



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

January 31, 2012

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Melcher-Dallas, Iowa.

The City's receipts totaled \$937,809 for the year ended June 30, 2011. The receipts included \$226,129 in property tax, \$339,230 from charges for service, \$159,105 from operating grants, contributions and restricted interest, \$46,588 from capital grants, contributions and restricted interest, \$112,463 from local option sales tax, \$1,738 from unrestricted interest on investments and \$52,556 from other general receipts.

Disbursements for the year totaled \$804,605, and included \$205,395 for public works, \$161,840 for public safety and \$117,278 for general government. Also, disbursements for business type activities totaled \$255,443.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1121-0599-B00F.pdf>.

###

CITY OF MELCHER-DALLAS

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

JUNE 30, 2011

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		18-25
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	33
Schedule of Indebtedness	2	34-35
Bond and Note Maturities	3	36-37
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		39-40
Schedule of Findings		41-48
Staff		49

City of Melcher-Dallas

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Amos Spoon	Mayor	Jan 2012
Kelly DeHeer	Council Member	Oct 2010
Jerry Alexander	Council Member	Jan 2012
Dennis Tickle	Council Member	Jan 2012
Justin Franklin (Appointed Oct 2010)	Council Member	Mar 2011
Terry Fisher (Elected Mar 2011)	Council Member	Jan 2012
Barb VanWyk	Council Member	Jan 2014
Adam Wadle	Council Member	Jan 2014
Barbara Lloyd	Clerk/Treasurer	(Resigned)
Doris Loy	Clerk/Treasurer	Indefinite
Gil Caldwell	Attorney	Indefinite

City of Melcher-Dallas



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Melcher-Dallas, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Melcher-Dallas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Melcher-Dallas as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2011 on our consideration of the City of Melcher-Dallas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Melcher-Dallas' basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Melcher-Dallas provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$52,000 during the fiscal year, primarily due to local option sales tax collected and not spent during the year.
- The cash basis net assets of the City's business type activities increased approximately \$81,200 during the fiscal year, due primarily to receipts exceeding disbursements in the Water and Sewer Funds.

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 City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City'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 the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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 to the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sewer systems. These activities are financed primarily by user fees.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Capital Projects Fund and 4) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for water and sewer operations. The Water and Sewer Funds are considered to be major funds of the City.

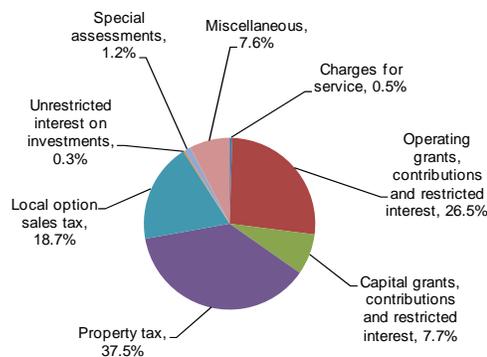
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

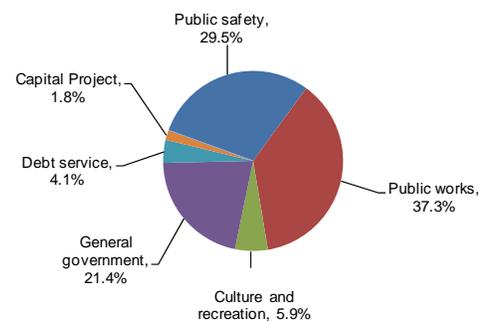
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$536,671 to \$588,673, primarily due to local option sales tax collected and not spent during the year. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 2,792
Operating grants, contributions and restricted interest	159,105
Capital grants, contributions and restricted interest	46,588
General receipts:	
Property tax	226,129
Local option sales tax	112,463
Unrestricted interest on investments	1,531
Special assessments	7,001
Miscellaneous	45,555
Total receipts	<u>601,164</u>
Disbursements:	
Public safety	161,840
Public works	205,395
Culture and recreation	32,435
General government	117,278
Debt service	22,439
Capital projects	9,775
Total disbursements	<u>549,162</u>
Change in cash basis net assets	52,002
Cash basis net assets beginning of year	<u>536,671</u>
Cash basis net assets end of year	<u>\$ 588,673</u>

