

MARION INDEPENDENT SCHOOL DISTRICT  
MARION, IOWA

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

JUNE 30, 2007

## 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 – All Governmental Funds and Proprietary Fund	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	58-61
Nonmajor Enterprise Funds:	
3    Combining Schedule of Net Assets	62
4    Combining Schedule of Revenues, Expenses and Changes in Net Assets	63
5    Combining Schedule of Cash Flows	64-65
6    Schedule of Changes in Special Revenue Fund, Student Activity Accounts	66-67
7    Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	68
8    Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	69
9    Schedule of Expenditures of Federal Awards	70
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	71-72

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	73-74
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	75-79

MARION INDEPENDENT SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2006 Election)		
Thomas Thurman	President	2008
Donald B. Norton II	Vice President	2007
Tom Bullis	Board Member	2006
Gordon Gibson	Board Member	2006
Dennis Walters	Board Member	2006
Mary Ames	Board Member	2007
Dan Barkley	Board Member	2008

<u>Board of Education</u>		
(After September 2006 Election)		
Thomas Thurman	President	2008
Dan Barkley	Vice President	2008
Alan Tribble	Board Member	2009
Dianne Bys	Board Member	2009
Mary Ames	Board Member	2007
Tamara Koppedryer	Board Member	2008
Donald B. Norton II	Board Member	(Resigned 9-25-06) 2007
Gordon Gibson	Board Member	(Appointed 10-23-06) 2007

<u>School Officials</u>		
Nicholas Hobbs	Superintendent	2007
Brian Bartz	District Secretary/Treasurer	2007
Matthew Novak	Attorney	2007
Brian Gruhn	Attorney	2007

## 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, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion Independent School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2008 on our consideration of Marion Independent School District's internal control over financial reporting and on 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 three years ended June 30, 2006 (none of which are presented herein). For the two years ended June 30, 2006, 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. 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 the 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  
January 8, 2008

---

---

## 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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **Financial Highlights**

- General Fund revenues increased from \$17,261,085 in fiscal year 2006 to \$17,744,383 in fiscal year 2007, while General Fund expenditures increased from \$16,599,144 in fiscal year 2006 to \$17,643,456 in fiscal year 2007. This resulted in an increase in the District's General Fund balance from \$1,318,249 in fiscal year 2006, to \$1,432,943 in fiscal year 2007, a 9% increase from the prior year.
- The increase in General Fund revenues was attributable to a 16% increase (+\$572,126) in tuition revenues and a 4% increase (+\$143,530) in property taxes in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- General Fund total assets decreased from \$9,631,763 in fiscal year 2006 to \$7,396,431 in fiscal year 2007. This was a decrease of \$2,235,332. Most of the decrease was attributable to the District not being involved in the ISCAP program. This is a program allowing districts to borrow on a short term basis. Due to the district's improved financial position there was not a need for short term borrowing.

