

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT
MELCHER-DALLAS, IOWA

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

June 30, 2012

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

Officials

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Board of Education		
(Before September, 2011 Election)		
Robert Lepley	President	2011
Shane Ripperger	Vice-President	2013
Lee Franck	Board Member	2011
Ann Fee	Board Member	2013
Mark Herold	Board Member	2011

Board of Education		
(After September, 2011 Election)		
Robert Lepley	President	2015
Shane Ripperger	Vice-President	2013
Miki Alexander	Board Member	2013
Ann Fee	Board Member	2013
Jake Mathes	Board Member	2013

School Officials		
Steve Mitchell*	Superintendent	Resigned
Delane Galvin**	Superintendent	2012
Shelia Williamson***	District Secretary/Treasurer Business Manager	Resigned
Brad Brothers****	District Secretary/Treasurer Business Manager	2012
Ahlers Law Firm	Attorney	Indefinite

* - Resigned in January, 2011.

** - Appointed in January, 2012.

*** - Resigned in June, 2012.

**** - Appointed in June, 2012.

Melcher-Dallas Community School District

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

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District, Melcher-Dallas, Iowa, as of and for the year ended June 30, 2012, 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, 2012, 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 March 15, 2013 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 41 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Peak & Co., LLP
Certified Public Accountants

March 15, 2013

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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,483,529 in FY 2011 to \$3,262,959 in FY 2012, and General Fund expenditures increased from \$3,334,272 in FY 2011 to \$3,390,392 in FY 2012. The District's General Fund balance decreased from \$815,841 at the end of FY 2011 to \$688,408 at the end of FY 2012, a decrease of approximately 16%.
- The decrease in General Fund revenues was attributable to a 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 financial 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.

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.

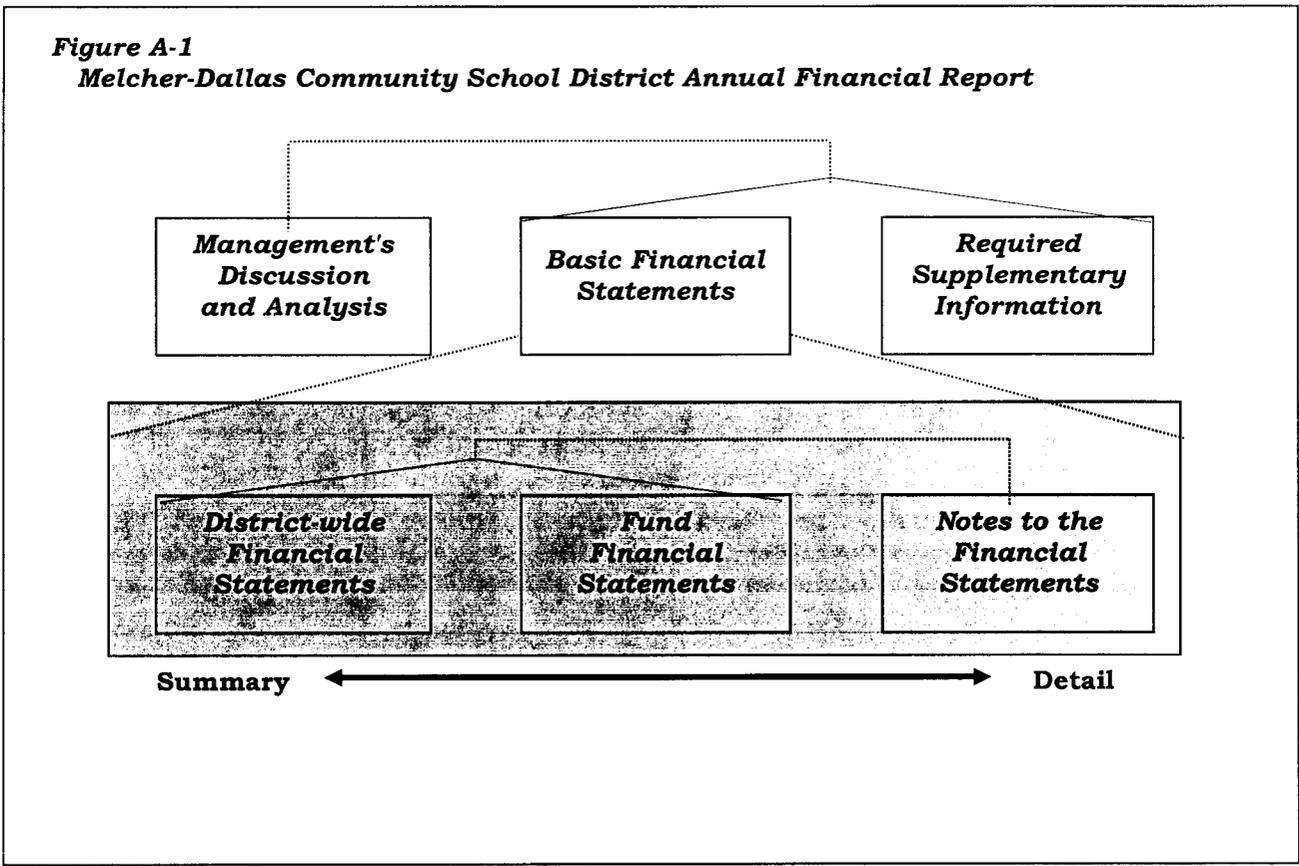


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 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 include 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, 2012 compared to June 30, 2011.