Receipts by Source



Disbursements by Function



Total business type activities cash basis net assets increased approximately \$81,000 from a year ago, from \$548,730 to \$629,932.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 199,019
Sewer	137,419
General receipts:	
Unrestricted interest on investments	207
Total receipts	<u>336,645</u>
Disbursements :	
Water	143,444
Sewer	111,999
Total disbursements	<u>255,443</u>
Change in cash basis net assets	81,202
Cash basis net assets beginning of year	<u>548,730</u>
Cash basis net assets end of year	<u>\$ 629,932</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Melcher-Dallas completed the year, its governmental funds reported a combined fund balance of \$588,673, an increase of \$52,002 above last year's total of \$536,671. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$30,869 from the prior year to a year-end balance of \$141,574. This decrease is due to disbursements exceeding receipts for the fiscal year.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$28,056 due to street projects from the prior year to a year-end deficit balance of \$26,098.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$112,883 to \$403,496 during the fiscal year. The increase was due to local option sales tax collected and not spent during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$55,759 to a year-end balance of \$313,824, primarily due to receipts exceeding disbursements.
- The Enterprise, Sewer Fund cash balance increased \$25,443 to a year-end balance of \$316,108, primarily due to an increase in sewer rates.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 13, 2011 and resulted in a decrease in operating disbursements of \$77,153, relating primarily to the public works function.

The City's receipts were \$87,102 more than budgeted, primarily due to City receiving more than budgeted for library donations during fiscal year 2011.

Total disbursements were \$77,512 less than the amended budget. Disbursements in the public safety, general government and business type activities functions were \$11,825, \$24,495 and \$69,099, respectively, less than the amended budget. This is primarily due to city overestimating budgeted disbursements.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,338,717 in general obligation bonds, revenue bonds and other debt outstanding, compared to \$1,467,500 last year, as shown below:

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation bonds	\$ 180,000	194,000
Revenue bonds	819,591	855,709
Revenue notes	275,000	335,000
Lease purchase agreement	64,126	82,791
Total	\$ 1,338,717	1,467,500

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is \$244,126, which is significantly below its constitutional debt limit of approximately \$1,868,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Melcher-Dallas' elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities.

The fiscal year 2012 budget contains total receipts of \$797,518 and disbursements of \$635,335. This budget is lower than the amended fiscal year 2011 budget which contained total receipts of \$806,840 and disbursements of \$842,464.

The fiscal year 2012 property tax levy is \$11.80088 per \$1,000 of taxable valuation, a decrease from \$11.80526 per \$1,000 of taxable valuation for fiscal year 2011. The debt service levy increased from \$1.23142 per \$1,000 of taxable valuation for fiscal year 2011 to \$1.24001 per \$1,000 of taxable valuation for fiscal year 2012 due to taxing for part of the refunding note not taxed for in previous years.

These parameters were taken into account when adopting the budget for fiscal year 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Doris Loy, City Clerk, 305 D Main Street, Melcher-Dallas, Iowa 50062.

City of Melcher-Dallas

Basic Financial Statements

City of Melcher-Dallas

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 161,840	10	12,244	-
Public works	205,395	1,631	126,707	-
Culture and recreation	32,435	513	5,839	46,588
General government	117,278	638	14,315	-
Debt service	22,439	-	-	-
Capital projects	9,775	-	-	-
Total governmental activities	549,162	2,792	159,105	46,588
Business type activities:				
Water	143,444	199,019	-	-
Sewer	111,999	137,419	-	-
Total business type activities	255,443	336,438	-	-
Total	\$ 804,605	339,230	159,105	46,588
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted for:				
Debt service				
Local option sales tax				
Library memorial				
Library building				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(149,586)	-	(149,586)
(77,057)	-	(77,057)
20,505	-	20,505
(102,325)	-	(102,325)
(22,439)	-	(22,439)
(9,775)	-	(9,775)
(340,677)	-	(340,677)
-	55,575	55,575
-	25,420	25,420
-	80,995	80,995
(340,677)	80,995	(259,682)
202,578	-	202,578
23,551	-	23,551
112,463	-	112,463
1,531	207	1,738
52,556	-	52,556
392,679	207	392,886
52,002	81,202	133,204
536,671	548,730	1,085,401
\$ 588,673	629,932	1,218,605
\$ -	81,157	81,157
403,496	-	403,496
825	-	825
42,119	-	42,119
93,178	-	93,178
49,055	548,775	597,830
\$ 588,673	629,932	1,218,605