## 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.

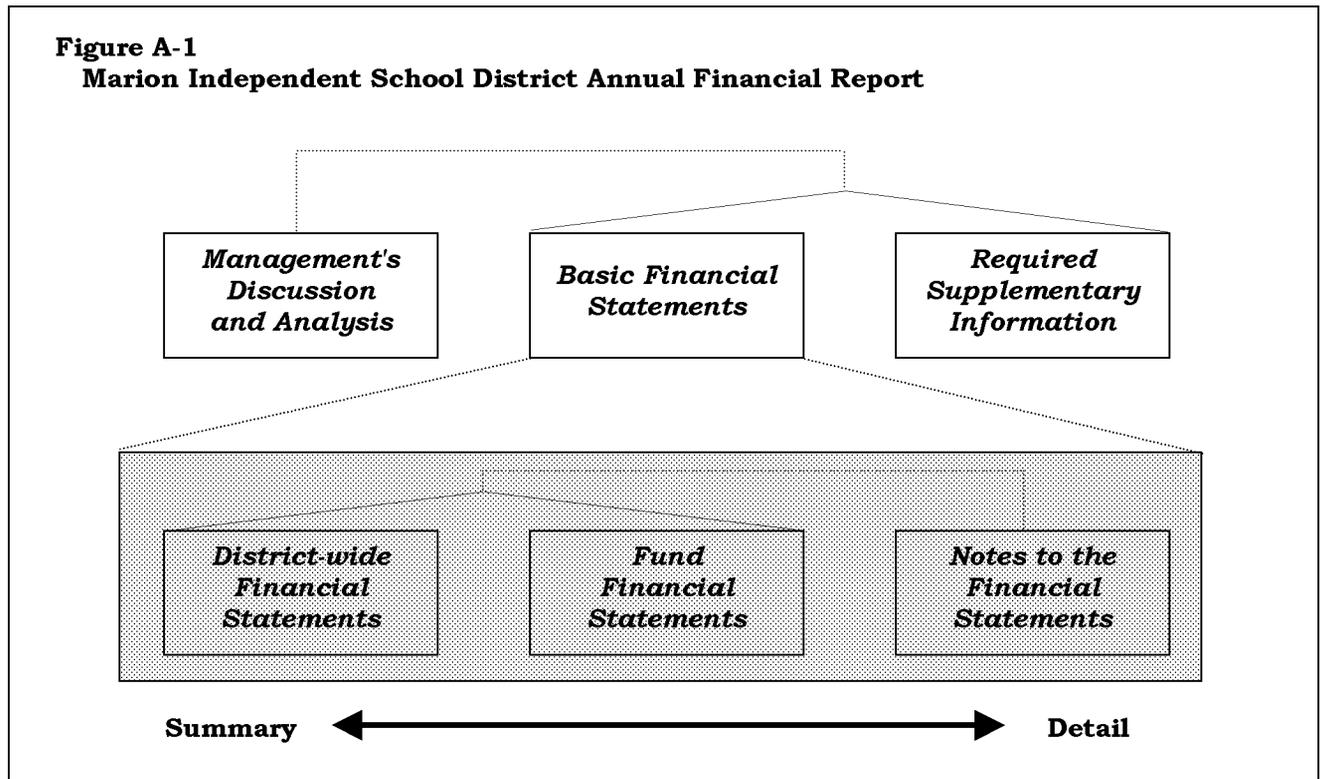


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

<b>Figure A-2 Major Features of the District-Wide and Fund Financial Statements</b>				
	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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 the 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, 2007 compared to 2006.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007-2006</u>
Current and other assets	\$9,844,993	\$11,454,288	\$334,145	\$318,025	\$ 10,179,138	\$ 11,772,313	-13.53%
Capital assets	<u>9,851,065</u>	<u>10,073,695</u>	<u>80,977</u>	<u>79,141</u>	<u>9,932,042</u>	<u>10,152,836</u>	-2.17%
Total assets	<u>19,696,058</u>	<u>21,527,983</u>	<u>415,122</u>	<u>397,166</u>	<u>20,111,180</u>	<u>21,925,149</u>	-8.27%
Long-term obligations	4,879,129	5,592,733	-	-	4,879,129	5,592,733	-12.76%
Other liabilities	<u>7,036,017</u>	<u>9,453,049</u>	<u>25,010</u>	<u>17,191</u>	<u>7,061,027</u>	<u>9,470,240</u>	-25.44%
Total liabilities	<u>11,915,146</u>	<u>15,045,782</u>	<u>25,010</u>	<u>17,191</u>	<u>11,940,156</u>	<u>15,062,973</u>	-20.73%
<b>Net assets</b>							
Invested in capital assets,							
net of related debt	4,986,065	4,494,112	80,977	79,141	5,067,042	4,573,253	10.80%
Restricted	913,868	682,990	-	-	913,868	682,990	33.80%
Unrestricted	<u>1,880,979</u>	<u>1,305,099</u>	<u>309,135</u>	<u>300,834</u>	<u>2,190,114</u>	<u>1,605,933</u>	36.38%
Total net assets	<u>\$7,780,912</u>	<u>\$6,482,201</u>	<u>\$390,112</u>	<u>\$379,975</u>	<u>\$ 8,171,024</u>	<u>\$ 6,862,176</u>	19.07%

Overall the District's net assets increased 19.07% or \$1,308,848 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, 2007 as compared to 2006.

	Change in Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2007	2006	2007	2006	2007	2006	2007-2006
Revenues							
Program revenues							
Charges for service and sales	4,966,628	4,304,721	499,301	679,994	5,465,929	4,984,715	9.65%
Operating grants, contributions and restricted interest	1,677,638	1,509,544	270,478	256,034	1,948,116	1,765,578	10.34%
General revenues							
Property tax	5,446,063	5,271,133			5,446,063	5,271,133	3.32%
Income Suxtax	392,096	387,652			392,096	387,652	1.15%
Unrestricted state grants	7,074,048	7,529,215			7,074,048	7,529,215	-6.05%
Unrestricted investment earnings	254,974	182,813	11,785	8,928	266,759	191,741	39.12%
Other	73,600	119,427			73,600	119,427	-38.37%
Extraordinary Item-Estate Bequest	436,479				436,479		
Total revenues	<u>20,321,526</u>	<u>19,304,505</u>	<u>781,564</u>	<u>944,956</u>	<u>21,103,090</u>	<u>20,249,461</u>	4.22%
Program expenses							
Instruction	12,248,163	11,556,441			12,248,163	11,556,441	5.99%
Support services	5,526,829	5,317,968	6,743	2,335	5,533,572	5,320,303	4.01%
Non-instructional programs	9,974	0	764,684	817,757	774,658	817,757	-5.27%
Other expenses	1,237,849	1,178,681	0	120,039	1,237,849	1,298,720	-4.69%
Total expenses	<u>19,022,815</u>	<u>18,053,090</u>	<u>771,427</u>	<u>940,131</u>	<u>19,794,242</u>	<u>18,993,221</u>	4.22%
Change in net assets	<u>1,298,711</u>	<u>1,251,415</u>	<u>10,137</u>	<u>4,825</u>	<u>1,308,848</u>	<u>1,256,240</u>	4.19%

Property tax and unrestricted state grants account for 62% of the total governmental activities revenue. The District's total governmental expenses primarily relate to instruction and support services which account for 93% of the total 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	\$ 12,248,163	\$ 6,262,337
Support services	5,526,829	5,446,339
Non-instructional programs	9,974	9,974
Other expenses	<u>1,237,849</u>	<u>659,899</u>
<b>Total expenses</b>	<b><u>\$19,022,815</u></b>	<b><u>\$ 12,378,549</u></b>

- The cost financed by users of the District’s programs was \$4,966,628. Exhibit B Total Governmental Activities – Charges for Services revenues total.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,677,638. Exhibit B, Total Governmental Activities, Operating Grants revenues total.
- The net cost of governmental activities was financed with \$5,420,915 in property tax, \$7,074,048 in state foundation aid and \$254,974 in interest income. Exhibit B General Revenues section

**Business-Type Activities**

Revenues of the District’s business-type activities were \$781,564 Exhibit B Business-type activity revenue – Charges for services (\$499,301) + Operating Grants (\$270,478) and interest (\$11,785) and expenses were \$771,427 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 \$2,409,490, Exhibit C, Total Fund Balances which is \$775,529 more than last year’s ending fund balances of \$1,633,961. (Exhibit E, Fund Balance, beginning of year.)

## **Governmental Fund Highlights**

The District's General Fund Balance increased from \$1,318,249 to \$1,432,943. 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 \$222,243 at June 30, 2006 to \$228,945 at June 30, 2007, representing an increase of approximately 3%.

## **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 \$368,162. Expenditures exceeded the budget in the instructional and non-instructional programs.

## **Capital Asset and Debt Administration**

### **Capital Assets**

At June 30, 2007, the District had invested \$9,932,042, 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 decrease of 2.17% from last year. More detailed information about capital assets is available in Note 1D and Note 6 to the financial statements. Depreciation expense for the year was \$499,594.

