

MARION INDEPENDENT SCHOOL DISTRICT
MARION, IOWA

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

JUNE 30, 2006

TABLE OF CONTENTS

	Page
OFFICIALS	4
INDEPENDENT AUDITOR’S REPORT	5-6
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)	7-17
BASIC FINANCIAL STATEMENTS	
Exhibit	
District-Wide Financial Statements:	
A Statement of Net Assets	20-21
B Statement of Activities	22-25
Governmental Fund Financial Statements:	
C Balance Sheet	26-27
D Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	28
E Statement of Revenues, Expenditures and Changes in Fund Balances	29-30
F Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	31
Proprietary Fund Financial Statements:	
G Statement of Net Assets	32
H Statement of Revenues, Expenses and Changes in Net Assets	33
I Statement of Cash Flows	34-35
Fiduciary Fund Financial Statements:	
J Statement of Fiduciary Net Assets	36
Notes to Financial Statements	37-50
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances – Budget and Actual (Accrual Basis) – All Governmental Funds and Proprietary Funds	52
Notes to Required Supplementary Information – Budgetary Reporting	53
OTHER SUPPLEMENTARY INFORMATION:	
Schedule	
Nonmajor Governmental Funds:	
1 Combining Balance Sheet	56-57
2 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	58-59
Nonmajor Enterprise Funds:	
3 Combining Schedule of Net Assets	60
4 Combining Schedule of Revenues, Expenses and Changes in Net Assets	61
5 Combining Schedule of Cash Flows	62-63
6 Schedule of Changes in Special Revenue Fund, Student Activity Accounts	64-65
7 Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	66
8 Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	67
9 Schedule of Expenditures of Federal Awards	68
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	69-70

TABLE OF CONTENTS
(continued)

	Page
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	71-72
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	73-79

MARION INDEPENDENT SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2005 Election)		
Thomas Thurman	President	2005
Donald B. Norton II	Vice President	2007
Tom Bullis	Board Member	2006
Dennis Walters	Board Member	2006
Mary Ames	Board Member	2007
Dan Barkley	Board Member	2005
Connie Bennett	Board Member	2005

<u>Board of Education</u>		
(After September 2005 Election)		
Thomas Thurman	President	2008
Donald B. Norton II	Vice President	2007
Tom Bullis	Board Member	2006
Dennis Walters	Board Member	2006
Mary Ames	Board Member	2007
Dan Barkley	Board Member	2008
Connie Bennett	Board Member	(Resigned 2-27-06) 2008
Gordon Gibson	Board Member	(Appointed 3-20-06) 2006

<u>School Officials</u>		
Nicholas Hobbs	Superintendent	2006
Brian Bartz	District Secretary/Treasurer	2006
Matthew Novak	Attorney	2006
Brian Gruhn	Attorney	2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Marion Independent 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 Marion Independent School District, Iowa, as of and for the year ended June 30, 2006, 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 basic 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 that our audit provides a reasonable basis for our opinions.

We were unable to observe the physical inventory recorded in the nonmajor Enterprise, School Nutrition Fund to verify the accuracy of the physical count of items on hand at June 30, 2006.

In our opinion, except for the effects of our inability to observe the inventory count as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Marion Independent School District as of June 30, 2006, 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 principles.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Marion Independent School District as of June 30, 2006, 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 principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2006 on our consideration of Marion Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 17 and 52 through 53 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. However, 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 Marion Independent 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 two years ended June 30, 2005 (none of which are presented herein). For the year ended June 30, 2005, we expressed qualified opinions on the business-type activities and aggregate remaining fund information due to the inability to observe School Nutrition Fund inventory and unqualified opinions on the governmental activities and each major fund. For the year ended June 30, 2004, we expressed unqualified opinions on those financial statements. The financial statements for the year ended June 30, 2003 (none of which are presented herein) were audited by other auditors whose report expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
August 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Marion Independent 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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$15,581,066 in fiscal year 2005 to \$17,261,085 in fiscal year 2006, while General Fund expenditures increased from \$15,833,381 in fiscal year 2005 to \$16,599,144 in fiscal year 2006. This resulted in an increase in the District's General Fund balance from \$645,983 in fiscal year 2005, to \$1,318,249 in fiscal year 2006, a 104% increase from the prior year.
- The increase in General Fund revenues was attributable to a 16% increase (+\$515,230) in tuition revenues and a 12% increase (+\$916,599) in state aid in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- General Fund total assets increased from \$8,384,546 in fiscal year 2005 to \$9,631,763 in fiscal year 2006. This was an increase of \$1,247,217. Most of the increase was attributable to the increase in cash of \$872,218.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as Food Services and the Student Built House Program.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others. The District took Board action several years ago and moved all of the District's fiduciary funds to the ownership of the Marion Independent School District Foundation.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

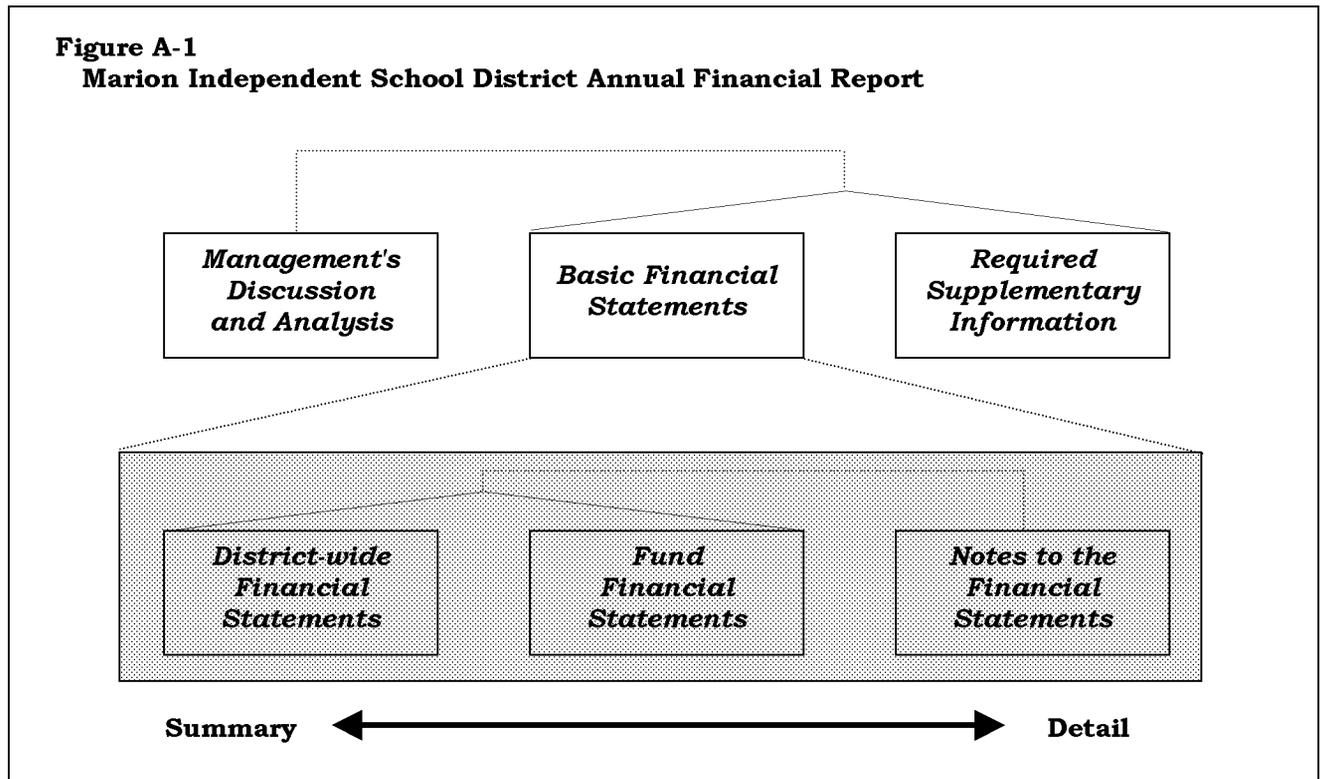


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-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 and the student built house program	Marion does not administer 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 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, and 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

District-wide Statements

The District-wide 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 District-wide 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 position.