Exhibit B

City of Melcher-Dallas

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

As of and for the year ended June 30, 2011

	Special Revenue			Nonmajor	Total
	General	Road Use Tax	Local Option Sales Tax		
Receipts:					
Property tax	\$173,825	-	-	52,304	226,129
Local option sales tax	-	-	112,463	-	112,463
Licenses and permits	513	-	-	-	513
Use of money and property	16,027	-	420	-	16,447
Intergovernmental	15,894	117,861	-	6,898	140,653
Charges for service	593	-	-	-	593
Special assessments	7,001	-	-	-	7,001
Miscellaneous	53,498	-	-	43,867	97,365
Total receipts	267,351	117,861	112,883	103,069	601,164
Disbursements:					
Operating:					
Public safety	112,778	-	-	49,062	161,840
Public works	48,698	145,917	-	10,780	205,395
Culture and recreation	30,859	-	-	1,576	32,435
General government	105,885	-	-	11,393	117,278
Debt service	-	-	-	22,439	22,439
Capital projects	-	-	-	9,775	9,775
Total disbursements	298,220	145,917	-	105,025	549,162
Excess (deficiency) of receipts over (under) disbursements	(30,869)	(28,056)	112,883	(1,956)	52,002
Cash balances beginning of year	172,443	1,958	290,613	71,657	536,671
Cash balances end of year	\$141,574	(26,098)	403,496	69,701	588,673
Cash Basis Fund Balances					
Restricted for:					
Local option sales tax	\$ -	-	403,496	-	403,496
Library memorial	825	-	-	-	825
Library building	42,119	-	-	-	42,119
Other purposes	-	-	-	93,178	93,178
Assigned for library services	12,012	-	-	-	12,012
Unassigned	86,618	(26,098)	-	(23,477)	37,043
Total cash basis fund balances	\$141,574	(26,098)	403,496	69,701	588,673

See notes to financial statements.

City of Melcher-Dallas

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

As of and for the year ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 191,816	137,356	329,172
Miscellaneous	7,203	63	7,266
	<u>199,019</u>	<u>137,419</u>	<u>336,438</u>
Operating disbursements:			
Business type activities	<u>96,134</u>	<u>94,116</u>	<u>190,250</u>
Excess of operating receipts over operating disbursements	<u>102,885</u>	<u>43,303</u>	<u>146,188</u>
Non-operating receipts (disbursements):			
Interest on investments	184	23	207
Debt service	(47,310)	(17,883)	(65,193)
Total non-operating receipts (disbursements)	<u>(47,126)</u>	<u>(17,860)</u>	<u>(64,986)</u>
Excess of receipts over disbursements	55,759	25,443	81,202
Cash balances beginning of year	<u>258,065</u>	<u>290,665</u>	<u>548,730</u>
Cash balances end of year	<u>\$ 313,824</u>	<u>316,108</u>	<u>629,932</u>
Cash Basis Fund Balances			
Restricted for debt service	\$ 64,001	17,156	81,157
Unrestricted	<u>249,823</u>	<u>298,952</u>	<u>548,775</u>
Total cash basis fund balances	<u>\$ 313,824</u>	<u>316,108</u>	<u>629,932</u>

See notes to financial statements.

City of Melcher-Dallas

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, the City of Melcher-Dallas has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Melcher-Dallas (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational relationship with the City.

Blended Component Unit

Melcher-Dallas Emergency Response Association is legally separate from the City, but is so intertwined with the City it is, in substance, part of the City. Melcher-Dallas Emergency Response Association is organized under Chapter 504A of the Code of Iowa as a non-profit corporation and collects donations which are used to purchase items not included in the City's budget. The financial transactions have been reported as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marion County Assessor's Conference Board, Marion County Emergency Management Commission and Marion County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance

The Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis 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.

Assigned – Amounts the Council intends to use for specific purposes.