Figure A-3								
Condensed Statement of Net Assets								
(Expressed in Thousands)								
	Governmental		Business Type		Total		Total	
	Activities		Activities		District		Change	
	June 30,		June 30,		June 30,		June 30,	
	2012	2011	2012	2011	2012	2011	2011-12	
Current and other assets	\$ 2,784	2,855	51	30	2,835	2,885	-1.7%	
Capital assets	3,102	3,228	11	9	3,113	3,237	-3.8%	
Total assets	5,886	6,083	62	39	5,948	6,122	-2.8%	
Long-term liabilities	1,275	1,350	4	5	1,279	1,355	-5.6%	
Other liabilities	1,471	1,549	53	56	1,524	1,605	-5.0%	
Total liabilities	2,746	2,899	57	61	2,803	2,960	-5.3%	
Net assets								
Invested in capital assets, net of related debt	1,927	1,943	10	9	1,937	1,952	-0.8%	
Restricted	627	452	-	-	627	452	38.7%	
Unrestricted	586	789	(5)	(31)	581	758	-23.4%	
Total net assets	\$ 3,140	3,184	5	(22)	3,145	3,162	-0.5%	

The District's combined net assets decreased by 0.5%, or approximately \$17,000 less than 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 \$175,000, or 38.7% over the prior year. The increase was primarily a result of an increase in net assets restricted for categorical funding, an increase in net assets restricted for management levy purposes and an increase in net assets restricted for school infrastructure 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 – decreased approximately (\$177,000), or (23.4%). The decrease in unrestricted net assets was primarily the result of a decrease in the net assets in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4							
Change in Net Assets							
(Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for service	\$ 239	204	59	56	298	260	14.6%
Operating grants, contributions and restricted interest	534	657	94	89	628	746	-15.8%
Capital grants, contributions and restricted interest	-	-	4	-	4	-	100.0%
General revenues:							
Property tax	1,150	1,105	-	-	1,150	1,105	4.1%
Income surtax	102	107	-	-	102	107	-4.7%
Statewide sales, services and use tax	227	215	-	-	227	215	5.6%
Unrestricted state grants	1,471	1,572	-	-	1,471	1,572	-6.4%
Unrestricted investment earnings	1	2	-	-	1	2	-50.0%
Other	31	86	-	-	31	86	-64.0%
Total revenues	<u>3,755</u>	<u>3,948</u>	<u>157</u>	<u>145</u>	<u>3,912</u>	<u>4,093</u>	<u>-4.4%</u>
Program expenses:							
Governmental activities:							
Instruction	2,483	2,414	-	-	2,483	2,414	2.9%
Support services	1,056	1,029	-	-	1,056	1,029	2.6%
Non-instructional programs	-	-	130	150	130	150	-13.3%
Other expenses	260	283	-	-	260	283	-8.1%
Total expenses	<u>3,799</u>	<u>3,726</u>	<u>130</u>	<u>150</u>	<u>3,929</u>	<u>3,876</u>	<u>1.4%</u>
Increase (decrease) in net assets	(44)	222	27	(5)	(17)	217	-107.8%
Net assets beginning of year	<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>
Net assets end of year	<u>\$ 3,140</u>	<u>3,184</u>	<u>5</u>	<u>(22)</u>	<u>3,145</u>	<u>3,162</u>	<u>-0.5%</u>

In fiscal year 2012, property tax and unrestricted state grants accounted for 69.8% of governmental activities revenue while charges for service and operating grants, contributions and restricted interest accounted for 97% of business type activities revenue.

The District's total revenues were approximately \$3.9 million, of which approximately \$3.755 million was for governmental activities and approximately \$157,000 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.4% decrease in revenues and a 1.4% increase in expenses. The property tax rate for fiscal year 2012 was **\$19.597/\$1,000** representing a decrease of approximately \$.065/\$1,000 from the fiscal year 2011 rate of \$19.662/\$1,000. With declining enrollments, the District has made reductions in its workforce.

Governmental Activities

Revenues for governmental activities were \$3,755,452 and expenses were \$3,798,569 for the year ended June 30, 2012. 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, 2012 compared to the year ended June 30, 2011.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-2012	2012	2011	Change 2011-2012
Instruction	\$ 2,483	2,414	2.9%	1,834	1,695	8.2%
Support services	1,056	1,029	2.6%	1,054	1,029	2.4%
Other expenses	260	283	-8.1%	137	142	-3.5%
Total	\$ 3,799	3,726	2.0%	3,025	2,866	5.5%

For the year ended June 30, 2012:

- The cost financed by users of the District’s programs was \$239,469.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$533,715.
- The net cost of governmental activities was financed with \$1,479,189 in property and other taxes and \$1,470,560 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$156,423 representing a 7% increase over the prior year while expenses totaled \$130,020, a 13% 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 \$1,148,972, slightly above last year's ending fund balances of \$1,136,428.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the result of many factors. A decrease in federal revenue was a major cause of this decrease. Melcher-Dallas as a school district still has a good solvency ratio and unspent balance budget.
- The General Fund balance decreased from \$815,841 to \$688,408. This represents a \$127,433 decrease from the previous year. This decrease is a result of spending more money than we received.
- The Capital Projects Fund balance increased by \$126,600 from fiscal year 2011 to fiscal year 2012. Expenditures from this fund were primarily made for improvements and maintenance to the facilities.
- The Debt Service Fund increased from \$3,584 at the end of fiscal year 2011 to \$3,738 at the end of fiscal year 2012. Expenditures did not vary significantly from the prior year.

Proprietary Fund Highlights

School Nutrition Fund balances increased for the 2012 school year. Revenues for business type activities during the year ended June 30, 2012 were \$156,423, while expenses totaled \$130,020, representing a \$26,403 increase for the year. In relation to the school nutrition program, the District continues working 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. The Nutrition Fund will gradually pay back the \$44,776 it owes the General Fund.

Meal prices were raised again for the fourth year in a row for the 2011-12 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

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs functional area due to timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested, net of accumulated depreciation, \$3.1 million in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). This represents a net decrease of 3.8% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$161,360.