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

In the District-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, state aid and open enrollment tuition 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 and student built house program are 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 Physical Plant and Equipment funds.

The District has two kinds of funds. Most Iowa school districts have three kinds of funds, but Marion Independent School District doesn't utilize fiduciary funds.

- *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. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
 - The District's governmental funds include the General Fund, Activity Fund, PPEL Fund, PERL Fund, Management Fund, Debt Service Fund and Capital Projects Fund.

- *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 District-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, the Student Store Fund and The Student Built House Fund.
- *Fiduciary funds:* The District has no fiduciary funds.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to 2005.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
	2006	2005	2006	2005	2006	2005	2006-2005
Current and other assets	\$11,454,288	\$9,664,912	\$318,025	\$339,855	\$ 11,772,313	\$ 10,004,767	17.67%
Capital assets	<u>10,073,695</u>	<u>10,017,008</u>	<u>79,141</u>	<u>22,816</u>	<u>10,152,836</u>	<u>10,039,824</u>	1.12%
Total assets	<u>21,527,983</u>	<u>19,681,920</u>	<u>397,166</u>	<u>362,671</u>	<u>21,925,149</u>	<u>20,044,591</u>	9.38%
Long-term obligations	5,592,733	5,431,842	-	-	5,592,733	5,431,842	2.96%
Other liabilities	<u>9,453,049</u>	<u>9,019,292</u>	<u>17,191</u>	<u>7,100</u>	<u>9,470,240</u>	<u>9,026,392</u>	4.92%
Total liabilities	<u>15,045,782</u>	<u>14,451,134</u>	<u>17,191</u>	<u>7,100</u>	<u>15,062,973</u>	<u>14,458,234</u>	4.18%
Net assets							
Invested in capital assets,							
net of related debt	4,494,112	4,590,706	79,141	22,816	4,573,253	4,613,522	- .87%
Restricted	682,990	190,710	-	-	682,990	190,710	258.13%
Unrestricted	<u>1,305,099</u>	<u>449,370</u>	<u>300,834</u>	<u>332,755</u>	<u>1,605,933</u>	<u>782,125</u>	105.33%
Total net assets	<u>\$6,482,201</u>	<u>\$5,230,786</u>	<u>\$379,975</u>	<u>\$355,571</u>	<u>\$ 6,862,176</u>	<u>\$ 5,586,357</u>	22.84%

Overall the District's net assets increased 22.84% or \$1,275,819 due to the improving financial position of the District.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2006, as compared to 2005.

	Change in Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2006-2005
Revenues							
Program revenues							
Charges for service and sales	4,304,721	3,710,561	679,994	638,123	4,984,715	4,348,684	14.63%
Operating grants, contributions and restricted interest	1,509,544	1,290,410	256,034	212,019	1,765,578	1,502,429	17.51%
General revenues							
Property tax	5,271,133	5,265,145			5,271,133	5,265,145	0.11%
Income Suxtax	387,652				387,652		100.00%
Unrestricted state grants	7,529,215	6,801,854			7,529,215	6,801,854	10.69%
Unrestricted investment earnings	182,813	36,223	8,928	2,721	191,741	38,944	392.35%
Other	119,427	50,464			119,427	50,464	136.66%
Total revenues	<u>19,304,505</u>	<u>17,154,657</u>	<u>944,956</u>	<u>852,863</u>	<u>20,249,461</u>	<u>18,007,520</u>	12.45%
Program expenses							
Instruction	11,556,441	11,008,084			11,556,441	11,008,084	4.98%
Support services	5,317,968	5,066,643	2,335		5,320,303	5,066,643	5.01%
Non-instructional programs	0	0	817,757	791,109	817,757	791,109	3.37%
Other expenses	1,178,681	1,245,512	120,039		1,298,720	1,245,512	4.27%
Total expenses	<u>18,053,090</u>	<u>17,320,239</u>	<u>940,131</u>	<u>791,109</u>	<u>18,993,221</u>	<u>18,111,348</u>	4.87%
Change in net assets	<u>1,251,415</u>	<u>-165,582</u>	<u>4,825</u>	<u>61,754</u>	<u>1,256,240</u>	<u>-103,828</u>	1309.92%

Property tax and unrestricted state grants account for 66% of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services which account for 93% of the total governmental activities expenses.

Governmental Activities

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.

Figure A-5

	<u>Total and Net Cost of Governmental Activities</u>	
	<u>Total Cost</u>	<u>Net Cost</u>
	<u>of Services</u>	<u>of Services</u>
Instruction	\$ 11,556,441	\$ 6,426,167
Support services	5,317,968	5,196,485
Non-instructional programs		
Other expenses	<u>1,178,681</u>	<u>616,173</u>
Total expenses	<u>\$18,053,090</u>	<u>\$ 12,238,825</u>

- The cost financed by users of the District’s programs was \$4,304,721. Exhibit B Total Governmental Activities – Charges for Services revenues total.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,509,544. Exhibit B, Total Governmental Activities, Operating Grants revenues total.
- The net cost of governmental activities was financed with \$5,271,133 in property tax, \$7,529,215 in state foundation aid and \$182,813 in interest income. Exhibit B General Revenues section

Business-Type Activities

Revenues of the District’s business-type activities were \$944,956 Exhibit B Business-type activity revenue – Charges for services (\$679,994) + Operating Grants (\$256,034) and interest (\$8,928) and expenses were \$940,131 Exhibit B – Business type activities expenses. The District’s business-type activities include the School Nutrition Fund, School Store and Student-built House. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Financial Analysis of the District’s Funds

As previously noted, the Marion Independent 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 \$1,633,961, Exhibit C, Total Fund Balances which is \$967,137 more than last year’s ending fund balances of \$666,824. (Exhibit E, Fund Balance, beginning of year.)

Governmental Fund Highlights

The District's General Fund Balance increased from \$645,983 to \$1,318,249. There are several factors that affected this increase. One of these factors is the District started claiming Medicaid for Medicaid eligible children. The District also implemented tighter spending controls to control expenditures. The number of open enrolled in students increased which increased the tuition revenue.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$220,668 at June 30, 2005 to \$222,243 at June 30, 2006, representing an increase of approximately .7%.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. (Districts having private-purpose trust and agency funds are not required to adopt a budget for these funds.) Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. The District did not amend its annual operating budget. A schedule showing the final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund are not presented in the budgetary comparison on page 52.

Legal Budgetary Highlights

The District manages or controls expenditures through its line-item budgets. As a result, the District's certified budget should align conservatively higher than the actual expenditures during the year.

The District's budget was exceeded in total by \$12,346 and expenditures exceeded the budget in the instruction, non-instructional programs, and other expenditures functions.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the District had invested \$10,152,836, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 1.12% from last year. More detailed information about capital assets is available in Note 1D and Note 5 to the financial statements. Depreciation expense for the year was \$467,749.