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.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$11,891 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

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

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 15,000	7,740	32,000	22,110	65,000	14,138	112,000	43,988
2013	15,000	7,095	41,474	25,280	65,000	11,050	121,474	43,425
2014	16,000	6,450	58,848	23,886	70,000	7,800	144,848	38,136
2015	17,000	5,762	59,240	21,963	75,000	4,125	151,240	31,850
2016	17,000	5,031	60,652	20,022	-	-	77,652	25,053
2017-2021	100,000	13,330	316,377	69,559	-	-	416,377	82,889
2022-2026	-	-	251,000	22,050	-	-	251,000	22,050
Total	\$ 180,000	45,408	819,591	204,870	275,000	37,113	1,274,591	287,391

Sewer Revenue Bonds

The resolution providing for the issuance of the sewer revenue bonds issued November 19, 1980 includes the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold in lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a sewer bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payment when due.
- c) Additional transfers shall be made in order to maintain a debt service reserve account in an amount equal to at least the maximum amount of principal and interest coming on the bonds and parity bonds in any succeeding fiscal year. The account is established for the purpose of making bond principal and interest payments should the sinking account have insufficient funds to do so.

These sewer revenue bonds have an outstanding balance of \$82,591 as of June 30, 2011.

On June 13, 1992, the City entered into an agreement with the Iowa Finance Authority, the Department of Natural Services and Wells Fargo Bank for the issuance of \$100,000 of sewer revenue bonds. The bonds were issued pursuant to the provisions of Sections 384.24A and 384.82 of the Code of Iowa for the purpose of paying costs of constructing improvements to the municipal sanitary sewer system. The interest rate is 3% per annum on the outstanding principal amount for the remaining life of the bonds.

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

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien in the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a sewer bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- c) Sufficient monthly transfers shall be made to a sewer revenue reserve account shall be made until a specific minimum balance has been accumulated. The account is established for the purpose of making bond principal and interest payments should the sinking account have insufficient funds to do so.
- d) Sewer user rates shall be established at a level which produces and maintains net revenue at a level not less than 125% of the average annual installments of principal and interest on the bonds falling due in the same year.

The balance owed for these sewer revenue bonds was \$12,000 as of June 30, 2011.

Annual principal and interest payments on the sewer revenue bonds are expected to require less than 42% of net receipts. The total principal and interest remaining to be paid on the sewer revenue bonds is \$116,151. For the current year, principal and interest paid and total customer net receipts were \$17,883 and \$43,303, respectively.

Water Revenue Bonds

On March 15, 2006, the City entered into an agreement with the Iowa Finance Authority, the Department of Natural Resources and Wells Fargo Bank for the issuance of \$475,000 of water revenue bonds. The bonds were issued pursuant to the provisions of Sections 384.24A and 384.82 of the Code of Iowa for the purpose of paying costs of constructing improvements to the municipal water system. The interest rate is 3% per annum on the outstanding principal amount for the remaining life of the bonds.

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

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a water bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- c) Water user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the average annual installments of principal and interest on the bonds falling due in the same year.

The balance owed for these water revenue bonds was \$450,000 as of June 30, 2011.

On March 23, 2007, the City entered into an agreement with the Iowa Finance Authority, the Department of Natural Resources and Wells Fargo Bank for the issuance of \$350,000 of water revenue bonds. The bonds were issued pursuant to the provisions of Sections 384.24A and 384.82 of the Code of Iowa for the purpose of paying costs of constructing improvements to the municipal water system. The interest rate is 3% per annum on the outstanding principal amount for the remaining life of the bonds.

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

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a water bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payment when due.
- c) Water user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the average annual installments of principal and interest on the bonds falling due in the same year.

The balance owed for these water revenue bonds was \$275,000 as of June 30, 2011.

Annual principal and interest payments on the water revenue bonds are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the water revenue bonds is \$908,310. For the current year, principal and interest paid and total customer net receipts were \$47,310 and \$102,885, respectively.

The City has not established the required water and sewer bond sinking accounts or made the required transfers to the water and sewer bond sinking accounts.

Road Use Tax Revenue Notes

On February 1, 2005, the City entered into an agreement with a local bank to borrow \$605,000 to pay street repair costs. Road use tax receipts are generally projected to produce 100% of the debt service requirements over the life of the notes. The note agreement states the notes will not constitute a general obligation of the City but will be payable solely and only from annual road use tax received by the City from the State of Iowa.

The balance owed on the road use tax revenue notes is \$275,000 as of June 30, 2011.

