>212,034</u>
Ending balance		<u>\$ 143,514</u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	<u>Rate of Levy Reduction Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars Reduced</u>
Debt service levy	\$ 2.23	\$ 125,204

- (13) 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.

- (14) 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 were 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 continued 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 School Attorney indicated that the early retiree is required to pay for the health insurance and health

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2011

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 paid, compared with the maximum benefit amount as noted in the early retirement policy, by employee.

Employee	Early Retirement Benefits Paid	Maximum Early Retirement Benefit Per Policy	Difference - Early Retirement Benefits in Excess of Maximum
A	\$ 43,550	36,325	7,225
B	38,742	37,695	1,047
C	46,073	36,325	9,748
	<u>\$ 128,365</u>	<u>110,345</u>	<u>18,020</u>

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 appeared that the District paid from District funds in excess of \$18,000 too much in early retirement benefits. There was no documentation as to why the Board did not follow the School Attorney's advice, and whether the payment of these costs meet the test of public purpose.

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

Response – These individuals in question have all been paid, and currently no one is participating in the early retirement program.

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.

We did collect the \$1,047 back from employee B in November, 2011.

Conclusion – Response accepted. However, the District should implement the original recommendations. In addition, it is questionable if there is adequate justification as to why employees A and C were over compensated. Furthermore, based on the opinion of the School Attorney, it still appears the District over compensated its three retired employees in excess of \$18,000, regardless of the explanation provided by the District.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2011

- (15) Interfund Loans – 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 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 this recommendation to the best of our ability.

Conclusion – Response accepted.

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

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

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

Conclusion – Response accepted.

- (17) Compliance Issues – Maintenance costs on equipment were charged to the Capital Projects, Physical Plant and Equipment Levy Fund. Based on the requirements of the Code of Iowa, it is questionable as to whether these costs should have been charged to this fund. It appears these expenses should have been charged to the General Fund.

A 1099-Misc. form was not issued as required by IRS regulations. W4 and I9 forms for employees could not always be located or were incomplete.

Recommendation – The District should ensure that all disbursements from the Capital Projects, Physical Plant and Equipment Levy Fund are for allowable purposes. 1099-Misc. forms should be issued as required, and that complete W4 and I9 forms be obtained for all employees.

Response – We will do this.

Conclusion – Response accepted.

- (18) Outstanding Checks – The Special Revenue, Student Activity Fund bank account has several outstanding checks over one year old on its bank reconciliation. Chapter 556 of the Code of Iowa requires that these checks be turned over to the State Treasurer as unclaimed property.

Recommendation – The District turn over old outstanding checks to the State Treasurer as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2011

- (19) Fund Balances – The Proprietary, School Nutrition Fund had a deficit balance of \$21,345 at June 30, 2011.

The Special Revenue, Management Levy Fund had a fund balance of \$103,961 at June 30, 2011. Total expenditures from this fund in fiscal year 2011 were \$68,545. As a result, the fund balance in this fund may be excessive.

Recommendation – The District review the balance in the negative fund, and the fund that may be excessive, and implement procedures to ensure the balances in these funds are reasonable.

Response – We have set up a committee to review the Proprietary, School Nutrition Fund deficit. In addition, we will review the Special Revenue, Management Levy Fund for reasonableness.

Conclusion – Response accepted.

- (20) Payroll/Disbursements – Instances were noted where not all pages of the invoices were cancelled.

For payroll, some employees worked regular hours for the District even though no employee contract existed. In some cases, non-exempt employees did not keep time sheets. In another instance, an employee time card did not document the dates on the time card.

Recommendation – The District implement procedures to ensure all pages of the invoices are cancelled.

In addition, all employees who work for the District should sign a contract, all non-exempt employees be required to keep time sheets, and that employee time cards document the dates on the time card.

Response – We will attempt to implement these recommendations.

Conclusion – Response accepted.

- (21) Vehicles/Mileage – The District purchases its fuel from a vendor in town. In addition, a vehicle log is kept in each vehicle. While improvements were noted, in some cases the District is still unable to reconcile the quantity of fuel purchased as recorded on the vendor invoices with the vehicle logs.

The District pays an employee mileage in relation to a shared teaching arrangement with another school. However, this compensation is handled through payroll, and the District and the employee currently pay income and payroll taxes on this additional compensation. If the District and the employee establish this travel arrangement under an accountable plan, the District and the employee would save over a thousand dollars a year in taxes.

Recommendation – To provide for 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.

The District should also establish travel arrangements under an accountable plan in accordance with IRS regulations.

Response – We will take the above under advisement.

Conclusion – Response accepted.