Governmental activities account for \$10,073,695 with the remainder \$79,141 in the Proprietary, School Nutrition Fund.

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Basic Financial Statements

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 3,101,900	\$ 305,501	\$ 3,407,401
Receivables:			
Property tax:			
Current year	49,432	-	49,432
Succeeding year	4,649,492	-	4,649,492
Income surtax	387,652	-	387,652
Accounts	29,912	40	29,952
Due from other governments	498,393	-	498,393
Inventories	-	12,484	12,484
Restricted ISCAP assets (note 4):			
Investments	2,716,199	-	2,716,199
Accrued interest receivable	21,308	-	21,308
Capital assets, net of accumulated depreciation (note 5)	10,073,695	79,141	10,152,836
Total assets	21,527,983	397,166	21,925,149
Liabilities			
Accounts payable	333,370	3,305	336,675
Salaries and benefits payable	1,595,630	5,012	1,600,642
Accrued interest payable	20,374	-	20,374
ISCAP warrants payable (note 4)	2,715,000	-	2,715,000
ISCAP accrued interest payable (note 4)	19,950	-	19,950
ISCAP unamortized premium (note 4)	12,960	-	12,960
ISCAP drawdown payable (note 4)	10,000	-	10,000
Deferred revenue:			
Succeeding year property tax	4,649,492	-	4,649,492
Other	9,800	8,874	18,674
Early retirement payable	86,473	-	86,473
Long-term liabilities (note 6):			
Portion due within one year:			
Bonds payable	495,000	-	495,000
Notes payable	160,000	-	160,000
Contract payable	59,583	-	59,583
Compensated absences	13,150	-	13,150
Portion due after one year:			
Bonds payable	4,345,000	-	4,345,000
Notes payable	520,000	-	520,000
Total liabilities	15,045,782	17,191	15,062,973

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 4,494,112	\$ 79,141	\$ 4,573,253
Restricted for:			
Management levy	32,393	-	32,393
Physical plant and equipment levy	492,886	-	492,886
Public education and recreation levy	21,153	-	21,153
Other special revenue purposes	134,928	-	134,928
Debt service	1,630	-	1,630
Unrestricted	<u>1,305,099</u>	<u>300,834</u>	<u>1,605,933</u>
Total net assets	<u>\$ 6,482,201</u>	<u>\$ 379,975</u>	<u>\$ 6,862,176</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental Activities:			
Instruction	\$ 11,556,441	\$ 4,206,775	\$ 923,499
Support services:			
Student services	648,527	60,474	5,818
Instructional staff services	713,305	-	-
Administration services	1,821,534	-	-
Operation and maintenance of plant services	1,751,451	11,850	-
Transportation services	383,151	25,622	17,719
	<u>5,317,968</u>	<u>97,946</u>	<u>23,537</u>
Other expenditures:			
Facilities acquisition	14,761	-	-
Long-term debt interest and fiscal charges	264,728	-	-
AEA flowthrough	562,508	-	562,508
Depreciation (unallocated) *	336,684	-	-
	<u>1,178,681</u>	<u>-</u>	<u>562,508</u>
Total governmental activities	<u>18,053,090</u>	<u>4,304,721</u>	<u>1,509,544</u>
Business-Type Activities:			
Support services:			
Administration services	252	-	-
Operation and maintenance of plant services	2,083	-	-
	<u>2,335</u>	<u>-</u>	<u>-</u>
Non-instructional programs:			
Food service operations	735,631	473,788	256,034
School store	4,605	4,706	-
Student built house	77,521	201,500	-
	<u>817,757</u>	<u>679,994</u>	<u>256,034</u>
Other expenditures:			
Facilities acquisition	120,039	-	-
Total business-type activities	<u>940,131</u>	<u>679,994</u>	<u>256,034</u>
Total	<u>\$ 18,993,221</u>	<u>\$ 4,984,715</u>	<u>\$ 1,765,578</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (6,426,167)	\$ -	\$ (6,426,167)
(582,235)	-	(582,235)
(713,305)	-	(713,305)
(1,821,534)	-	(1,821,534)
(1,739,601)	-	(1,739,601)
(339,810)	-	(339,810)
(5,196,485)	-	(5,196,485)
(14,761)	-	(14,761)
(264,728)	-	(264,728)
-	-	-
(336,684)	-	(336,684)
(616,173)	-	(616,173)
(12,238,825)	-	(12,238,825)
-	(252)	(252)
-	(2,083)	(2,083)
-	(2,335)	(2,335)
-	(5,809)	(5,809)
-	101	101
-	123,979	123,979
-	118,271	118,271
-	(120,039)	(120,039)
-	(4,103)	(4,103)
(12,238,825)	(4,103)	(12,242,928)

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Income surtax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated (note 11)

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ 4,404,996	\$ -	\$ 4,404,996
708,937	-	708,937
157,200	-	157,200
387,652	-	387,652
7,529,215	-	7,529,215
182,813	8,928	191,741
119,427	-	119,427
<hr/>		
13,490,240	8,928	13,499,168
<hr/>		
1,251,415	4,825	1,256,240
<hr/>		
5,230,786	375,150	5,605,936
<hr/>		
<u>\$ 6,482,201</u>	<u>\$ 379,975</u>	<u>\$ 6,862,176</u>

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and pooled investments	\$ 2,718,161	\$ 383,739	\$ 3,101,900
Receivables:			
Property tax:			
Current year	38,606	10,826	49,432
Succeeding year	3,632,263	1,017,229	4,649,492
Income surtax	-	387,652	387,652
Accounts	6,833	23,079	29,912
Due from other governments	498,393	-	498,393
Restricted ISCAP assets (note 4):			
Investments	2,716,199	-	2,716,199
Accrued interest receivable	21,308	-	21,308
	<u>\$ 9,631,763</u>	<u>\$ 1,822,525</u>	<u>\$ 11,454,288</u>
Total assets			

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 318,364	\$ 15,006	\$ 333,370
Salaries and benefits payable	1,595,177	453	1,595,630
ISCAP warrants payable (note 4)	2,715,000	-	2,715,000
ISCAP accrued interest payable (note 4)	19,950	-	19,950
ISCAP unamortized premium (note 4)	12,960	-	12,960
ISCAP drawdown payable (note 4)	10,000	-	10,000
Deferred revenue:			
Succeeding year property tax	3,632,263	1,017,229	4,649,492
Other	9,800	387,652	397,452
Early retirement payable (note 6)	-	86,473	86,473
Total liabilities	<u>8,313,514</u>	<u>1,506,813</u>	<u>9,820,327</u>
Fund balance:			
Reserved for:			
Debt service	-	22,004	22,004
Unreserved:			
Reported in nonmajor Special Revenue Funds	-	293,708	293,708
Undesignated	1,318,249	-	1,318,249
Total fund balances	<u>1,318,249</u>	<u>315,712</u>	<u>1,633,961</u>
Total liabilities and fund balances	<u>\$ 9,631,763</u>	<u>\$ 1,822,525</u>	<u>\$ 11,454,288</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances of governmental funds	\$ 1,633,961
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.	10,073,695
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	387,652
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.	(20,374)
Long-term liabilities, including bonds, notes, and contracts payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,592,733)</u>
Net assets of governmental activities	<u>\$ 6,482,201</u>
See notes to financial statements.	