Governmental activities account for \$9,851,065 with the remainder \$80,977 in the Proprietary, School Nutrition Fund.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
2007	2006	2007	2006	2007	2006	2006-07	
Land	\$ 695,344	\$ 695,344	\$ -	\$ -	\$ 695,344	\$ 695,344	0%
Construction in progress			-	-			
Buildings and improvements	8,320,871	8,627,881	-	-	8,320,871	8,627,881	-3.56%
Improvements, other than buildings	428,896	376,196	-	-	428,896	376,196	14.01%
Furniture and equipment	405,954	374,274	80,977	79,141	486,931	453,415	9.60%
Totals	<u>\$9,851,065</u>	<u>\$10,073,695</u>	<u>\$80,977</u>	<u>\$79,141</u>	<u>\$ 9,932,042</u>	<u>\$ 10,152,836</u>	-2.17%

### Long-Term Debt

At June 30, 2007, the District had \$4,879,129 in general obligation and other long-term debt outstanding. This represents a decrease of 12.76 % from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District annually employs an early retirement policy which is to be reviewed annually by the Board. Currently, the District has no early retirement obligations.

	Outstanding Long-term Obligations		
	Total		Total
	School District		
	2007	2006	2006-2007
General obligation bonds	\$ 4,345,000	\$ 4,840,000	-10.23%
Capital loan notes	520,000	680,000	-23.53%
Compensated absences	14,129	13,150	7.44%
Contracts payable	<u>0</u>	<u>59,583</u>	-100.00%
Total	<u>\$ 4,879,129</u>	<u>\$ 5,592,733</u>	-12.76%

## **Factors Bearing on the District's Future**

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

- The District's resident enrollment grew by 32 students in the fall of 2007. The open enrolled in students also grew. Open enrollment in has been increasing steadily for the past several years. The classrooms within the various schools are becoming full and fewer open enrollment-in students will be allowed to enroll due to limited classroom space. This will continue to negatively impact the steadily increasing tuition revenues that the district has relied upon.
- The enrollment for Marion Home School Assistance Program stayed the same at 700 students from the fall of 2006 to the fall of 2007. This was in line with estimates. This could affect the tuition revenues for the 2008-09 school year as there is less growth.
- The District's taxable valuation continues to grow due to new housing starts. A number of new homes have been built in the past year in a new housing development. This should help to keep the taxable valuations growing in the District.

## **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Bartz, District Secretary and Business Manager, Marion Independent School District, 777 South 15<sup>th</sup> Street, Marion, IA 52302.

This page intentionally left blank

## Basic Financial Statements

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
June 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 4,069,149	\$ 142,585	\$ 4,211,734
Receivables:			
Property tax:			
Current year	67,354	-	67,354
Succeeding year	4,730,000	-	4,730,000
Income surtax	389,278	-	389,278
Accounts	37,450	-	37,450
Due from other governments	532,771	-	532,771
Employee loans receivable	1,500	-	1,500
Inventories	-	191,560	191,560
Restricted ISCAP assets (note 5):			
Accrued interest receivable	17,491	-	17,491
Capital assets, net of accumulated depreciation (note 6)	9,851,065	80,977	9,932,042
<b>Total assets</b>	<b>19,696,058</b>	<b>415,122</b>	<b>20,111,180</b>
<b>Liabilities</b>			
Accounts payable	435,603	5,656	441,259
Salaries and benefits payable	1,794,830	7,697	1,802,527
Accrued interest payable	15,823	-	15,823
Bank loan payable (note 8)	-	3,000	3,000
Early separation payable	52,028	-	52,028
Deferred revenue:			
Succeeding year property tax	4,730,000	-	4,730,000
Other	7,733	8,657	16,390
Long-term liabilities (note 7):			
Portion due within one year:			
Bonds payable	515,000	-	515,000
Notes payable	165,000	-	165,000
Compensated absences	14,129	-	14,129
Portion due after one year:			
Bonds payable	3,830,000	-	3,830,000
Notes payable	355,000	-	355,000
<b>Total liabilities</b>	<b>11,915,146</b>	<b>25,010</b>	<b>11,940,156</b>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
June 30, 2007

	<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	\$ 4,986,065	\$ 80,977	\$ 5,067,042
Restricted for:			
Management levy	133,674	-	133,674
Public education and recreation levy	46,301	-	46,301
Physical plant and equipment levy	541,827	-	541,827
Other special revenue purposes	159,726	-	159,726
Debt service	18,925	-	18,925
State grants	13,415	-	13,415
Unrestricted	<u>1,880,979</u>	<u>309,135</u>	<u>2,190,114</u>
Total net assets	<u>\$ 7,780,912</u>	<u>\$ 390,112</u>	<u>\$ 8,171,024</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 12,248,163	\$ 4,926,212	\$ 1,059,614
Support services:			
Student services	649,416	2,152	14,098
Instructional staff services	844,966	-	11,050
Administration services	1,926,332	-	-
Operation and maintenance of plant services	1,678,883	15,587	-
Transportation services	427,232	22,677	14,926
	<u>5,526,829</u>	<u>40,416</u>	<u>40,074</u>
Non-instructional programs	<u>9,974</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	54,396	-	-
Long-term debt interest and fiscal charges	236,473	-	-
AEA flowthrough	577,950	-	577,950
Depreciation (unallocated) *	369,030	-	-
	<u>1,237,849</u>	<u>-</u>	<u>577,950</u>
Total governmental activities	<u>19,022,815</u>	<u>4,966,628</u>	<u>1,677,638</u>
Business-Type Activities:			
Support services:			
Administration services	<u>6,743</u>	<u>-</u>	<u>-</u>
Non-instructional programs:			
Food service operations	756,756	490,712	270,478
School store operations	7,928	8,064	-
Student built house	-	525	-
	<u>764,684</u>	<u>499,301</u>	<u>270,478</u>
Total business-type activities	<u>771,427</u>	<u>499,301</u>	<u>270,478</u>
Total	<u>\$ 19,794,242</u>	<u>\$ 5,465,929</u>	<u>\$ 1,948,116</u>