Truck Loan Agreement

On June 16, 2009, the City entered into an installment loan for \$98,717 to be used to purchase a truck. The loan bears interest at 5.50% per annum and is to be repaid in five annual installments of \$23,105, including interest. During the year ended June 30, 2011, a total of \$23,105, including interest of \$4,440, was paid on the loan. The principal balance at June 30, 2011 was \$64,126.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$16,132.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2011, primarily relating to the General Fund, was \$3,300. This liability has been computed based on rates of pay in effect at June 30, 2011.

(6) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as a disbursement from its operating fund at the time of payment to the risk pool. The City's contribution to the Pool for the year ended June 30, 2011 was \$25,202.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Deficit Balances

The Special Revenue, Road Use Tax and Employee Benefits Funds and the Capital Projects Fund had deficit balances of \$26,098, \$13,702 and \$9,775, respectively, at June 30, 2011.

The Capital Projects Fund deficit balance will be eliminated when grant reimbursements are received. The City will investigate alternatives to eliminate the Special Revenue, Road Use Tax and Employee Benefits Funds deficits.

(8) Special Investigation

The Office of Auditor of State performed a special investigation of the City for the period July 1, 2007 through June 30, 2010. The special investigation report, dated April 14, 2011, identified \$16,692 of undeposited collections and improper disbursements for the period July 1, 2007 through June 30, 2010, of which \$8,270 has been recovered.

Copies of the special investigation report have been filed with the Marion County Attorney's Office, the Division of Criminal Investigation and the Attorney General's Office. A copy of this report is available for review in the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/specials/1022-0599-BE00.pdf>.

(9) Litigation

The City is involved in two lawsuits as of June 30, 2011. The probability of loss, if any, is undeterminable.

City of Melcher-Dallas

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 226,129	-	-
Other city tax	112,463	-	-
Licenses and permits	513	-	-
Use of money and property	16,447	207	-
Intergovernmental	140,653	-	-
Charges for service	593	329,172	-
Special assessments	7,001	-	-
Miscellaneous	97,365	7,266	43,867
Total receipts	601,164	336,645	43,867
Disbursements:			
Public safety	161,840	-	39,653
Public works	205,395	-	-
Culture and recreation	32,435	-	-
General government	117,278	-	-
Debt service	22,439	-	-
Capital projects	9,775	-	-
Business type activities	-	255,443	-
Total disbursements	549,162	255,443	39,653
Excess (deficiency) of receipts over (under) disbursements	52,002	81,202	4,214
Balances beginning of year	536,671	548,730	55,116
Balances end of year	\$ 588,673	629,932	59,330

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
226,129	211,930	211,930	14,199
112,463	130,622	102,000	10,463
513	500	500	13
16,654	6,000	6,000	10,654
140,653	132,565	132,565	8,088
329,765	350,000	348,845	(19,080)
7,001	-	-	7,001
60,764	28,000	5,000	55,764
893,942	859,617	806,840	87,102
122,187	112,500	134,012	11,825
205,395	316,010	181,759	(23,636)
32,435	24,000	26,724	(5,711)
117,278	107,550	141,773	24,495
22,439	23,557	22,654	215
9,775	-	11,000	1,225
255,443	336,000	324,542	69,099
764,952	919,617	842,464	77,512
128,990	(60,000)	(35,624)	164,614
1,030,285	1,065,406	1,018,075	12,210
1,159,275	1,005,406	982,451	176,824

City of Melcher-Dallas

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Capital Projects Fund, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$77,153. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works and culture and recreation functions.

Other Supplementary Information

City of Melcher-Dallas

City of Melcher-Dallas

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

As of and for the year ended June 30, 2011

	Special Revenue					Total
	Employee Benefits	I-Jobs	Melcher-Dallas Emergency Response Association	Capital Projects	Debt Service	
Receipts:						
Property tax	\$ 28,753	-	-	-	23,551	52,304
Intergovernmental	-	6,898	-	-	-	6,898
Miscellaneous	-	-	43,867	-	-	43,867
Total receipts	28,753	6,898	43,867	-	23,551	103,069
Disbursements:						
Operating:						
Public safety	9,409	-	39,653	-	-	49,062
Public works	10,780	-	-	-	-	10,780
Culture and recreation	1,576	-	-	-	-	1,576
General government	11,393	-	-	-	-	11,393
Debt service	-	-	-	-	22,439	22,439
Capital projects	-	-	-	9,775	-	9,775
Total disbursements	33,158	-	39,653	9,775	22,439	105,025
Excess (deficiency) of receipts over (under) disbursements	(4,405)	6,898	4,214	(9,775)	1,112	(1,956)
Cash balances beginning of year	(9,297)	-	55,116	-	25,838	71,657
Cash balances end of year	\$ (13,702)	6,898	59,330	(9,775)	26,950	69,701
Cash Basis Fund Balances						
Restricted for other purposes	\$ -	6,898	59,330	-	26,950	93,178
Unassigned	(13,702)	-	-	(9,775)	-	(23,477)
Total cash basis fund balances	\$ (13,702)	6,898	59,330	(9,775)	26,950	69,701

See accompanying independent auditor's report.