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 4,112,531	\$ 1,153,320	\$ 5,265,851
Tuition	3,673,297	-	3,673,297
Other	371,900	482,594	854,494
State sources	8,705,091	1,157	8,706,248
Federal sources	398,266	-	398,266
Total revenues	<u>17,261,085</u>	<u>1,637,071</u>	<u>18,898,156</u>
Expenditures:			
Current:			
Instruction	<u>11,039,963</u>	<u>523,769</u>	<u>11,563,732</u>
Support services:			
Student services	648,527	-	648,527
Instructional staff services	720,864	-	720,864
Administration services	1,798,324	-	1,798,324
Operation and maintenance of plant services	1,507,165	220,921	1,728,086
Transportation services	321,793	21,747	343,540
	<u>4,996,673</u>	<u>242,668</u>	<u>5,239,341</u>
Other expenditures:			
Facilities acquisition	-	471,857	471,857
Long term debt:			
Principal	-	546,719	546,719
Interest and fiscal charges	-	265,558	265,558
AEA flowthrough	562,508	-	562,508
	<u>562,508</u>	<u>1,284,134</u>	<u>1,846,642</u>
Total expenditures	<u>16,599,144</u>	<u>2,050,571</u>	<u>18,649,715</u>
Excess (deficiency) of revenues over (under) expenditures	<u>661,941</u>	<u>(413,500)</u>	<u>248,441</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):			
Sale of equipment	\$ 377	\$ -	\$ 377
Compensation for loss of capital assets	9,948	8,371	18,319
Interfund transfers in	-	98,960	98,960
Interfund transfers out	-	(98,960)	(98,960)
Capital loan notes issued	-	700,000	700,000
Total other financing sources (uses)	<u>10,325</u>	<u>708,371</u>	<u>718,696</u>
Net change in fund balances	672,266	294,871	967,137
Fund balances beginning of year	<u>645,983</u>	<u>20,841</u>	<u>666,824</u>
Fund balances end of year	<u>\$ 1,318,249</u>	<u>\$ 315,712</u>	<u>\$ 1,633,961</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 967,137

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 reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 504,610	
Depreciation expense	<u>(447,923)</u>	56,687

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities. 387,652

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 546,719

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 830

Some expenses, including compensated absences, reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (7,610)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets and do not affect the Statement of Activities. (700,000)

Change in net assets of governmental activities \$ 1,251,415

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	<u>Nonmajor Enterprise Funds</u>
Assets	
Cash and cash equivalents	\$ 305,501
Accounts receivable	40
Inventories	12,484
Capital assets, net of accumulated depreciation	<u>79,141</u>
Total assets	<u>397,166</u>
Liabilities	
Accounts payable	3,305
Salaries and benefits payable	5,012
Deferred revenue	<u>8,874</u>
Total liabilities	<u>17,191</u>
Net Assets	
Invested in capital assets	79,141
Unrestricted	<u>300,834</u>
Total net assets	<u>\$ 379,975</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	<u>Nonmajor Enterprise Funds</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>679,994</u>
Operating expenses:	
Support services:	
Administration services	252
Operation and maintenance of plant services	2,083
Non-instructional programs	817,757
Other expenditures:	
Facilities acquisition	<u>120,039</u>
	<u>940,131</u>
Operating loss	<u>(260,137)</u>
Non-operating revenues:	
Interest on investments	8,928
State sources	8,610
Federal sources	<u>247,424</u>
Total non-operating revenues	<u>264,962</u>
Change in net assets	4,825
Net assets beginning of year, as restated (note 11)	<u>375,150</u>
Net assets end of year	\$ <u><u>379,975</u></u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	<u>Nonmajor Enterprise Funds</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 482,714
Cash received from miscellaneous operating activities	206,206
Cash payments to employees for services	(336,157)
Cash payments to suppliers for goods or services	<u>(502,167)</u>
Net cash used by operating activities	<u>(149,404)</u>
Cash flows from non-capital financing activities:	
State grants received	8,610
Federal grants received	222,939
Operating loan proceeds	20,000
Operating loan payments	<u>(20,000)</u>
Net cash provided by non-capital financing activities	<u>231,549</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(56,572)</u>
Cash flows from investing activities:	
Interest on investments	<u>8,928</u>
Net increase in cash and cash equivalents	34,501
Cash and cash equivalents beginning of year	<u>271,000</u>
Cash and cash equivalents end of year	<u>\$ 305,501</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	<u>School Nutrition</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (260,137)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	19,826
Commodities used	24,485
Decrease in accounts receivable	27
Decrease in inventories	56,304
Increase in accounts payable	1,884
(Decrease) in salaries and benefits payable	(667)
Increase in deferred revenue	<u>8,874</u>
Net cash used by operating activities	<u>\$ (149,404)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$24,485 of federal commodities.

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	<u>Agency</u>
Assets:	
Cash and pooled investments	\$ <u>50</u>
Liabilities:	
Other payables	<u>50</u>
Net assets	\$ <u><u>-</u></u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

Marion Independent School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve, an early childhood special education program for four and five year olds, and a junior kindergarten for five year olds who are not ready for kindergarten. Additionally, the District either operates or sponsors various adult education programs and the Marion Home School Assistance Program, which serves more than 550 students. The geographic area served includes the City of Marion, Iowa, and the agricultural territory in Linn 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, Marion Independent 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. Marion Independent School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does 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 Linn County Assessor's Conference Board.

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributed 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.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are 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 that are 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 District-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 other nonmajor governmental funds.

The District reports the following major governmental fund:

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

The District reports the following proprietary funds:

The District's enterprise funds are the School Nutrition Fund, MDE School Store Fund, and the Student Built House Fund. These funds are used to account for the food service, student-run store, and building and trades program operations of the District.

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 Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the 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 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.

All proprietary funds of the District apply 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.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

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

For 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 is 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. Current year property tax receivable represents unpaid taxes from the current year. 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2006 will not be received by the District until several months after the fiscal year end. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

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 contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-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 repairs 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	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	2,500

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental funds consists of the succeeding year property tax receivable, other receivables not collected within sixty days after year end, and unearned transportation fees. Deferred revenue for proprietary funds and business-type activities consists of unearned lunch revenues.

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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 District-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, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the District-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 Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

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

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the instruction, non-instructional programs, and other expenditures functions exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 2. Cash and Pooled Investments (continued)

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>3,177,790</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Physical Plant and Equipment Levy	\$ <u>98,960</u>

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable	Unamortized Premium
2005-06B	1/26/2006	1/26/2007	\$ 1,015,566	\$ 20,779	\$ 1,012,000	\$ 19,530	\$ -
2006-07A	6/28/2006	6/28/2007	1,700,633	529	1,703,000	420	12,960
Total			\$ 2,716,199	\$ 21,308	\$ 2,715,000	\$ 19,950	\$ 12,960

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ -	\$ 550,000	\$ 550,000	\$ -
2005-06B	-	10,000	-	10,000
Total	\$ -	\$ 560,000	\$ 550,000	\$ 10,000

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Iowa Schools Cash Anticipation Program (ISCAP) (continued)