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (6,262,337)	\$ -	\$ (6,262,337)
(633,166)	-	(633,166)
(833,916)	-	(833,916)
(1,926,332)	-	(1,926,332)
(1,663,296)	-	(1,663,296)
(389,629)	-	(389,629)
(5,446,339)	-	(5,446,339)
(9,974)	-	(9,974)
(54,396)	-	(54,396)
(236,473)	-	(236,473)
-	-	-
(369,030)	-	(369,030)
(659,899)	-	(659,899)
(12,378,549)	-	(12,378,549)
-	(6,743)	(6,743)
-	4,434	4,434
-	136	136
-	525	525
-	5,095	5,095
-	(1,648)	(1,648)
(12,378,549)	(1,648)	(12,380,197)

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Functions/Programs

---

General Revenues:

Property tax levied for:  
    General purposes  
    Debt service  
    Capital outlay  
    Public education and recreation  
Income surtax  
Unrestricted state grants  
Unrestricted investment earnings  
Other

Extraordinary item - Estate bequest

Total general revenues and extraordinary items

Change in net assets

Net assets beginning of year

Net assets end of year

\* = This amount excludes the depreciation included  
    in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ 4,553,064	\$ -	\$ 4,553,064
714,957	-	714,957
152,894	-	152,894
25,148	-	25,148
392,096	-	392,096
7,074,048	-	7,074,048
254,974	11,785	266,759
73,600	-	73,600
436,479	-	436,479
13,677,260	11,785	13,689,045
1,298,711	10,137	1,308,848
6,482,201	379,975	6,862,176
\$ 7,780,912	\$ 390,112	\$ 8,171,024

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and pooled investments	\$ 3,051,230	\$ 991,788	\$ 4,043,018
Receivables:			
Property tax:			
Current year	52,618	14,736	67,354
Succeeding year	3,732,000	998,000	4,730,000
Income surtax	-	389,278	389,278
Interfund receivable (note 4)	100	-	100
Accounts	8,721	28,729	37,450
Due from other governments	532,771	-	532,771
Employee loans receivable	1,500	-	1,500
Restricted ISCAP assets (note 5):			
Accrued interest receivable	17,491	-	17,491
	<u>7,396,431</u>	<u>2,422,531</u>	<u>9,818,962</u>
Total assets	\$ <u>7,396,431</u>	\$ <u>2,422,531</u>	\$ <u>9,818,962</u>

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 428,925	\$ 6,678	\$ 435,603
Salaries and benefits payable	1,794,830	-	1,794,830
Early separation payable (note 7)	-	52,028	52,028
Deferred revenue:			
Succeeding year property tax	3,732,000	998,000	4,730,000
Other	7,733	389,278	397,011
Total liabilities	<u>5,963,488</u>	<u>1,445,984</u>	<u>7,409,472</u>
 Fund balance:			
Reserved for:			
State grants	13,415	-	13,415
Debt service	-	33,446	33,446
Unreserved:			
Reported in nonmajor Special Revenue Funds	-	943,101	943,101
Undesignated	1,419,528	-	1,419,528
Total fund balances	<u>1,432,943</u>	<u>976,547</u>	<u>2,409,490</u>
 Total liabilities and fund balances	 <u>\$ 7,396,431</u>	 <u>\$ 2,422,531</u>	 <u>\$ 9,818,962</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, 2007

Total fund balances of governmental funds	\$ 2,409,490
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.	9,851,065
Other long-term assets, including income surtax receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	389,278
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.	(15,823)
Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(4,879,129)
The Internal Service Fund is used to charge the costs of the District's flexible benefits plan to the governmental funds. The net assets of the Internal Service Fund are therefore included in governmental activities.	<u>26,031</u>
Net assets of governmental activities	<u>\$ 7,780,912</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, 2007

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 4,250,542	\$ 1,580,846	\$ 5,831,388
Tuition	4,245,422	-	4,245,422
Other	423,656	543,324	966,980
State sources	8,389,210	1,101	8,390,311
Federal sources	435,553	-	435,553
Total revenues	<u>17,744,383</u>	<u>2,125,271</u>	<u>19,869,654</u>
Expenditures:			
Current:			
Instruction	<u>11,773,643</u>	<u>567,005</u>	<u>12,340,648</u>
Support services:			
Student services	652,306	-	652,306
Instructional staff services	844,966	-	844,966
Administration services	1,900,514	12,493	1,913,007
Operation and maintenance of plant services	1,551,912	130,014	1,681,926
Transportation services	332,191	130,114	462,305
	<u>5,281,889</u>	<u>272,621</u>	<u>5,554,510</u>
Non-instructional programs	<u>9,974</u>	<u>-</u>	<u>9,974</u>
Other expenditures:			
Facilities acquisition	-	105,682	105,682
Long term debt:			
Principal	-	714,583	714,583
Interest and fiscal charges	-	241,024	241,024
AEA flowthrough	577,950	-	577,950
	<u>577,950</u>	<u>1,061,289</u>	<u>1,639,239</u>
Total expenditures	<u>17,643,456</u>	<u>1,900,915</u>	<u>19,544,371</u>
Excess of revenues over expenditures	<u>100,927</u>	<u>224,356</u>	<u>325,283</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2007

	General	Nonmajor Governmental Funds	Total
Other financing sources (uses):			
Sale of equipment	\$ 2,220	\$ -	\$ 2,220
Compensation for loss of capital assets	11,547	-	11,547
Interfund transfers in	-	241,852	241,852
Interfund transfers out	-	(241,852)	(241,852)
Total other financing sources (uses)	<u>13,767</u>	<u>-</u>	<u>13,767</u>
Extraordinary item:			
Estate bequest	-	436,479	436,479
Net change in fund balances	114,694	660,835	775,529
Fund balances beginning of year	<u>1,318,249</u>	<u>315,712</u>	<u>1,633,961</u>
Fund balances end of year	<u>\$ 1,432,943</u>	<u>\$ 976,547</u>	<u>\$ 2,409,490</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, 2007

Net change in fund balances - total governmental funds \$ 775,529

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	\$ 273,456	
Depreciation expense	<u>(480,477)</u>	(207,021)

In the Statement of Activities, the loss on disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. (15,609)

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. 1,626

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 714,583

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. 4,551

Some expenses reported in the Statement of Activities, including compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (979)

The change in net assets of the Internal Service Fund is reported with governmental activities in the Statement of Activities. 26,031

Change in net assets of governmental activities \$ 1,298,711

See notes to financial statements.

## MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2007

	Nonmajor Enterprise Funds	Internal Service Fund - Flexible Benefits
Assets		
Cash and cash equivalents	\$ 142,585	\$ 26,131
Inventories	191,560	-
Capital assets, net of accumulated depreciation	<u>80,977</u>	<u>-</u>
Total assets	<u>415,122</u>	<u>26,131</u>
Liabilities		
Accounts payable	5,656	-
Salaries and benefits payable	7,697	-
Interfund payable (note 4)	-	100
Bank loan payable (note 8)	3,000	-
Deferred revenue	<u>8,657</u>	<u>-</u>
Total liabilities	<u>25,010</u>	<u>100</u>
Net Assets		
Invested in capital assets	80,977	-
Unrestricted	<u>309,135</u>	<u>26,031</u>
Total net assets	<u>\$ 390,112</u>	<u>\$ 26,031</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, 2007

	Nonmajor Enterprise Funds	Internal Service Fund - Flexible Benefits
Operating revenues:		
Local sources:		
Charges for services	\$ 499,301	\$ 26,031
Operating expenses:		
Support services:		
Administration services	6,743	-
Non-instructional programs	764,684	-
	<u>771,427</u>	<u>-</u>
Operating income (loss)	<u>(272,126)</u>	<u>26,031</u>
Non-operating revenues:		
Interest on investments	11,785	-
State sources	8,634	-
Federal sources	261,844	-
Total non-operating revenues	<u>282,263</u>	<u>-</u>
Change in net assets	10,137	26,031
Net assets beginning of year	<u>379,975</u>	<u>-</u>
Net assets end of year	<u>\$ 390,112</u>	<u>\$ 26,031</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2007

	Nonmajor Enterprise Funds	Internal Service Fund - Flexible Benefits
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 490,510	\$ -
Cash received from miscellaneous operating activities	8,614	26,031
Cash payments to employees for services	(354,058)	-
Cash payments to suppliers for goods or services	(540,246)	-
Net cash provided by (used by) operating activities	<u>(395,180)</u>	<u>26,031</u>
Cash flows from non-capital financing activities:		
State grants received	8,634	-
Federal grants received	229,798	-
Operating loan proceeds	3,000	100
Net cash provided by non-capital financing activities	<u>241,432</u>	<u>100</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(20,953)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>11,785</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(162,916)	26,131
Cash and cash equivalents beginning of year	<u>305,501</u>	<u>-</u>
Cash and cash equivalents end of year	<u>\$ 142,585</u>	<u>\$ 26,131</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2007

	Nonmajor Enterprise Funds	Internal Service Fund - Flexible Benefits
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:		
Operating income (loss)	\$ (272,126)	\$ 26,031
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	19,117	-
Commodities used	32,046	-
Decrease in accounts receivable	40	-
(Increase) in inventories	(179,076)	-
Increase in accounts payable	2,351	-
Increase in salaries and benefits payable	2,685	-
(Decrease) in deferred revenue	(217)	-
Net cash provided by (used by) operating activities	<u>\$ (395,180)</u>	<u>\$ 26,031</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$32,046 of federal commodities.

See notes to financial statements.

## MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2007

	<u>Agency</u>
Assets:	
Cash and pooled investments	\$ 89
Accounts receivable	<u>81</u>
Total assets	<u>170</u>
Liabilities:	
Accounts payable	70
Other payables	<u>100</u>
Total liabilities	<u>170</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 approximately 700 students. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Marion, Iowa, and 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 attributable to the acquisition, construction, or improvement of those assets.

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 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 funds:

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

The 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 Internal Service, Flexible Benefits Fund is used to account for the flexible benefits program offered by 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, 2007

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, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

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

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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2007 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.

Interfund Receivables and Payables – During the course of its operations, the District may have certain transactions between funds or pooled cash balances. To the extent that these transactions between funds had not been paid or received as of June 30, 2007, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 unearned transportation fees, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

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

Deferred revenue for proprietary funds and business-type activities consists of unearned lunch revenues.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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, 2007. 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, 2007, expenditures in the instruction and non-instructional programs functions exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 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, 2007

Note 2. Cash and Pooled Investments (continued)

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>3,701,717</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, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Physical Plant and Equipment Levy	\$ <u>241,852</u>

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

Note 4. Interfund Receivables and Payables

The detail of interfund receivables and payables for the year ended June 30, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Internal Service - Flexible Benefits	\$ <u>100</u>

The interfund balances are not included on the District-wide Statement of Net Assets.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 5. 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, 2007 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Accrued Interest Receivable</u>
2006-07A	6/28/2006	6/28/2007	\$ <u>17,491</u>

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 25<sup>th</sup> 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, 2007 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2005-06B	\$ <u>10,000</u>	\$ <u>-</u>	\$ <u>10,000</u>	\$ <u>-</u>

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>
2006-07A	4.50%	5.676%

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2007 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
Capital assets being depreciated:				
Buildings	16,205,982	26,436		16,232,418
Improvements other than buildings	840,752	96,157		936,909
Furniture and equipment	2,627,194	150,863	38,456	2,739,601
Total capital assets being depreciated	<u>19,673,928</u>	<u>273,456</u>	<u>38,456</u>	<u>19,908,928</u>
Less accumulated depreciation for:				
Buildings	7,578,101	333,446		7,911,547
Improvements other than buildings	464,556	43,457		508,013
Furniture and equipment	2,252,920	103,574	22,847	2,333,647
Total accumulated depreciation	<u>10,295,577</u>	<u>480,477</u>	<u>22,847</u>	<u>10,753,207</u>
Total capital assets being depreciated, net	<u>9,378,351</u>	<u>(207,021)</u>	<u>15,609</u>	<u>9,155,721</u>
Governmental activities capital assets, net	<u>\$ 10,073,695</u>	<u>\$ (207,021)</u>	<u>\$ 15,609</u>	<u>\$ 9,851,065</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 6. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 324,573	\$ 20,953	\$ 13,300	\$ 332,226
Less accumulated depreciation	<u>245,432</u>	<u>19,117</u>	<u>13,300</u>	<u>251,249</u>
Business-type activities capital assets, net	<u>\$ 79,141</u>	<u>\$ 1,836</u>	<u>\$ -</u>	<u>\$ 80,977</u>