City of Melcher-Dallas
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer improvement	Jun 1, 2001	4.30%	\$ 305,000
Revenue bonds:			
Sewer	Nov 19, 1980	5.00%	\$ 195,700
Sewer	Jun 13, 1992	3.00	100,000
Water	Mar 15, 2006	3.00	475,000
Water	Mar 23, 2007	3.00	350,000
Total			
Revenue notes:			
Road use tax	Feb 1, 2005	4.00-5.50%	\$ 605,000
Lease purchase agreement:			
Truck	Jun 16, 2009	5.50%	\$ 98,717

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
194,000	14,000	180,000	8,342
89,709	7,118	82,591	4,486
18,000	6,000	12,000	270
459,000	9,000	450,000	13,770
289,000	14,000	275,000	8,670
\$ 855,709	36,118	819,591	27,196
335,000	60,000	275,000	16,993
82,791	18,665	64,126	4,440

City of Melcher-Dallas

Bond and Note Maturities

June 30, 2011

Year Ending June 30,	General Obligation		Sewer		Revenue	
	Bonds		Sewer		Sewer	
	Issued June 1, 2001		Issued November 19, 1980		Issued June 13, 1992	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	4.30%	\$ 15,000	5.00%	\$ -	3.00%	\$ 6,000
2013	4.30	15,000	5.00	7,474	3.00	6,000
2014	4.30	16,000	5.00	7,848		-
2015	4.30	17,000	5.00	8,240		-
2016	4.30	17,000	5.00	8,652		-
2017	4.30	18,000	5.00	9,085		-
2018	4.30	19,000	5.00	9,539		-
2019	4.30	20,000	5.00	10,016		-
2020	4.30	21,000	5.00	10,517		-
2021	4.30	22,000	5.00	11,220		-
2022		-		-		-
2023		-		-		-
2024		-		-		-
2025		-		-		-
2026		-		-		-
Total		<u>\$ 180,000</u>		<u>\$ 82,591</u>		<u>\$ 12,000</u>

See accompanying independent auditor's report.

Bonds						Revenue Notes			
Water			Water			Road Use Tax			
Issued March 15, 2006			Issued March 23, 2007			Issued February 1, 2005			
Interest Rates		Amount	Interest Rates		Amount	Total	Interest Rates		Amount
3.00%	\$	11,000	3.00%	\$	15,000	\$ 32,000	4.75%	\$	65,000
3.00		13,000	3.00		15,000	41,474	5.00		65,000
3.00		35,000	3.00		16,000	58,848	5.25		70,000
3.00		35,000	3.00		16,000	59,240	5.50		75,000
3.00		35,000	3.00		17,000	60,652			-
3.00		35,000	3.00		17,000	61,085			-
3.00		35,000	3.00		18,000	62,539			-
3.00		35,000	3.00		18,000	63,016			-
3.00		35,000	3.00		19,000	64,517			-
3.00		35,000	3.00		19,000	65,220			-
3.00		35,000	3.00		20,000	55,000			-
3.00		30,000	3.00		20,000	50,000			-
3.00		30,000	3.00		21,000	51,000			-
3.00		26,000	3.00		22,000	48,000			-
3.00		25,000	3.00		22,000	47,000			-
	\$	<u>450,000</u>		\$	<u>275,000</u>	\$ <u>819,591</u>			<u>\$ 275,000</u>

City of Melcher-Dallas



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Melcher-Dallas, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 28, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Melcher-Dallas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Melcher-Dallas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Melcher-Dallas' internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a 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 City of Melcher-Dallas' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (E) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (F) through (J) to be significant deficiencies.