The original cost of the District's capital assets was approximately \$5.4 million. Governmental funds account for approximately \$5.3 million, with the remaining approximate \$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,
	2012	2011	2012	2011	2012	2011	2012-2013
Land	\$ 14	14	-	-	14	14	0.0%
Construction in progress	6	-	-	-	6	-	100.0%
Buildings	2,698	2,779	-	-	2,698	2,779	-2.9%
Improvements other than buildings	77	84	-	-	77	84	-8.3%
Furniture and equipment	307	351	11	9	318	360	-11.7%
Total assets	\$ 3,102	3,228	11	9	3,113	3,237	-3.8%

Long-Term Debt

At June 30, 2012, the District had \$1,278,565 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 6% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

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

	Total District		Total Change
	June 30,		June 30,
	2012	2011	2011-12
General obligation bonds	\$ 1,175	\$ 1,285	-8.6%
Compensated absences	1	-	100.0%
Net OPEB liability	103	70	47.1%
Total	\$ 1,279	\$ 1,355	-5.6%

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 an increase of 15 students in enrollment for the 2012-2013 school year. The District is expecting to maintain enrollment for the 2013-14 with a large graduating class, but an incoming kindergarten class that will offset the graduation. 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 enrollment and increase in expenses.
- 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 2013, effective with the 2013-14 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 Trevor Miller, School Business Official/Elementary Principal, or Jenny Knust Board Secretary/Administrative Assistant, Melcher-Dallas Community School District, 1003 Park Street, Melcher-Dallas, Iowa, 50062.

Basic Financial Statements

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,444,892	45,393	1,490,285
Receivables:			
Property tax:			
Delinquent	30,657	-	30,657
Succeeding year	1,048,993	-	1,048,993
Due from other funds	44,776	-	44,776
Due from other governments	214,709	-	214,709
Inventories	-	5,941	5,941
Capital assets, net of accumulated depreciation	3,102,348	10,504	3,112,852
Total assets	5,886,375	61,838	5,948,213
Liabilities			
Accounts payable	9,476	-	9,476
Salaries and benefits payable	378,710	6,697	385,407
Due to other governments	21,723	-	21,723
Due to other funds	-	44,776	44,776
Accrued interest payable	8,412	-	8,412
Deferred revenue:			
Succeeding year property tax	1,048,993	-	1,048,993
Other	3,916	-	3,916
Unearned revenue	-	1,194	1,194
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	110,000	-	110,000
Compensated absences	722	-	722
Portion due after one year:			
General obligation bonds	1,065,000	-	1,065,000
Net OPEB liability	98,730	4,113	102,843
Total liabilities	2,745,682	56,780	2,802,462
Net assets			
Invested in capital assets, net of related debt	1,927,348	10,504	1,937,852
Restricted for:			
Categorical funding	166,755	-	166,755
Management levy purposes	114,954	-	114,954
Physical plant and equipment	51,911	-	51,911
School infrastructure	255,832	-	255,832
Student activities	34,129	-	34,129
Debt service	3,738	-	3,738
Unrestricted	586,026	(5,446)	580,580
Total net assets	\$ 3,140,693	5,058	3,145,751

See notes to financial statements.

Statement of Activities

Year ended June 30, 2012

Functions / Programs:	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
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,587,189	72,613	330,991	-	(1,183,585)	-	(1,183,585)
Special instruction	423,879	75,012	74,833	-	(274,034)	-	(274,034)
Other instruction	471,549	90,524	4,448	-	(376,577)	-	(376,577)
	<u>2,482,617</u>	<u>238,149</u>	<u>410,272</u>	<u>-</u>	<u>(1,834,196)</u>	<u>-</u>	<u>(1,834,196)</u>
Support services:							
Student	66,605	-	-	-	(66,605)	-	(66,605)
Instructional staff	79,841	-	-	-	(79,841)	-	(79,841)
Administration	473,886	-	-	-	(473,886)	-	(473,886)
Operation and maintenance of plant	242,752	250	-	-	(242,502)	-	(242,502)
Transportation	192,593	1,070	-	-	(191,523)	-	(191,523)
	<u>1,055,677</u>	<u>1,320</u>	<u>-</u>	<u>-</u>	<u>(1,054,357)</u>	<u>-</u>	<u>(1,054,357)</u>
Non-instructional programs	248	-	-	-	(248)	-	(248)
Other expenditures:							
Facilities acquisition	250	-	-	-	(250)	-	(250)
Long-term debt interest	55,149	-	-	195	(54,954)	-	(54,954)
AEA flowthrough	123,248	-	123,248	-	-	-	-
Depreciation (unallocated)*	81,380	-	-	-	(81,380)	-	(81,380)
	<u>260,027</u>	<u>-</u>	<u>123,248</u>	<u>195</u>	<u>(136,584)</u>	<u>-</u>	<u>(136,584)</u>
Total governmental activities	3,798,569	239,469	533,520	195	(3,025,385)	-	(3,025,385)
Business type activities:							
Non-instructional programs:							
Food service operations	130,020	58,910	93,343	4,154	-	26,387	26,387
Total	<u>\$ 3,928,589</u>	<u>298,379</u>	<u>626,863</u>	<u>4,349</u>	<u>(3,025,385)</u>	<u>26,387</u>	<u>(2,998,998)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 1,033,148	-	1,033,148
Debt service					97,485	-	97,485
Capital outlay					19,365	-	19,365
Statewide sales, services and use tax					227,427	-	227,427
Income surtax					101,764	-	101,764
Unrestricted state grants					1,470,560	-	1,470,560
Unrestricted investment earnings					1,074	16	1,090
Other					31,445	-	31,445
Total general revenues					<u>2,982,268</u>	<u>16</u>	<u>2,982,284</u>
Change in net assets					(43,117)	26,403	(16,714)
Net assets beginning of year					3,183,810	(21,345)	3,162,465
Net assets end of year					<u>\$ 3,140,693</u>	<u>5,058</u>	<u>3,145,751</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, 2012