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

Governmental activities:	
Instruction	\$ 13,114
Support services:	
Administration	15,600
Operation and maintenance of plant services	21,183
Transportation	<u>61,550</u>
	111,447
Unallocated depreciation	<u>369,030</u>
 Total governmental activities depreciation expense	 <u>\$ 480,477</u>
Business-type activities:	
Food service operations	<u>\$ 19,117</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	General Obligation Bonds	Capital Loan Notes	Contract Payable	Compensated Absences	Total
Balance beginning of year	\$ 4,840,000	\$ 680,000	\$ 59,583	\$ 13,150	\$ 5,592,733
Additions	-	-	-	14,129	14,129
Reductions	495,000	160,000	59,583	13,150	727,733
Balance end of year	<u>\$ 4,345,000</u>	<u>\$ 520,000</u>	<u>\$ -</u>	<u>\$ 14,129</u>	<u>\$ 4,879,129</u>
Due within one year	<u>\$ 515,000</u>	<u>\$ 165,000</u>	<u>\$ -</u>	<u>\$ 14,129</u>	<u>\$ 694,129</u>

Early Separation

The District offers a voluntary early separation plan to its full-time 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 separation incentive for each eligible employee is equal to a 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 early separation taken in the year ended June 30, 2007, 40% for early separation taken in the year ending June 30, 2008, and 30% for early separation taken in the year ending June 30, 2009. Early retirement benefits will be paid into a 403b plan in July following the start of retirement.

At June 30, 2007, the District has obligations to two participants with a total liability of \$52,028. Actual early separation disbursements for the year ended June 30, 2007 totaled \$86,473. The cost of early separation payments expected to be liquidated currently is recorded as a liability of the Special Revenue, Management Levy 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, 2007

Note 7. Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2007 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>
2008	4.25-4.35 %	\$ 515,000	\$ 197,304	\$ 712,304
2009	4.35-4.40	540,000	175,186	715,186
2010	4.4-4.50	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>\$ 4,345,000</u>	<u>\$ 1,100,822</u>	<u>\$ 5,445,822</u>

Capital Loan Notes

Details of the District's June 30, 2007 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>
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>\$ 520,000</u>	<u>\$ 32,119</u>	<u>\$ 552,119</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 8. Short-Term Debt Activity

During the year ended June 30, 2007, 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 18, 2007. The Student Built House Fund short-term loan includes interest at 7.25%. A summary of the activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Loans Received	Loans Repaid	Balance End of Year
Student Built House Fund	\$ -	\$ 3,000	\$ -	\$ 3,000

Note 9. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005.

Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$677,091, \$638,337, and \$602,365, respectively, equal to the required contributions for each year.

Note 10. Risk Management

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.

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.

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.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 10. Risk Management (continued)

The total premiums paid into the plan by all six members from July 1, 2006 to June 30, 2007 were \$27,112,882, of which \$1,157,779 was paid by Marion Independent School District.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$577,950 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Construction Commitments

The District entered into various contracts totaling \$326,248 for high school roof and parking lot projects. As of June 30, 2007, no costs had been incurred against the contracts. The balance of \$326,248 remaining at June 30, 2007 will be paid as work on the projects progresses.

Required Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –  
 Budget and Actual – All Governmental Funds  
 and Proprietary Funds  
 Required Supplementary Information  
 Year Ended June 30, 2007

	Governmental Funds - Actual	Proprietary Funds - Enterprise - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
<b>REVENUES:</b>					
Local sources	\$ 11,043,790	\$ 511,086	\$ 11,554,876	\$ 10,200,075	\$ 1,354,801
State sources	8,390,311	8,634	8,398,945	8,231,794	167,151
Federal sources	435,553	261,844	697,397	485,000	212,397
<b>Total revenues</b>	<b>19,869,654</b>	<b>781,564</b>	<b>20,651,218</b>	<b>18,916,869</b>	<b>1,734,349</b>
<b>EXPENDITURES:</b>					
Instruction	12,340,648	-	12,340,648	11,620,000	(720,648)
Support services	5,554,510	6,743	5,561,253	5,853,500	292,247
Non-instructional programs	9,974	764,684	774,658	732,000	(42,658)
Other expenditures	1,639,239	-	1,639,239	1,742,136	102,897
<b>Total expenditures</b>	<b>19,544,371</b>	<b>771,427</b>	<b>20,315,798</b>	<b>19,947,636</b>	<b>(368,162)</b>
Excess (deficiency) of revenues over (under) expenditures	325,283	10,137	335,420	(1,030,767)	1,366,187
Other financing sources, net	13,767	-	13,767	186,000	(172,233)
Extraordinary item	436,479	-	436,479	-	436,479
Net change in fund balance	775,529	10,137	785,666	(844,767)	1,630,433
Balance beginning of year	1,633,961	379,975	2,013,936	1,682,436	331,500
Balance end of year	<u>\$ 2,409,490</u>	<u>\$ 390,112</u>	<u>\$ 2,799,602</u>	<u>\$ 837,669</u>	<u>\$ 1,961,933</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2007

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 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.

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 function 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, 2007, expenditures in the instruction and non-instructional programs functions exceeded the amounts budgeted.

This page intentionally left blank

## Other Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2007

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Physical Plant and Equipment Levy
Assets				
Cash and pooled investments	\$ 182,010	\$ 136,666	\$ 45,991	\$ 152,968
Receivables:				
Property tax:				
Current year	3,692	-	310	1,892
Succeeding year	256,000	-	-	137,000
Income surtax	-	-	-	389,278
Accounts	-	28,729	-	-
Total assets	<u>\$ 441,702</u>	<u>\$ 165,395</u>	<u>\$ 46,301</u>	<u>\$ 681,138</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	\$ 5,669	\$ -	\$ 1,009
Early separation payable	52,028	-	-	-
Deferred revenue:				
Succeeding year property tax	256,000	-	-	137,000
Other	-	-	-	389,278
Total liabilities	<u>308,028</u>	<u>5,669</u>	<u>-</u>	<u>527,287</u>
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Unreserved:				
Undesignated	133,674	159,726	46,301	153,851
Total fund equity	<u>133,674</u>	<u>159,726</u>	<u>46,301</u>	<u>153,851</u>
Total liabilities and fund equity	<u>\$ 441,702</u>	<u>\$ 165,395</u>	<u>\$ 46,301</u>	<u>\$ 681,138</u>

See accompanying independent auditor's report.