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2006 is 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	\$ 695,344	\$ -	\$ -	\$ 695,344
Construction in progress	178,211	270,744	448,955	-
Total capital assets not being depreciated	<u>873,555</u>	<u>270,744</u>	<u>448,955</u>	<u>695,344</u>
Capital assets being depreciated:				
Buildings*	15,711,960	494,022	-	16,205,982
Improvements other than buildings	695,000	145,752	-	840,752
Furniture and equipment*	2,584,147	43,047	-	2,627,194
Total capital assets being depreciated	<u>18,991,107</u>	<u>682,821</u>	<u>-</u>	<u>19,673,928</u>
Less accumulated depreciation for:				
Buildings*	7,275,943	302,158	-	7,578,101
Improvements other than buildings	427,148	37,408	-	464,556
Furniture and equipment*	2,144,563	108,357	-	2,252,920
Total accumulated depreciation	<u>9,847,654</u>	<u>447,923</u>	<u>-</u>	<u>10,295,577</u>
Total capital assets being depreciated, net	<u>9,143,453</u>	<u>234,898</u>	<u>-</u>	<u>9,378,351</u>
Governmental activities capital assets, net	<u>\$ 10,017,008</u>	<u>\$ 505,642</u>	<u>\$ 448,955</u>	<u>\$ 10,073,695</u>

* Capital assets of \$600,976 and accumulated depreciation of \$297,805 have been reclassified from furniture and equipment to buildings to more accurately reflect the nature of the assets. The beginning balances have been adjusted to reflect this reclassification.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Capital Assets (continued)

	Balance Beginning of Year as Restated <u>(note 11)</u>	<u>Increases</u>	<u>Decreases</u>	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 268,001	\$ 56,572	\$ -	\$ 324,573
Less accumulated depreciation	<u>225,606</u>	<u>19,826</u>	<u>-</u>	<u>245,432</u>
Business-type activities capital assets, net	<u>\$ 42,395</u>	<u>\$ 36,746</u>	<u>\$ -</u>	<u>\$ 79,141</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

 Instruction:

 Regular

\$ 10,956

 Support services:

 Administration

15,600

 Operation and maintenance of plant services

23,365

 Transportation

61,318

111,239

Unallocated depreciation

336,684

Total governmental activities depreciation expense

\$ 447,923

Business-type activities:

 Food service operations

\$ 19,826

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	General Obligation Bonds	Capital Loan Notes	Contract Payable	Compensated Absences	Total
Balance beginning of year	\$ 5,310,000	\$ -	\$ 116,302	\$ 5,540	\$ 5,431,842
Additions	-	700,000	-	13,150	713,150
Reductions	470,000	20,000	56,719	5,540	552,259
Balance end of year	<u>\$ 4,840,000</u>	<u>\$ 680,000</u>	<u>\$ 59,583</u>	<u>\$ 13,150</u>	<u>\$ 5,592,733</u>
Due within one year	<u>\$ 495,000</u>	<u>\$ 160,000</u>	<u>\$ 59,583</u>	<u>\$ 13,150</u>	<u>\$ 727,733</u>

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed twenty years of service to the District. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement incentive for each eligible employee is equal to a certain percentage of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay. The applicable percentage is 50% for employees who retire in the first through fifth year of becoming eligible, 35% for employees who retire in the sixth year of eligibility, and 20% for employees who retire in the seventh year of eligibility. Early retirement benefits will be paid in July following the start of retirement.

At June 30, 2006, the District has obligations to three participants with a total liability of \$86,473. Actual early retirement disbursements for the year ended June 30, 2006 totaled \$29,923. The cost of early retirement payments expected to be liquidated currently is recorded as a liability of the Special Revenue, Management Fund in the fund financial statements and as a liability of the Governmental Activities in the District-wide financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	4.25-4.30 %	\$ 495,000	\$ 218,456	\$ 713,456
2008	4.25-4.35	515,000	197,304	712,304
2009	4.35-4.40	540,000	175,186	715,186
2010	4.40-4.50	380,000	151,578	531,578
2011	4.50	345,000	134,798	479,798
2012	4.50	365,000	119,272	484,272
2013	4.60	390,000	102,848	492,848
2014	4.60	410,000	84,908	494,908
2015	4.70	440,000	66,048	506,048
2016	4.70	465,000	45,368	510,368
2017	4.75	495,000	23,512	518,512
		<u>\$ 4,840,000</u>	<u>\$ 1,319,278</u>	<u>\$ 6,159,278</u>

Capital Loan Notes

Details of the District's June 30, 2006 capital loan notes indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	2.750 %	\$ 160,000	\$ 20,019	\$ 180,019
2008	2.875	165,000	15,619	180,619
2009	3.000	175,000	10,875	185,875
2010	3.125	180,000	5,625	185,625
		<u>\$ 680,000</u>	<u>\$ 52,138</u>	<u>\$ 732,138</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities (continued)

Contract Payable

On April 4, 2003, the District entered into a contract to purchase a building to be used for its home school assistance program. Details of the District's June 30, 2006 contract indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	5.00 %	\$ <u>59,583</u>	\$ <u>2,250</u>	\$ <u>61,833</u>

Note 7. Short-Term Debt Activity

During the year ended June 30, 2006, the District entered into a short-term bank loan for the Enterprise, Student Built House Fund. The loan was necessary to provide temporary financing during periods of low cash flows. The loan is a line of credit with a maximum possible principal of \$90,000 and is available until December 28, 2006. The Student Built House Fund short-term loan included interest at 6.5%. A summary of the activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Loans Received	Loans Repaid	Balance End of Year
Student Built House Fund	\$ <u>-</u>	\$ <u>20,000</u>	\$ <u>20,000</u>	\$ <u>-</u>

Note 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 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$638,337, \$602,365, and \$577,297 respectively, equal to the required contributions for each year.

Note 9. Risk Management

Marion Independent School District is a member of the Metro Interagency Insurance Program (MIIP), an Iowa Code Chapter 28E organization. MIIP is a local government risk-sharing pool whose members include six public educational entities in central Iowa. MIIP was formed in 1990 for the purpose of establishing, operating and maintaining an insurance program for employee health and medical claims.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 9. Risk Management (continued)

Each member's contributions to MIIP fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, MIIP'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. The fund re-insures for stop-loss insurance for claims in excess of \$200,000 per year per individual. An insurance carrier is paid an administrative fee to process the claims.

The total premiums paid into the plan by all six members from July 1, 2005 to June 30, 2006 were \$24,904,592, of which \$1,194,409 was paid by Marion Independent School District.

Marion Independent 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.

Note 10. 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 \$562,508 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 11. Restatement of Beginning Balances

The following beginning balances have been restated to properly reflect the capital assets and the accumulated depreciation of the School Nutrition Fund as of July 1, 2005.

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Enterprise - School Nutrition Fund Net Assets</u>	<u>Business- type Activities Net Assets</u>
Balance, as previously reported	\$ 313,247	\$ 290,431	\$ 201,089	\$ 355,571
Adjustments:				
Capital assets	(45,246)	-	(45,246)	(45,246)
Accumulated depreciation	-	(64,825)	64,825	64,825
Balance, as restated	<u>\$ 268,001</u>	<u>\$ 225,606</u>	<u>\$ 220,668</u>	<u>\$ 375,150</u>

Required Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –
 Budget and Actual (Accrual Basis) – All Governmental Funds
 and Proprietary Funds
 Required Supplementary Information
 Year Ended June 30, 2006