	General	Debt Service	Capital Projects	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 979,574	1,140	258,743	148,193	1,387,650
Receivables:					
Property tax:					
Delinquent	25,807	2,598	516	1,736	30,657
Succeeding year	797,116	161,474	20,403	70,000	1,048,993
Due from other funds	44,776	-	-	-	44,776
Due from other governments	163,585	-	51,124	-	214,709
Total assets	\$ 2,010,858	165,212	330,786	219,929	2,726,785
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 5,990	-	2,640	846	9,476
Salaries and benefits payable	378,710	-	-	-	378,710
Due to other governments	21,723	-	-	-	21,723
Deferred revenue:					
Succeeding year property tax	797,116	161,474	20,403	70,000	1,048,993
Other	118,911	-	-	-	118,911
Total liabilities	1,322,450	161,474	23,043	70,846	1,577,813
Fund balances:					
Restricted for:					
Categorical funding	166,755	-	-	-	166,755
Management levy purposes	-	-	-	114,954	114,954
Student activities	-	-	-	34,129	34,129
Debt service	-	3,738	-	-	3,738
School infrastructure	-	-	255,832	-	255,832
Physical plant and equipment	-	-	51,911	-	51,911
Unassigned	521,653	-	-	-	521,653
Total fund balances	688,408	3,738	307,743	149,083	1,148,972
Total liabilities and fund balances	\$ 2,010,858	165,212	330,786	219,929	2,726,785

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, 2012

Total fund balances of governmental funds (page 20) \$ 1,148,972

*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. 3,102,348

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. 57,242

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 114,995

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. (8,412)

Long-term liabilities, including bonds payable, compensated absences 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. (1,274,452)

Net assets of governmental activities (page 18) \$ 3,140,693

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, 2012

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,078,570	97,485	246,792	65,101	1,487,948
Tuition	127,542	-	-	-	127,542
Other	36,009	11	204	91,659	127,883
Intermediate sources	2,765	-	-	-	2,765
State sources	1,939,550	-	-	-	1,939,550
Federal sources	78,523	-	-	-	78,523
Total revenues	<u>3,262,959</u>	<u>97,496</u>	<u>246,996</u>	<u>156,760</u>	<u>3,764,211</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,554,569	-	-	15,428	1,569,997
Special	395,804	-	-	2,421	398,225
Other	372,919	-	-	90,837	463,756
	<u>2,323,292</u>	<u>-</u>	<u>-</u>	<u>108,686</u>	<u>2,431,978</u>
Support services:					
Student	66,120	-	-	485	66,605
Instructional staff	70,160	-	-	463	70,623
Administration	422,439	-	39,020	9,573	471,032
Operation and maintenance of plant	230,615	-	6,424	17,740	254,779
Transportation	154,518	-	-	6,342	160,860
	<u>943,852</u>	<u>-</u>	<u>45,444</u>	<u>34,603</u>	<u>1,023,899</u>
Non-instructional programs	-	-	-	248	248
Other expenditures:					
Facilities acquisition	-	-	6,410	-	6,410
Long-term debt:					
Principal	-	110,000	-	-	110,000
Interest and fiscal charges	-	55,884	-	-	55,884
AEA flowthrough	123,248	-	-	-	123,248
	<u>123,248</u>	<u>165,884</u>	<u>6,410</u>	<u>-</u>	<u>295,542</u>
Total expenditures	<u>3,390,392</u>	<u>165,884</u>	<u>51,854</u>	<u>143,537</u>	<u>3,751,667</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(127,433)</u>	<u>(68,388)</u>	<u>195,142</u>	<u>13,223</u>	<u>12,544</u>
Other financing sources (uses):					
Operating transfers in	-	68,542	-	-	68,542
Operating transfers out	-	-	(68,542)	-	(68,542)
Total other financing sources (uses)	<u>-</u>	<u>68,542</u>	<u>(68,542)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(127,433)</u>	<u>154</u>	<u>126,600</u>	<u>13,223</u>	<u>12,544</u>
Fund balances beginning of year	<u>815,841</u>	<u>3,584</u>	<u>181,143</u>	<u>135,860</u>	<u>1,136,428</u>
Fund balances end of year	<u>\$ 688,408</u>	<u>3,738</u>	<u>307,743</u>	<u>149,083</u>	<u>1,148,972</u>

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, 2012

Net change in fund balances - total governmental funds (page 22) **\$ 12,544**

*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	\$ 32,580	
Depreciation expense	<u>(158,550)</u>	(125,970)

Certain revenues not collected until several months after year end are not considered available revenue and are deferred in the governmental funds.		(8,759)
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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.		110,000
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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.		735
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds as follows:

Compensated absences	(722)	
Other postemployment benefits	<u>(33,359)</u>	(34,081)

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.

2,414

Change in net assets of governmental activities (page 19) **\$ (43,117)**

See notes to financial statements.

Statement of Net Assets
Proprietary Funds

June 30, 2012

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	Nonmajor Enterprise Fund - School Nutrition	Internal Service - HRA
Assets		
Cash and cash equivalents	\$ 45,393	57,242
Inventories	5,941	-
Capital assets, net of accumulated depreciation	10,504	-
Total assets	<u>61,838</u>	<u>57,242</u>
Liabilities		
Salaries and benefits payable	6,697	-
Due to other funds	44,776	-
Unearned revenue	1,194	-
Net OPEB liability	4,113	-
Total liabilities	<u>56,780</u>	<u>-</u>
Net Assets		
Invested in capital assets	10,504	-
Unrestricted	(5,446)	57,242
Total net assets	<u>\$ 5,058</u>	<u>57,242</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, 2012

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	<u>Nonmajor Enterprise Fund - School Nutrition</u>	<u>Internal Service - HRA</u>
Operating revenues:		
Local sources:		
Charges for service	\$ 58,910	-
Employer contributions	-	15,479
Total operating revenue	<u>58,910</u>	<u>15,479</u>
Operating expenses:		
Non-instructional programs:		
Salaries	25,230	-
Benefits	18,261	-
Purchased services	9,021	-
Supplies	74,698	-
Other	-	13,065
Depreciation	2,810	-
Total operating expenses	<u>130,020</u>	<u>13,065</u>
Operating income (loss)	<u>(71,110)</u>	<u>2,414</u>
Non-operating revenues:		
State sources	2,002	-
Federal sources	91,341	-
Interest income	16	-
Total non-operating revenues	<u>93,359</u>	<u>-</u>
Changes in net assets before other financing sources	<u>22,249</u>	<u>2,414</u>
Other financing sources:		
Capital contributions	4,154	-
Total other financing sources	<u>4,154</u>	<u>-</u>
Change in net assets	26,403	2,414
Net assets beginning of year	<u>(21,345)</u>	<u>54,828</u>
Net assets end of year	<u>\$ 5,058</u>	<u>57,242</u>

See notes to financial statements.