<u>District Support Trust</u>	<u>Debt Service</u>	<u>Total</u>
\$ 449,549	\$ 24,604	\$ 991,788
-	8,842	14,736
-	605,000	998,000
-	-	389,278
-	-	28,729
<u>\$ 449,549</u>	<u>\$ 638,446</u>	<u>\$ 2,422,531</u>
\$ -	\$ -	\$ 6,678
-	-	52,028
-	605,000	998,000
-	-	389,278
<u>-</u>	<u>605,000</u>	<u>1,445,984</u>
-	33,446	33,446
449,549	-	943,101
<u>449,549</u>	<u>33,446</u>	<u>976,547</u>
<u>\$ 449,549</u>	<u>\$ 638,446</u>	<u>\$ 2,422,531</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2007

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Physical Plant and Equipment Levy
Revenues:				
Local sources:				
Local tax	\$ 298,220	\$ -	\$ 25,124	\$ 543,220
Other	21,637	481,367	24	16,986
State sources	282	-	-	144
Total revenues	<u>320,139</u>	<u>481,367</u>	<u>25,148</u>	<u>560,350</u>
Expenditures:				
Current:				
Instruction	110,436	456,569	-	-
Support services:				
Administration services	5,493	-	-	7,000
Operation and maintenance of plant services	80,584	-	-	49,430
Transportation services	22,345	-	-	107,769
Other expenditures:				
Facilities acquisition	-	-	-	105,682
Long term debt:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>218,858</u>	<u>456,569</u>	<u>-</u>	<u>269,881</u>
Excess (deficiency) of revenues over (under) expenditures	<u>101,281</u>	<u>24,798</u>	<u>25,148</u>	<u>290,469</u>
Other financing sources (uses):				
Interfund transfers in	-	-	-	-
Interfund transfers out	-	-	-	(241,852)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(241,852)</u>
Extraordinary item:				
Estate bequest	-	-	-	-

	District Support Trust	Debt Service	Total
\$	-	\$ 714,282	\$ 1,580,846
	13,070	10,240	543,324
	-	675	1,101
	<u>13,070</u>	<u>725,197</u>	<u>2,125,271</u>
	-	-	567,005
	-	-	12,493
	-	-	130,014
	-	-	130,114
	-	-	105,682
	-	714,583	714,583
	-	241,024	241,024
	<u>-</u>	<u>955,607</u>	<u>1,900,915</u>
	<u>13,070</u>	<u>(230,410)</u>	<u>224,356</u>
	-	241,852	241,852
	-	-	(241,852)
	<u>-</u>	<u>241,852</u>	<u>-</u>
	<u>436,479</u>	<u>-</u>	<u>436,479</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended June 30, 2007

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Physical Plant and Equipment Levy
Net change in fund balances	\$ 101,281	\$ 24,798	\$ 25,148	\$ 48,617
Fund balances beginning of year	32,393	134,928	21,153	105,234
Fund balances end of year	<u>\$ 133,674</u>	<u>\$ 159,726</u>	<u>\$ 46,301</u>	<u>\$ 153,851</u>

See accompanying independent auditor's report.

---

<u>District Support Trust</u>	<u>Debt Service</u>	<u>Total</u>
\$ 449,549	\$ 11,442	\$ 660,835
-	22,004	315,712
<u>\$ 449,549</u>	<u>\$ 33,446</u>	<u>\$ 976,547</u>

## MARION INDEPENDENT SCHOOL DISTRICT

 COMBINING SCHEDULE OF NET ASSETS  
 NONMAJOR ENTERPRISE FUNDS  
 Year Ended June 30, 2007

	School Nutrition	MDE School Store	Student Built House	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 139,920	\$ 1,844	\$ 821	\$ 142,585
Inventories	24,751	-	166,809	191,560
Capital assets, net of accumulated depreciation	80,977	-	-	80,977
Total assets	<u>245,648</u>	<u>1,844</u>	<u>167,630</u>	<u>415,122</u>
<b>Liabilities</b>				
Accounts payable	349	-	5,307	5,656
Salaries and benefits payable	7,697	-	-	7,697
Bank loan payable	-	-	3,000	3,000
Deferred revenue	8,657	-	-	8,657
Total liabilities	<u>16,703</u>	<u>-</u>	<u>8,307</u>	<u>25,010</u>
<b>Net Assets</b>				
Invested in capital assets	80,977	-	-	80,977
Unrestricted	147,968	1,844	159,323	309,135
Total net assets	<u>\$ 228,945</u>	<u>\$ 1,844</u>	<u>\$ 159,323</u>	<u>\$ 390,112</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, 2007

	<u>School Nutrition</u>	<u>MDE School Store</u>	<u>Student Built House</u>	<u>Total</u>
Operating revenues:				
Local sources:				
Charges for services	\$ 490,712	\$ 8,064	\$ 525	\$ 499,301
Operating expenses:				
Support services:				
Administration services	6,743	-	-	6,743
Non-instructional programs	756,756	7,928	-	764,684
	<u>763,499</u>	<u>7,928</u>	<u>-</u>	<u>771,427</u>
Operating income (loss)	<u>(272,787)</u>	<u>136</u>	<u>525</u>	<u>(272,126)</u>
Non-operating revenues:				
Interest on investments	9,011	99	2,675	11,785
State sources	8,634	-	-	8,634
Federal sources	261,844	-	-	261,844
Total non-operating revenues	<u>279,489</u>	<u>99</u>	<u>2,675</u>	<u>282,263</u>
Change in net assets	6,702	235	3,200	10,137
Net assets beginning of year	<u>222,243</u>	<u>1,609</u>	<u>156,123</u>	<u>379,975</u>
Net assets end of year	<u>\$ 228,945</u>	<u>\$ 1,844</u>	<u>\$ 159,323</u>	<u>\$ 390,112</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
Year Ended June 30, 2007