	Governmental Funds - Actual	Proprietary Funds - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
REVENUES:					
Local sources	\$ 9,793,642	\$ 688,922	\$ 10,482,564	\$ 9,446,243	\$ 1,036,321
State sources	8,706,248	8,610	8,714,858	8,657,974	56,884
Federal sources	398,266	247,424	645,690	513,256	132,434
Total revenues	<u>18,898,156</u>	<u>944,956</u>	<u>19,843,112</u>	<u>18,617,473</u>	<u>1,225,639</u>
EXPENDITURES:					
Instruction	11,563,732	-	11,563,732	11,367,895	(195,837)
Support services	5,239,341	2,335	5,241,676	5,983,242	741,566
Non-instructional programs	-	817,757	817,757	666,500	(151,257)
Other expenditures	1,846,642	120,039	1,966,681	1,559,863	(406,818)
Total expenditures	<u>18,649,715</u>	<u>940,131</u>	<u>19,589,846</u>	<u>19,577,500</u>	<u>(12,346)</u>
Excess (deficiency) of revenues over (under) expenditures	248,441	4,825	253,266	(960,027)	1,213,293
Other financing sources, net	718,696	-	718,696	675,000	43,696
Excess (deficiency) of revenues and other financing sources over (under) expenditures	967,137	4,825	971,962	(285,027)	1,256,989
Balance beginning of year, as restated	666,824	375,150	1,041,974	425,550	616,424
Balance end of year	<u>\$ 1,633,961</u>	<u>\$ 379,975</u>	<u>\$ 2,013,936</u>	<u>\$ 140,523</u>	<u>\$ 1,873,413</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

This 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 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 the accrual basis. Encumbrances are not recognized on the budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. 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 functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the instruction, non-instructional programs, and other expenditures functions exceeded the amounts budgeted.

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Other Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Physical Plant and Equipment Levy
Assets				
Cash and pooled investments	\$ 116,162	\$ 125,986	\$ 21,153	\$ 105,082
Receivables:				
Property tax:				
Current year	2,704	-	-	1,474
Succeeding year	254,842	-	21,379	130,624
Income surtax	-	-	-	387,652
Accounts	-	23,079	-	-
Total assets	<u>\$ 373,708</u>	<u>\$ 149,065</u>	<u>\$ 42,532</u>	<u>\$ 624,832</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	\$ 13,684	\$ -	\$ 1,322
Salaries and benefits payable	-	453	-	-
Deferred revenue:				
Succeeding year property tax	254,842	-	21,379	130,624
Other	-	-	-	387,652
Early retirement payable	86,473	-	-	-
Total liabilities	<u>341,315</u>	<u>14,137</u>	<u>21,379</u>	<u>519,598</u>
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Unreserved:				
Undesignated	32,393	134,928	21,153	105,234
Total fund equity	<u>32,393</u>	<u>134,928</u>	<u>21,153</u>	<u>105,234</u>
Total liabilities and fund equity	<u>\$ 373,708</u>	<u>\$ 149,065</u>	<u>\$ 42,532</u>	<u>\$ 624,832</u>

See accompanying independent auditor's report.

<u>Debt Service</u>	<u>Total</u>
\$ 15,356	\$ 383,739
6,648	10,826
610,384	1,017,229
-	387,652
-	23,079
<u>\$ 632,388</u>	<u>\$ 1,822,525</u>
\$ -	\$ 15,006
-	453
610,384	1,017,229
-	387,652
-	86,473
<u>610,384</u>	<u>1,506,813</u>
22,004	22,004
-	293,708
<u>22,004</u>	<u>315,712</u>
<u>\$ 632,388</u>	<u>\$ 1,822,525</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Physical Plant and Equipment Levy
Revenues:				
Local sources:				
Local tax	\$ 288,051	\$ -	\$ -	157,042
Other	11,680	451,017	9	11,198
State sources	289	-	-	158
Total revenues	<u>300,020</u>	<u>451,017</u>	<u>9</u>	<u>168,398</u>
Expenditures:				
Current:				
Instruction	100,952	422,817	-	-
Support services:				
Operation and maintenance of plant services	212,980	-	7,941	-
Transportation services	-	-	-	21,747
Other expenditures:				
Facilities acquisition	-	-	-	471,857
Long term debt:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>313,932</u>	<u>422,817</u>	<u>7,941</u>	<u>493,604</u>
Excess (deficiency) of revenues over (under) expenditures	(13,912)	28,200	(7,932)	(325,206)
Other financing sources (uses):				
Compensation for loss of capital assets	-	-	-	8,371
Interfund transfers in	-	-	-	-
Interfund transfers out	-	-	-	(98,960)
Capital loan notes issued	-	-	-	700,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>609,411</u>
Net change in fund balances	(13,912)	28,200	(7,932)	284,205
Fund balances beginning of year	<u>46,305</u>	<u>106,728</u>	<u>29,085</u>	<u>(178,971)</u>
Fund balances end of year	<u>\$ 32,393</u>	<u>\$ 134,928</u>	<u>\$ 21,153</u>	<u>\$ 105,234</u>

See accompanying independent auditor's report.

<u>Debt Service</u>	<u>Total</u>
\$ 708,227	\$ 1,153,320
8,690	482,594
710	1,157
<u>717,627</u>	<u>1,637,071</u>
-	523,769
-	220,921
-	21,747
-	471,857
546,719	546,719
265,558	265,558
<u>812,277</u>	<u>2,050,571</u>
(94,650)	(413,500)
-	8,371
98,960	98,960
-	(98,960)
-	700,000
<u>98,960</u>	<u>708,371</u>
4,310	294,871
<u>17,694</u>	<u>20,841</u>
<u>\$ 22,004</u>	<u>\$ 315,712</u>

MARION INDEPENDENT SCHOOL DISTRICT

 COMBINING SCHEDULE OF NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 June 30, 2006

	School Nutrition	MDE School Store	Student Built House	Total
Assets				
Cash and cash equivalents	\$ 147,779	\$ 1,609	\$ 156,113	\$ 305,501
Accounts receivable	15	-	25	40
Inventories	12,484	-	-	12,484
Capital assets, net of accumulated depreciation	79,141	-	-	79,141
Total assets	<u>239,419</u>	<u>1,609</u>	<u>156,138</u>	<u>397,166</u>
Liabilities				
Accounts payable	3,290	-	15	3,305
Salaries and benefits payable	5,012	-	-	5,012
Deferred revenue	8,874	-	-	8,874
Total liabilities	<u>17,176</u>	<u>-</u>	<u>15</u>	<u>17,191</u>
Net Assets				
Invested in capital assets	79,141	-	-	79,141
Unrestricted	143,102	1,609	156,123	300,834
Total net assets	<u>\$ 222,243</u>	<u>\$ 1,609</u>	<u>\$ 156,123</u>	<u>\$ 379,975</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 Year Ended June 30, 2006

	<u>School Nutrition</u>	<u>MDE School Store</u>	<u>Student Built House</u>	<u>Total</u>
Operating revenues:				
Local sources:				
Charges for services	\$ 473,788	\$ 4,706	\$ 201,500	\$ 679,994
Operating expenses:				
Support services:				
Administration services	122	-	130	252
Operation and maintenance of plant services	-	-	2,083	2,083
Non-instructional programs	735,631	4,605	77,521	817,757
Other expenditures:				
Facilities acquisition	-	-	120,039	120,039
	<u>735,753</u>	<u>4,605</u>	<u>199,773</u>	<u>940,131</u>
Operating income (loss)	<u>(261,965)</u>	<u>101</u>	<u>1,727</u>	<u>(260,137)</u>
Non-operating revenues:				
Interest on investments	7,506	37	1,385	8,928
State sources	8,610	-	-	8,610
Federal sources	247,424	-	-	247,424
Total non-operating revenues	<u>263,540</u>	<u>37</u>	<u>1,385</u>	<u>264,962</u>
Change in net assets	1,575	138	3,112	4,825
Net assets beginning of year, as restated	<u>220,668</u>	<u>1,471</u>	<u>153,011</u>	<u>375,150</u>
Net assets end of year	<u>\$ 222,243</u>	<u>\$ 1,609</u>	<u>\$ 156,123</u>	<u>\$ 379,975</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2006