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2012

	Business Type Activities Nonmajor Enterprise Fund - School Nutrition	Governmental Activities Internal Service - HRA
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 60,104	-
Cash received from miscellaneous operating activities	-	15,479
Cash paid to employees for services	(48,663)	-
Cash paid to suppliers for goods and services	(72,029)	(13,667)
Net cash provided (used) by operating activities	<u>(60,588)</u>	<u>1,812</u>
Cash flows from non-capital financing activities:		
State grants received	2,002	-
Federal grants received	80,388	-
Net cash provided by non-capital financing activities	<u>82,390</u>	<u>-</u>
Cash flows from investing activities:		
Increase in due to other funds	16	-
Net increase in cash and cash equivalents	21,818	1,812
Cash and cash equivalents beginning of year	<u>23,575</u>	<u>55,430</u>
Cash and cash equivalents end of year	<u>\$ 45,393</u>	<u>57,242</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (71,110)	2,414
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Commodities used	10,953	-
Depreciation	2,810	-
Decrease in inventories	737	-
(Decrease) in accounts payable	-	(602)
(Decrease) in salaries and benefits payable	(4,365)	-
Increase in unearned revenue	1,194	-
(Decrease) in other postemployment benefits	(807)	-
Net cash provided (used) by operating activities	<u>\$ (60,588)</u>	<u>1,812</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received \$10,953 of federal commodities.

During the year ended June 30, 2012, the District received \$4,154 in contributed capital from the Capital Projects Fund.

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and pooled investments	<u>\$ 11,377</u>
Total assets	<u>11,377</u>
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>\$ 11,377</u></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, 2012

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 200
Interest income	<u>11</u>
Total additions	211
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>500</u>
Change in net assets	(289)
Net assets beginning of year	<u>11,666</u>
Net assets end of year	<u><u>\$ 11,377</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Notes to Financial Statements

June 30, 2012

(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 funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

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

The District reports the following 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 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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2011.

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 and other school personnel 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 compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Fund Equity – In the governmental fund financial statements, 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures exceeded the amounts budgeted in the non-instructional programs function.

(2) **Cash and Pooled Investments**

Because the Board minutes did not document the maximum amount which may be kept on deposit in each depository, it is unclear if the District's deposits in banks at June 30, 2012, 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. 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, 2012 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Proprietary: School Nutrition	\$ 44,776
	Total	<u>\$ 44,776</u>

The above due from/to amounts primarily represent loans between funds.

(4) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 68,542
	Total	<u>\$ 68,542</u>

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

(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2012 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 13,925	-	-	13,925
Construction in progress	-	6,160	-	6,160
Total capital assets not being depreciated	<u>13,925</u>	<u>6,160</u>	<u>-</u>	<u>20,085</u>
Capital assets being depreciated:				
Buildings	4,063,749	-	-	4,063,749
Improvements other than buildings	238,897	-	-	238,897
Furniture and equipment	1,007,466	26,420	-	1,033,886
Total capital assets being depreciated	<u>5,310,112</u>	<u>26,420</u>	<u>-</u>	<u>5,336,532</u>
Less accumulated depreciation for:				
Buildings	1,284,311	81,380	-	1,365,691
Improvements other than buildings	154,591	6,816	-	161,407
Furniture and equipment	656,817	70,354	-	727,171
Total accumulated depreciation	<u>2,095,719</u>	<u>158,550</u>	<u>-</u>	<u>2,254,269</u>
Total capital assets being depreciated, net	<u>3,214,393</u>	<u>(132,130)</u>	<u>-</u>	<u>3,082,263</u>
Governmental activities capital assets, net	<u>\$ 3,228,318</u>	<u>(125,970)</u>	<u>-</u>	<u>3,102,348</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 51,495	4,154	-	55,649
Less accumulated depreciation	42,335	2,810	-	45,145
Business type activities capital assets, net	\$ 9,160	1,344	-	10,504

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 3,175
Special	22,724
Other	2,858

Support services:

Administration	4,311
Operation and maintenance of plant	13,742
Transportation	30,360
	<u>77,170</u>
Unallocated	<u>81,380</u>

Total depreciation expense - governmental activities \$ 158,550

Business type activities:

Food service operations \$ 2,810

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,285,000	-	110,000	1,175,000	110,000
Compensated absences	-	722	-	722	722
Net OPEB liability	65,371	33,359	-	98,730	-
Total	\$ 1,350,371	34,081	110,000	1,274,452	110,722

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 4,920	-	807	4,113	-
Total	\$ 4,920	-	807	4,113	-

General Obligation Bonds

Details of the District's June 30, 2012 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
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	3.96%	115,000	14,256	4.95%	15,000	17,242	130,000	31,498	161,498
2018-2021	3.96%	245,000	14,652	5.00%	330,000	54,750	575,000	69,402	644,402
Total		<u>\$ 785,000</u>	<u>128,700</u>		<u>\$ 390,000</u>	<u>146,744</u>	<u>1,175,000</u>	<u>275,444</u>	<u>1,450,444</u>

(7) Operating Lease

The District entered into a lease on June 23, 2009 to lease copier equipment for \$1,050 per month. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. The lease expires on June 23, 2014.