Compliance and Other Matters

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

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

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

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


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

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

- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (3) Long-term debt – recording, reconciling and performing cash functions.
- (4) Receipts – opening mail, collecting, depositing, journalizing and posting.
- (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (6) Disbursements – purchasing, check signing, recording and reconciling.
- (7) Payroll – preparing and distributing.
- (8) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

For the City of Melcher-Dallas Public Library, one individual has control over each of the following:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursement – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

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

Response – We will do what we can with limited staff.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings

Year ended June 30, 2011

- (B) Financial Reporting – During the audit, we identified a material amount of disbursements recorded to incorrect functions in the City’s accounting records. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure all disbursements are properly recorded in the City’s financial statements.

Response – We will work on addressing this recommendation.

Conclusion – Response accepted.

- (C) Payroll – Time sheets were not always approved by a responsible official. Also, evidence of leave request approvals prior to usage as required by City policy was not available.

Recommendation – Time sheets should be retained to support time worked for all employees and should be reviewed and approved by a responsible official before the payroll checks are prepared. Approval for leave should be evident and in compliance with City procedures.

Response – The mayor is now signing off on the timesheets and checking the hours.

Conclusion – Response accepted.

- (D) Utilities – Delinquent unpaid billings are printed about the 16th of the month. However, the utility reconciliation report (accounts receivable audit report), the billing report and the collection report are printed at different dates. Therefore, the utility reconciliation report cannot be reconciled with supporting documentation.

Also, an independent review of the utility reconciliation report and supporting documentation is not performed.

In addition, meter deposits are not reconciled to a control account periodically and a variance between the control account and records exists.

Recommendation – The utility reconciliation report should be printed on the same day of the month as the delinquent unpaid billings, the billing report and the collection report so the utility reconciliation can be reconciled to supporting documentation.

Also, an independent review should be performed to ensure the utility reconciliation report and supporting documentation is correct.

In addition, the balance in the meter deposit account should be reconciled with the City’s detailed listing of meter deposits currently on hand on a periodic basis. Any variances between the account and listing should be resolved.

Response – We will work on addressing this recommendation.

Conclusion - Response accepted.

City of Melcher-Dallas

Schedule of Findings

Year ended June 30, 2011

- (E) City Records and Account Procedures – Bank deposits were made on a timely basis. However, certain receipt collections were not posted to the financial accounting software timely.

Additionally, monthly receipt and disbursement reports, treasurer's reports, balance sheet reports, listings of outstanding checks and deposits in transit were not properly maintained and reviewed by an independent reviewer.

Recommendation – Receipt collections should be posted to the financial accounting software timely.

All records should be maintained and retained. An independent review of should be performed periodically.

Response – We will work on addressing this recommendation.

Conclusion – Response accepted.

- (F) Gas Cards – The City has gas cards for use by employees while on City business. The City has not adopted a formal policy to regulate the use of gas cards and to establish procedures for the proper accounting of gas card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City gas cards. The policy, at a minimum, should address who controls gas cards, who is authorized to use gas cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We will work on addressing this recommendation.

Conclusion – Response accepted.

- (G) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted.

The City does not have written policies for:

- Requiring password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Restricting access to computer systems through the use of unique user IDs.
- Requiring password length to be at least 8 characters.
- Requiring computers to have a log off function when not in use.
- A computer lockout function if passwords are incorrectly entered more than three times.

City of Melcher-Dallas

Schedule of Findings

Year ended June 30, 2011

- The personal use of computer equipment.
- The use of internet access.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based systems. Also, a written disaster recovery plan should be developed and tested periodically.

Response – We will work on addressing this recommendation.

Conclusion – Response accepted.

(H) Accounting Procedures Manual – We encourage the development of office procedures and standardized accounting manuals for the City. In addition, we encourage obtaining or developing user manuals/help guides for the accounting software the City utilizes. These manuals and guides should provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or similar, situation arises.
- (4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Recommendation – Office procedures and standardized accounting manuals should be developed for the City.

Response – We will work on addressing this recommendation.

Conclusion – Response accepted.

(I) Record of Investments - A detailed record of investment transactions was not maintained.

Recommendation - A detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate and amount of principal and interest received.

Response - We will work on addressing this recommendation.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings

Year ended June 30, 2011

- (J) Disbursements - Invoices and supporting documentation for the City and Melcher-Dallas Emergency Response Association were not always marked paid or canceled to prevent possible duplicate payment.