	School Nutrition	MDE School Store	Student Built House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 482,714	\$ -	\$ -	\$ 482,714
Cash received from miscellaneous operating activities	-	4,706	201,500	206,206
Cash payments to employees for services	(336,157)	-	-	(336,157)
Cash payments to suppliers for goods or services	(340,103)	(4,605)	(157,459)	(502,167)
Net cash provided by (used by) operating activities	(193,546)	101	44,041	(149,404)
Cash flows from non-capital financing activities:				
State grants received	8,610	-	-	8,610
Federal grants received	222,939	-	-	222,939
Operating loan proceeds	-	-	20,000	20,000
Operating loan payments	-	-	(20,000)	(20,000)
Net cash provided by non-capital financing activities	231,549	-	-	231,549
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(56,572)	-	-	(56,572)
Cash flows from investing activities:				
Interest on investments	7,506	37	1,385	8,928
Net increase (decrease) in cash and cash equivalents	(11,063)	138	45,426	34,501
Cash and cash equivalents beginning of year	158,842	1,471	110,687	271,000
Cash and cash equivalents end of year	\$ 147,779	\$ 1,609	\$ 156,113	\$ 305,501

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2006

	School Nutrition	MDE School Store	Student Built House	Total
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:				
Operating income (loss)	\$ (261,965)	\$ 101	\$ 1,727	\$ (260,137)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:				
Depreciation	19,826	-	-	19,826
Commodities used	24,485	-	-	24,485
(Increase) decrease in accounts receivable	52	-	(25)	27
Decrease in inventories	13,804	-	42,500	56,304
Increase (decrease) in accounts payable	2,045	-	(161)	1,884
(Decrease) in salaries and benefits payable	(667)	-	-	(667)
Increase in deferred revenue	8,874	-	-	8,874
Net cash used in operating activities	<u>\$ (193,546)</u>	<u>\$ 101</u>	<u>\$ 44,041</u>	<u>\$ (149,404)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$24,485 of federal commodities.

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District Wide:				
Interest	\$ 1,835	\$ 4,171	\$ 150	\$ 5,856
Back to School Fair	14	49	-	63
Home School Program	3,265	14,205	14,331	3,139
High School:				
Take Charge	1	-	-	1
Trends in Fashion	15	1,150	1,150	15
Wellness	264	443	284	423
Foundation Donations	7	-	-	7
Drama	1,153	1,374	1,219	1,308
Speech	-	1,200	1,200	-
Vocal	11,386	7,989	5,511	13,864
Instrumental	3,640	9,655	9,171	4,124
Miscellaneous	5,502	12,530	13,947	4,085
Science Club	467	3,178	3,165	480
Creative, Inc.	400	-	-	400
Student Newspaper	1,383	1,664	1,680	1,367
Musical	5,739	4,432	3,824	6,347
National Honor Society	391	471	663	199
Academic Competition	701	-	-	701
Thespians	1,435	589	264	1,760
French	151	-	-	151
FBLA	-	4,715	3,991	724
VTR Technician	7	-	-	7
SODA - Students	272	1,845	1,624	493
Spanish	729	803	822	710
Student Senate	4,905	7,929	6,800	6,034
England Trip	1,321	502	1,823	-
Quill/Yearbook	9,742	6,035	9,441	6,336
Arts & Crafts	492	11,356	10,424	1,424
Class of 2005	533	-	533	-
Class of 2006	773	11	784	-
Class of 2007	3,290	1,744	4,862	172
Class of 2008	268	4,701	2,345	2,624
Class of 2009	-	3,675	2,433	1,242
General Athletics	12,616	243,678	220,645	35,649
Vernon:				
PEER Helpers	81	-	-	81
ELP	842	575	377	1,040
Vocal	743	6,853	6,528	1,068
Instrumental	2,002	5,405	7,354	53

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Vernon (continued):				
Honor Band	\$ 3,314	\$ 5,746	\$ 2,350	\$ 6,710
General Activities	92	263	243	112
Library Activities	1,318	-	-	1,318
PE/Health	222	15	75	162
Science Club	1,356	400	-	1,756
Student Newspaper	505	-	-	505
Washington DC Trip	(150)	2,352	2,202	-
Cheerleaders	-	932	855	77
SODA - Students	-	3,811	2,495	1,316
Student Senate	374	829	399	804
Quill/Yearbook	891	5,123	5,960	54
Student Magazines	4,135	27,236	29,603	1,768
Athletics - Coaches	4,491	11,164	9,623	6,032
Athletic Officials	(18)	3,738	3,944	(224)
Athletic Beverages	3,943	7,771	6,861	4,853
Volleyball Camp	157	2,296	2,453	-
Emerson:				
Library Activities	536	-	497	39
Miscellaneous	23	400	209	214
Foundation Donations	72	-	-	72
Starry:				
Wells Fargo	46	397	171	272
Butterfly Garden	191	-	191	-
Miscellaneous	716	2,000	912	1,804
Resale	44	-	-	44
Francis Marion:				
Instrumental	314	797	-	1,111
Miscellaneous	5,438	1,237	4,615	2,060
SODA - Students	-	-	-	-
Student Magazines	2,353	11,583	11,814	2,122
Total	\$ 106,728	\$ 451,017	\$ 422,817	\$ 134,928

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2006

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ <u> -</u>	\$ <u> 850</u>	\$ <u> 800</u>	\$ <u> 50</u>
Liabilities				
Other payables	\$ <u> -</u>	\$ <u> 850</u>	\$ <u> 800</u>	\$ <u> 50</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 5,265,851	\$ 5,259,733	\$ 5,452,049	\$ 5,388,765
Tuition	3,673,297	3,158,067	3,078,582	2,733,819
Other	854,494	634,143	544,676	679,824
Intermediate sources	-	-	3,623	7,011
State sources	8,706,248	7,789,648	7,405,475	7,162,859
Federal sources	398,266	310,228	385,529	331,221
Total revenues	\$ 18,898,156	\$ 17,151,819	\$ 16,869,934	\$ 16,303,499
Expenditures:				
Instruction	\$ 11,563,732	\$ 10,943,342	\$ 10,742,516	\$ 9,709,927
Support services:				
Student services	648,527	637,042	647,126	613,608
Instructional staff services	720,864	607,026	716,121	661,889
Administration services	1,798,324	1,737,393	1,594,679	1,507,089
Operation and maintenance of plant services	1,728,086	1,670,449	1,573,423	1,521,039
Transportation services	343,540	381,364	383,700	365,960
Central and other support services	-	-	20,332	16,716
Non-instructional programs	-	-	6,252	9,204
Other expenditures:				
Facilities acquisition	471,857	377,251	457,804	457,577
Long-term debt:				
Principal	546,719	574,965	514,905	498,265
Interest and fiscal charges	265,558	281,517	296,247	312,601
AEA flowthrough	562,508	508,720	498,185	511,333
Total expenditures	\$ 18,649,715	\$ 17,719,069	\$ 17,451,290	\$ 16,185,208

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2006

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 06	\$ <u>24,485</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 06	26,941
National School Lunch Program	10.555	FY 06	<u>195,998</u>
			<u>222,939</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	FY 05	3,703
Title 1 Grants to Local Educational Agencies	84.010	4086G	137,172
Title 1 Grants to Local Educational Agencies	84.010	4086GC	<u>6,250</u>
			<u>147,125</u>
Grants for State Assessments and Related Activities	84.369	FY 06	<u>11,610</u>
Improving Teacher Quality State Grants	84.367	FY 06	<u>60,346</u>
State Grants for Innovative Programs	84.298	FY 06	<u>5,200</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 06	<u>5,501</u>
Hurricane Education Recovery	84.938	FY 06	<u>8,760</u>
Grant Wood Area Education Agency:			
Special Education - Grants to States	84.027	FY 06	<u>98,934</u>
U. S. Department of Health and Human Services:			
Linn County Auditor:			
Medical Assistance Program	93.778	FY 06	<u>317</u>
Total			<u>\$ <u>585,217</u></u>

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Marion Independent School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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
Marion Independent 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 Marion Independent School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 30, 2006. The report on the business-type activities and aggregate remaining fund information was qualified due to an inability to observe the School Nutrition Fund inventory. 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 Marion Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 and II-F-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Marion Independent School District's operations for the year ended June 30, 2006 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marion Independent School District and other parties to whom Marion Independent School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Marion Independent 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.