The following is a schedule of future payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2012:

Year Ending June 30	Amount
2013	\$ 12,600
2014	<u>12,600</u>
Total	<u>\$ 25,200</u>

During the fiscal year, payments made under this lease amounted to \$12,600.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$154,716, \$136,082 and \$127,719, respectively, equal to the required contributions for each year.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for employees and retirees and their spouses. There are 53 active and 1 retired member 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, 2012, 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	3,163
Adjustment to annual required contribution	(2,611)
Annual OPEB cost	49,552
Contributions made	(17,000)
Increase in net OPEB obligation	32,552
Net OPEB obligation beginning of year	70,291
Net OPEB obligation end of year	<u>\$ 102,843</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, 2012.

For the year ended June 30, 2012, the District contributed \$17,000 to the medical plan. Plan members eligible for benefits contributed \$5,679, or 17% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 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
June 30, 2012	49,552	34.3%	102,843

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, 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 \$1,960,000 and the ratio of the UAAL to covered payroll was 16.5%. As of June 30, 2012, 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.

(10) Risk Management

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

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$123,248 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Deficit Fund Balance

The District had an unrestricted deficit net asset fund balance in the Proprietary, School Nutrition Fund of \$5,446 as of June 30, 2012. This deficit will be eliminated by increasing meal prices and controlling costs.

(13) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

Program	Amount
At-risk program	\$ 17,080
Talented and gifted	4,314
Returning dropout and dropout prevention program	94,014
Four year old preschool	7,258
Beginning teacher mentoring and induction program	1,983
Early intervention block grant	8,502
Educator quality, market factor	1,891
Educator quality, model core curriculum	6,247
Educator quality, professional development	25,466
Total	\$ 166,755

(14) Commitment

The District paid approximately \$50,000 for window replacement costs in fiscal year 2013.

(15) Contingency

The District has one known lawsuit as of June 30, 2012. This matter has been turned over to the District's insurance company. The District believes the portion of any potential costs or settlement in relation to this lawsuit not covered by insurance would not materially affect the financial position of the District. However, the probability and amount of loss, if any, is undeterminable.

(16) Subsequent Events

The District paid \$11,000 to the insurance company in fiscal year 2013 to settle a lawsuit.

The District has evaluated subsequent events through March 15, 2013, which is the date the financial statements were available to be issued.

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, 2012

	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	\$ 1,743,373	74,405	1,817,778	(15,479)	1,802,299	1,959,854	(157,555)
Intermediate sources	2,765	-	2,765	-	2,765	-	2,765
State sources	1,939,550	2,002	1,941,552	-	1,941,552	1,959,457	(17,905)
Federal sources	78,523	91,341	169,864	-	169,864	185,000	(15,136)
Total revenues	3,764,211	167,748	3,931,959	(15,479)	3,916,480	4,104,311	(187,831)
Expenditures / Expenses:							
Instruction	2,431,978	-	2,431,978	-	2,431,978	2,929,000	497,022
Support services	1,023,899	-	1,023,899	-	1,023,899	1,277,500	253,601
Non-instructional programs	248	143,085	143,333	(13,065)	130,268	130,000	(268)
Other expenditures	295,542	-	295,542	-	295,542	307,595	12,053
Total expenditures/expenses	3,751,667	143,085	3,894,752	(13,065)	3,881,687	4,644,095	762,408
Excess (deficiency) of revenues over (under) expenditures/expenses	12,544	24,663	37,207	(2,414)	34,793	(539,784)	574,577
Other financing sources, net	-	4,154	4,154	-	4,154	-	4,154
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	12,544	28,817	41,361	(2,414)	38,947	(539,784)	578,731
Balances beginning of year	1,136,428	33,483	1,169,911	(54,828)	1,115,083	696,853	418,230
Balances end of year	\$ 1,148,972	62,300	1,211,272	(57,242)	1,154,030	157,069	996,961

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2012

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, 2012, expenditures in the non-instructional programs exceeded 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%
2012	July 1, 2009	-	323	323	0.0%	1,960	16.50%

See Note 9 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.

Supplementary Information

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2012

	Special Revenue		Total
	Management Levy	Student Activity	
Assets			
Cash and pooled investments	\$ 113,218	34,975	148,193
Receivables:			
Property tax:			
Delinquent	1,736	-	1,736
Succeeding year	70,000	-	70,000
Total assets	\$ 184,954	34,975	219,929
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	-	846	846
Deferred revenue:			
Succeeding year property tax	70,000	-	70,000
Total liabilities	70,000	846	70,846
Fund balances:			
Restricted for:			
Management levy purposes	114,954	-	114,954
Student activities	-	34,129	34,129
Total fund balances	114,954	34,129	149,083
Total liabilities and fund balances	\$ 184,954	34,975	219,929

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 2

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

Year ended June 30, 2012

	Special Revenue		Total
	Management Levy	Student Activity	
Revenues:			
Local sources:			
Local tax	\$ 65,101	-	65,101
Other	1,116	90,543	91,659
Total revenues	<u>66,217</u>	<u>90,543</u>	<u>156,760</u>
Expenditures:			
Current:			
Instruction:			
Regular	15,428	-	15,428
Special	2,421	-	2,421
Other	2,524	88,313	90,837
Support services:			
Student	485	-	485
Instructional staff	463	-	463
Administration	9,573	-	9,573
Operation and maintenance of plant	17,740	-	17,740
Transportation	6,342	-	6,342
Non-instructional programs	248	-	248
Total expenditures	<u>55,224</u>	<u>88,313</u>	<u>143,537</u>
Excess of revenues and other financing sources over expenditures and other financing uses	10,993	2,230	13,223
Fund balances beginning of year	<u>103,961</u>	<u>31,899</u>	<u>135,860</u>
Fund balances end of year	<u>\$ 114,954</u>	<u>34,129</u>	<u>149,083</u>