Recommendation - All invoices and supporting documentation should be canceled to help prevent possible duplicate payments.

Response - We will work on addressing this recommendation.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Melcher-Dallas

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public works and culture and recreation functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – In the future we will amend the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – See the special investigation report performed by the Office of Auditor of State dated June 24, 2011.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
LuAnn Alexander, wife of Council Member Jerry Alexander, owns Country Trash.	Trash removal	\$ 240

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

- (6) Council Minutes – Except as noted below, no transactions were found we believe should have been approved in the minutes but were not.

Although minutes of Council proceedings were published, they were not always published within fifteen days.

Publications of the lists of bills allowed included bills paid from the General, the Special Revenue, Road Use Tax and the Enterprise, Water and Sewer Funds only. Claims paid from all other City funds were excluded from the publication. The publication of claims also excluded amounts paid by the Library.

Recommendation – The City should ensure the minutes, the listing of bills and the annual individual gross salaries are published as required.

Response – We will work on addressing this recommendation.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings

Year ended June 30, 2011

(7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

(8) Revenue Bonds – The City has complied with revenue bond and note resolutions, except as follows:

The water and sewer revenue bond resolutions require the City to establish water and sewer sinking accounts. The City has not established these accounts and did not make the required transfers as of June 30, 2011.

Recommendation – The City should establish the required accounts according to the water and sewer bond resolutions and make the required transfers.

Response – In the future, the City will make the transfers at the beginning of the year to the sinking funds.

Conclusion – Response accepted.

(9) Separately Maintained Records – The City maintains separate bank accounts for the Library. The financial transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. However, those financial transactions and the resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – We are working to get the Library funds moved to the City’s General Fund and making disbursements from the City’s account. By doing this, the Library Board’s Fiscal Officer and the City Clerk will be providing backup for each other. The City Council will be verifying and approving the final disbursements at the City Council meeting.

Conclusion – Response accepted.

(10) City Code – The City Code has not been recodified within the past five years.

Recommendation – Chapter 380.8 of the Code of Iowa requires cities to compile a code of ordinances containing all ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances for vacating streets and alleys at least once every five years. The City should review this for compliance.

Response – We will work on addressing this recommendation.

Conclusion – Response accepted.

City of Melcher-Dallas

Schedule of Findings

Year ended June 30, 2011

- (11) Financial Condition – The Capital Projects and Special Revenue, Road Use Tax and Employee Benefits Funds had deficit balances of \$9,775, \$26,098 and \$13,702, respectively, at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to sound financial positions.

Response – The Capital Projects Fund deficit balance will be eliminated when grant reimbursements are received. The City will investigate alternatives to eliminate the Special Revenue, Road Use Tax and Employee Benefits Funds deficits.

Conclusion - Response accepted.

- (12) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City and Library retain cancelled checks through electronic image, but do not obtain an image of the back of each cancelled check as required.

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

Response – The City has contacted the bank to have copies of the back of the checks provided.

Conclusion – Response accepted.

- (13) Public Works Department – Chapter 23A of the Code of Iowa discusses noncompetition by government. Specifically, Chapter 23A.2 states, in part, “A state agency or political subdivision shall not, unless specifically authorized by statute, rule, ordinance, or regulation:

- (a) Engage in the manufacturing, processing, sale, offering for sale, rental, leasing, delivery, dispensing, distributing, or advertising of goods or services to the public which are also offered by private enterprise unless such goods or services are for use or consumption exclusively by the state agency or political subdivision.
- (b) Offer or provide goods or services to the public for or through another state agency or political subdivision, by intergovernmental agreement or otherwise, in violation of this chapter.”

The City’s public works department sells and delivers clean rock for a fee paid to the City. This may violate the noncompetition provisions of Chapter 23A of the Code of Iowa. The City has no policies governing the private use of City property.

Recommendation – The City should consult legal counsel to resolve this matter.

Response – We are working to address this matter and have ceased rock sales.

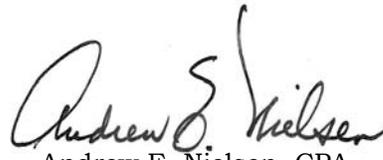
Conclusion - Response accepted.

City of Melcher-Dallas

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Brett M. Zeller, Senior Auditor
Marta M. Sobieszkoda, Staff Auditor
Marijke J. Hodgson, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State