Oskaloosa, Iowa
August 30, 2006

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Education of
Marion Independent School District:

Compliance

We have audited the compliance of Marion Independent School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Marion Independent School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Marion Independent School District's management. Our responsibility is to express an opinion on Marion Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marion Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marion Independent School District's compliance with those requirements.

In our opinion, Marion Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Marion Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Marion Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Marion Independent School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marion Independent School District and other parties to whom Marion Independent School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Oskaloosa, Iowa
August 30, 2006

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) We expressed qualified opinions on the business-type activities and aggregate remaining fund information due to the inability to observe the School Nutrition Fund inventory. In addition, we expressed unqualified opinions on the governmental activities and each major fund.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Marion Independent School District did not qualify a low-risk auditee.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the receiving of cash receipts, posting of the cash receipts to the cash receipts journal in the Activity Fund and the recording and distributing of checks can all be performed by the same person in the various funds.

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

Response – We will review procedures and make changes as we deem necessary to improve internal control.

Conclusion – Response accepted.

II-B-06 Disbursements – Out of forty-one disbursements selected in our disbursement test, one was not supported by an invoice or receipt at the time of payment.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation prior to payment.

Response – We will make sure that all future disbursements are properly supported.

Conclusion – Response accepted.

II-C-06 Athletic Gate Receipts – Prenumbered tickets and a subsequent reconciliation to the total gate receipts are not used for the spring sports events.

Recommendation – The District should establish reconciliation procedures for all athletic gate admissions when possible. The reconciliation should include the issuance of prenumbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – We will implement this recommendation for all athletic gate admissions when possible.

Conclusion – Response accepted.

II-D-06 Fundraisers – Supporting documentation for fundraiser income is being kept by individual activity club sponsors. There are no set procedures in place to review this information for completeness and accuracy other than review by the activity sponsor, who is also responsible for the initial collection of fundraising income.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part II: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

II-D-06 Fundraisers (continued)

Recommendation – The District should develop some type of summary form and procedures which would include reviewing supporting documentation for fundraisers in order to account for the completeness and accuracy of revenues recorded. For example, you could have the activity sponsor summarize budgeted, expected, and actual results on a spreadsheet which can be compared to actual fundraising receipts recorded once the fundraiser is completed. Any revenues short or long can then be explained on the form. This form should be reviewed and initialed by either the Activity Director, Principal, or Secretary as applicable. Whoever is reviewing these fundraiser summary forms should also verify in detail the information on a couple of forms each year. This can be done by tracing the information on the form to the supporting documentation kept by the activity sponsor, i.e. sales sheets, order forms, etc. We realize verifying every fundraiser would be time consuming so not every fundraiser needs to be verified in detail. Checking a few each year will let the activity sponsors realize that someone may be reviewing their records.

Response – We will review our procedures regarding fundraising activity and change our procedures as we deem necessary.

Conclusion – Response accepted.

II-E-06 Netting of Revenues and Expenditures – We noted one receipt that was posted against an expenditure account. This receipt was for a grant reimbursement.

Recommendation – This practice understates both revenues and expenditures. The District should avoid netting a revenue against an expenditure, except in limited circumstances such as a sales tax refund received in the same fiscal year the related expenditure was paid.

Response – We will properly record all revenues in the future.

Conclusion – Response accepted.

II-F-06 Inventory – The District did not take a physical count of the Enterprise, School Nutrition Fund food inventory at year end. The warehouse where the District stores its food inventory did not allow a District official to go in and count the amounts on hand.

Recommendation – The District should take a physical count of food inventory at the end of every fiscal year. If the District is not allowed access to its food inventory, the District should consider moving its inventory to a different warehouse.

Response – We now reconcile the monthly ending inventory count per the warehouse to the prior month plus amounts received less amounts used. We will also try to take a physical count of our food inventory at year end.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part II: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

II-G-06 Deposits to Bank Accounts – We noted one receipt that was not deposited to the bank on a timely basis. The receipt was held by the recipient for several months before being given to the business office for deposit.

Recommendation – Receipts should be turned in to the business office on a timely basis. All receipts should be deposited as soon as possible to safeguard the asset and avoid any possible irregularities and to earn the interest revenue on the public funds.

Response – We will try to ensure that all receipts are turned in to the business office and deposited on a timely basis.

Conclusion – Response accepted.

II-H-06 District Credit Card – We noted one instance where the District's credit card was used for a personal purchase. This amount was later reimbursed by the individual.

Recommendation – The District should address the use of District credit cards for personal expenses and the reimbursement of personal expenses in its credit card policy.

Response – We will consider amending our credit card policy to address these items.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-06 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the recording and distributing of checks can be performed by the same person in the various funds.

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

Response – We will review procedures and make changes as we deem necessary to improve internal control.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-06 Certified Budget – Expenditures for the year ended June 30, 2006, exceeded the amounts budgeted in the instruction, non-instructional programs, and other expenditures functions.
- Recommendation – The 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 – We will amend our budget before expenditures exceed the budget.
- Conclusion – Response accepted.
- IV-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-C-06 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.
- IV-D-06 Business Transactions – We noted no business transactions between the District and District officials or employees.
- IV-E-06 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-H-06 Deposits and Investments – The District had investments in IPASeducation during the year ended June 30, 2006. This is an unallowable investment under the District’s investment policy.
- Recommendation – The District should amend its investment policy to allow this type of investment or close these investment accounts.
- Response – We closed out all of the IPASeducation accounts in June 2006.
- Conclusion – Response accepted.
- IV-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-J-06 Student Activity Fund – We noted transactions being recorded through the Special Revenue, Student Activity Fund, such as library accounts, book fees, memorials, wellness, PE/health, and resale that would more appropriately be accounted for in the General Fund, Agency Fund, or Trust Fund.

Recommendation – The Student Activity Fund is to be used to account for money received from student related activities such as admissions, activity fees, student dues, student fundraising events, or other student related cocurricular activities as stated in the administrative rules of the Department of Education.

Response – We will review these accounts and transfer items to more appropriate funds.

Conclusion – Response accepted.

IV-K-06 Meal Allowance – We noted that some employees receive a flat dollar meal allowance but the payments did not go through the District’s payroll process.

Recommendation – All flat dollar meal allowances should go through the payroll process with the appropriate taxes withheld. Alternatively, the District could switch to a supported plan where the employees would be reimbursed for actual cost of meals.

Response – We will correct our procedures for meal allowances.

Conclusion – Response accepted.