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Interest	\$ -	19	-	(19)	-
H.S. Athletics	6,526	41,269	41,898	-	5,897
Music	230	312	-	-	542
SADD	769	821	224	-	1,366
Cheerleaders	166	1,215	862	-	519
FBLA	1,901	7,421	6,529	(271)	2,522
Yearbook	3,090	3,782	3,666	240	3,446
FCCLA	360	1,973	2,290	136	179
FFA	3,722	15,308	13,734	489	5,785
Student Council	6,067	11,507	12,878	(335)	4,361
Drill Team	874	1,249	1,376	-	747
Thespian Club	1,376	2,071	2,581	-	866
Spanish Club	-	640	381	-	259
Elementary Student Government	3,576	624	1	-	4,199
Class of 12	350	533	643	(240)	-
Class of 13	-	1,799	1,216	-	583
Class of 14	10	-	-	-	10
Jr. High	2,882	-	34	-	2,848
Total	\$ 31,899	90,543	88,313	-	34,129

See accompanying independent auditor's report.

Combining Balance Sheet
Capital Project Accounts

June 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 207,348	51,395	258,743
Receivables:			
Property tax:			
Delinquent	-	516	516
Succeeding year	-	20,403	20,403
Due from other governments	51,124	-	51,124
Total assets	\$ 258,472	72,314	330,786
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 2,640	-	2,640
Deferred revenue:			
Succeeding year property tax	-	20,403	20,403
Total liabilities	2,640	20,403	23,043
Fund balances:			
Restricted for:			
School infrastructure	255,832	-	255,832
Physical plant and equipment	-	51,911	51,911
Total fund balances	255,832	51,911	307,743
Total liabilities and fund balances	\$ 258,472	72,314	330,786

See accompanying independent auditor's report.

Melcher Dallas Community School District

Schedule 5

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances

Capital Project Accounts

Year ended June 30, 2012

	<u>Capital Projects</u>		
	<u>Physical Plant</u>		
	Statewide Sales, Services and Use Tax	and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 227,427	19,365	246,792
Other	184	20	204
Total revenues	<u>227,611</u>	<u>19,385</u>	<u>246,996</u>
Expenditures:			
Support services:			
Administration	39,020	-	39,020
Operation and maintenance of plant	1,321	5,103	6,424
Other expenditures:			
Facilities acquisition	6,410	-	6,410
Total expenditures	<u>46,751</u>	<u>5,103</u>	<u>51,854</u>
Excess of revenues over expenditures	<u>180,860</u>	<u>14,282</u>	<u>195,142</u>
Other financing sources (uses):			
Operating transfers out	(68,542)	-	(68,542)
Total other financing sources (uses)	<u>(68,542)</u>	<u>-</u>	<u>(68,542)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	112,318	14,282	126,600
Fund balances beginning of year	<u>143,514</u>	<u>37,629</u>	<u>181,143</u>
Fund balances end of year	<u>\$ 255,832</u>	<u>51,911</u>	<u>307,743</u>

See accompanying independent auditor's report.

Melcher-Dallas Community School District
 Schedule of Revenues by Source and Expenditures by Function
 All Governmental Funds

Schedule 6

For the Last Nine Years

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 1,487,948	1,429,557	1,394,776	1,218,608	1,197,503	1,216,786	1,379,115	1,201,987	934,471
Tuition	127,542	107,201	123,082	115,752	87,076	37,682	65,376	64,011	43,292
Other	127,883	167,840	171,990	213,248	228,925	272,977	222,448	139,860	143,103
Intermediate sources	2,765	-	-	-	-	1,000	-	-	-
State sources	1,939,550	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	78,523	237,495	383,115	116,884	67,614	165,426	182,962	142,202	111,001
Total	\$ 3,764,211	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	\$ 1,569,997	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	398,225	524,352	510,811	660,962	624,345	627,223	546,650	570,841	613,493
Other	463,756	469,220	554,480	390,800	416,425	391,935	369,681	333,797	174,289
Support services:									
Student	66,605	37,383	32,308	51,738	45,735	53,398	68,468	62,674	45,289
Instructional staff	70,623	63,721	77,829	42,090	38,563	12,977	48,804	43,767	20,730
Administration	471,032	464,828	446,841	469,718	556,861	486,116	445,826	392,616	378,676
Operation and maintenance of plant	254,779	249,382	223,709	326,200	316,465	317,989	299,611	251,233	251,068
Transportation	160,860	246,756	182,836	171,306	197,068	195,192	203,330	105,591	199,941
Non-instructional programs	248	355	348	428	429	414	352	391	-
Other expenditures:									
Facilities acquisition	6,410	1,126	5,842	380,061	11,950	31,824	-	10,383	177,009
Long-term debt:									
Principal	110,000	105,000	100,000	100,000	90,000	80,000	75,754	70,665	65,586
Interest and other charges	55,884	59,986	63,880	68,199	92,507	86,525	90,724	95,953	98,519
AEA flowthrough	123,248	141,596	142,824	137,704	134,635	130,293	124,015	123,819	127,839
Total	\$ 3,751,667	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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 15, 2013. 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

The management of Melcher-Dallas Community School District is responsible for establishing and maintaining effective 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), (D), (E) and (F) 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, 2012 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

March 15, 2013

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2012

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 using currently available staff, including elected officials.

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.

- (D) Bank Reconciliations – Our review noted that the June 30, 2012, bank reconciliation was materially inaccurate. Adjustments were subsequently made to the bank reconciliations to correct these errors.

Recommendation – The District implement procedures to ensure bank reconciliations are accurate and reconcile to the accounting records.

Response – We have already implemented this reconciliation.

Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2012

- (E) 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.

- (F) Account Codes – Several instances were noted where account codes used on the general ledger were inaccurate.

Recommendation – The District implement procedures to ensure the account codes used on the general ledger are accurate.

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Expenditures for the year ended June 30, 2012 exceeded the certified budget amounts in the non-instructional programs function.

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

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

Conclusion – Response accepted.

- (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 where 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.

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

One instance was noted in which the closed session requirements were not met, in accordance with Chapter 21.5 of the Code of Iowa.

One instance was noted in which the Board minutes did not document the vote of each member on a split vote as required by Chapter 21.3 of the Code of Iowa.

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. In addition, Board meeting minutes should be published within two weeks of the Board meeting. Also, the District should implement procedures to ensure compliance with the closed session requirements and the documentation of the vote of each member, as required by the Code of Iowa.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2012

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (7) Certified Enrollment – The total students reported to the Iowa Department of Education on the Certified Enrollment Certification Form for October 2011, was overstated by one high school student and understated by (6) five year old students.

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

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

Conclusion – Response accepted.

- (8) Supplementary Weighting – Variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

For a shared teacher, the District claimed 1.21 as supplementary weighting. However, based on student counts, the District should have only claimed 1.20 as supplementary weighting.

For concurrent community college enrollment, the District claimed .21 as supplementary weighting. However, based on student counts, the District should have only claimed .19 as supplementary weighting.

Recommendation – The District should contact the Iowa Department of Education and Department of Management 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 maximum amount which may be kept on deposit in each depository.

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 maximum amount which may be kept on deposit in each depository.

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.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2012

- (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 allowable uses of the statewide sales, services and use tax revenue provided in 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, 2012, 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 2012 audit.

Beginning balance		\$ 143,514
Revenues/transfers in:		
Sales tax revenues	\$ 227,427	
Other local revenues	184	227,611
		371,125
Expenditures/transfers out:		
School infrastructure construction	\$ 32,580	
Equipment	14,171	
Transfers to other funds:		
Debt service fund	68,542	115,293
		115,293
Ending balance		\$ 255,832

For the year ended June 30, 2012, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	\$ 1.66	\$ 68,542

- (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.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2012

- (14) 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.

- (15) 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.

- (16) Fund Balances – The Proprietary, School Nutrition Fund had an unrestricted deficit net asset fund balance of \$5,446 at June 30, 2012.

The Special Revenue, Management Levy Fund had a fund balance of \$114,954 at June 30, 2012. Total expenditures from this fund in fiscal year 2012 were \$55,224. The Capital Projects Fund had a fund balance of \$307,743 at June 30, 2012. Total expenditures and operating transfers out from this fund in fiscal year 2012 were \$120,396. As a result, the fund balances in these funds may be excessive.

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

Response – We will continue to investigate alternatives in order to eliminate the Proprietary, School Nutrition Fund deficit. In addition, we will review the Special Revenue, Management Levy Fund and Capital Projects Fund for reasonableness.

Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2012

- (17) Vehicle Fuel – The District purchases its fuel from a vendor in town. In addition, a vehicle log is kept in each vehicle. There was no indication that the District reconciled the quantity of fuel purchased as recorded on the vendor invoices with the vehicle logs, nor did the District analyze the vehicle logs for reasonableness.

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.

Response – We will take the above under advisement.

Conclusion – Response accepted.

- (18) Uncollected Revenue – It does not appear the District applied for monies from the REAP grant in fiscal year 2012, even though it appears that the District would be eligible for this grant.

It does not appear the District billed a neighboring school district for the second semester fiscal year 2012 shared teacher costs.

Recommendation – The District implement procedures to ensure all grants and other school districts are appropriately billed on a timely basis.

Response - We will implement this recommendation.

Conclusion – Response accepted.

- (19) General Fund – During fiscal year 2012, the District paid \$11,774 from the General Fund for disbursements which are questionable from the General Fund. The disbursements in question consisted of construction repair costs to the District's facilities. There does not appear to be any apparent authority to use the General Fund for capital improvements such as those noted above.

The disbursements noted above appear to be allowable expenditures from the Capital Projects Fund, but remain questionable from the General Fund.

Recommendation – The District should consult with legal counsel in relation to the above issue in order to determine an appropriate course of action.

Response – We will consult with legal counsel.

Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2012

- (20) Former Superintendent – The former superintendent resigned as of 8:00 AM on Monday January 16, 2012, with a special board meeting held on December 21, 2011 to accept this resignation. The December 21, 2011 board minutes only indicated that they accepted the resignation of the former superintendent. No indication could be found that a financial settlement arrangement with the former superintendent was approved at this board meeting.

The contract with the former Superintendent allows him to be paid for unused vacation days, and payment of salary through the date of termination if the Superintendent is released by mutual termination prior to the end of the contract, which would have been June 30, 2012. The District did pay the Superintendent for his unused vacation days, in accordance with the contract terms.

The current superintendent indicated that a board member indicated to him that the full Board of Education approved the payment of the former superintendent's salary for the entire month of January, family health insurance coverage through June, 2012, and payment for unused personal leave at the December 21, 2011 board meeting. Subsequent to the December 21, 2011 board meeting, the current superintendent indicated this settlement arrangement was amended at a later date to pay the former superintendent \$3,000 in severance pay, in exchange for the District discontinuing payment of family health insurance coverage for the former superintendent for the period from April 2012 to June, 2012.

However, as noted above, no indication could be found that the above financial settlement arrangement with the former superintendent was approved at the December 21, 2011 board meeting, or at a subsequent board meeting. The former Superintendent's contract does not appear to allow the District to pay compensation to the former Superintendent for the period after January 16, 2012, payment of family insurance coverage after January 2012, severance pay, or payment of unused personal leave.

Recommendation – The Board approve of the compensation arrangements with its administrators, including administrators who resign before the end of their contract. In addition, the District should consult with legal counsel to determine the disposition of this matter.

Response – We will implement this recommendation, and will discuss this with our Attorney. The Board approved of the former superintendent's resignation, and his severance package, even though the Board minutes or the written resignation letter do not address the severance package.

Conclusion – Response accepted.