	School Nutrition	MDE School Store	Student Built House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 490,510	\$ -	\$ -	\$ 490,510
Cash received from miscellaneous operating activities	-	8,064	550	8,614
Cash payments to employees for services	(354,058)	-	-	(354,058)
Cash payments to suppliers for goods or services	(370,801)	(7,928)	(161,517)	(540,246)
Net cash provided by (used by) operating activities	(234,349)	136	(160,967)	(395,180)
Cash flows from non-capital financing activities:				
State grants received	8,634	-	-	8,634
Federal grants received	229,798	-	-	229,798
Operating loan proceeds	-	-	3,000	3,000
Net cash provided by non-capital financing activities	238,432	-	3,000	241,432
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(20,953)	-	-	(20,953)
Cash flows from investing activities:				
Interest on investments	9,011	99	2,675	11,785
Net increase (decrease) in cash and cash equivalents	(7,859)	235	(155,292)	(162,916)
Cash and cash equivalents at beginning of year	147,779	1,609	156,113	305,501
Cash and cash equivalents at end of year	\$ 139,920	\$ 1,844	\$ 821	\$ 142,585

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
Year Ended June 30, 2007

	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)	\$ (272,787)	\$ 136	\$ 525	\$ (272,126)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	19,117	-	-	19,117
Commodities used	32,046	-	-	32,046
Decrease in accounts receivable	15	-	25	40
(Increase) in inventories	(12,267)	-	(166,809)	(179,076)
Increase (decrease) in accounts payable	(2,941)	-	5,292	2,351
Increase in salaries and benefits payable	2,685	-	-	2,685
(Decrease) in deferred revenue	(217)	-	-	(217)
Net cash provided by (used by) operating activities	\$ <u>(234,349)</u>	\$ <u>136</u>	\$ <u>(160,967)</u>	\$ <u>(395,180)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$32,046 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, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District Wide:				
Interest	\$ 5,856	\$ 12,191	\$ 152	\$ 17,895
Back to School Fair	63	-	-	63
Home School Program	3,139	17,303	13,971	6,471
High School:				
Take Charge	1	-	-	1
Trends in Fashion	15	466	461	20
Wellness	423	468	319	572
Foundation Donations	194	225	-	419
Drama	1,308	944	635	1,617
Speech	-	1,458	1,458	-
Vocal	13,864	7,485	4,326	17,023
Instrumental	4,124	26,443	26,782	3,785
Miscellaneous	4,085	14,117	5,008	13,194
Science Club	480	1,712	1,868	324
Creative, Inc.	400	-	-	400
Student Newspaper	1,367	925	1,404	888
Musical	6,347	3,697	4,710	5,334
National Honor Society	199	554	663	90
Academic Competition	701	-	-	701
Thespians	1,760	244	421	1,583
French	151	-	-	151
FBLA	724	6,206	5,622	1,308
VTR Technician	7	-	-	7
SODA - Students	493	1,940	2,070	363
Spanish	710	-	-	710
Student Senate	6,034	4,724	2,275	8,483
Quill/Yearbook	6,336	5,998	8,417	3,917
Arts & Crafts	1,424	6,895	8,903	(584)
Class of 2007	172	-	128	44
Class of 2008	2,624	2,588	4,505	707
Class of 2009	1,242	4,195	1,474	3,963
Class of 2010	-	696	168	528
General Athletics	35,462	280,397	284,459	31,400
Vernon:				
PEER Helpers	81	-	30	51
ELP	1,040	-	1,040	-
Vocal	1,068	6,873	7,493	448
Instrumental	53	7,702	8,256	(501)

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Vernon (continued):				
Honor Band	\$ 6,710	\$ 5,750	\$ 8,278	\$ 4,182
General Activities	112	2,774	1,744	1,142
Library Activities	1,318	-	-	1,318
PE/Health	162	5	233	(66)
Science Club	1,756	-	138	1,618
Student Newspaper	505	-	-	505
Washington DC Trip	-	3,845	3,801	44
Cheerleaders	77	1,746	1,522	301
SODA - Students	1,316	569	1,611	274
Student Senate	804	503	-	1,307
Quill/Yearbook	54	5,198	6,341	(1,089)
Student Magazines	1,768	24,432	23,014	3,186
Athletics - Coaches	6,032	9,444	5,478	9,998
Athletic Officials	(224)	-	194	(418)
Athletic Beverages	4,853	56	1,000	3,909
Emerson:				
Library Activities	39	-	-	39
Miscellaneous	214	3,620	2,520	1,314
Foundation Donations	72	-	-	72
Starry:				
Wells Fargo	272	212	-	484
Miscellaneous	1,804	2,598	813	3,589
Resale	44	-	-	44
Francis Marion:				
Instrumental	1,111	784	-	1,895
Miscellaneous	2,060	1,149	538	2,671
Student Magazines	2,122	2,236	2,326	2,032
Total	<u>\$ 134,928</u>	<u>\$ 481,367</u>	<u>\$ 456,569</u>	<u>\$ 159,726</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 Year Ended June 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash	\$ 50	\$ 1,864	\$ 1,825	\$ 89
Accounts receivable	-	81	-	81
<b>Total assets</b>	<u>\$ 50</u>	<u>\$ 1,945</u>	<u>\$ 1,825</u>	<u>\$ 170</u>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 70	\$ -	\$ 70
Other payables	50	1,875	1,825	100
<b>Total liabilities</b>	<u>\$ 50</u>	<u>\$ 1,945</u>	<u>\$ 1,825</u>	<u>\$ 170</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,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 5,831,388	\$ 5,265,851	\$ 5,259,733	\$ 5,452,049
Tuition	4,245,422	3,673,297	3,158,067	3,078,582
Other	966,980	854,494	634,143	544,676
Intermediate sources	-	-	-	3,623
State sources	8,390,311	8,706,248	7,789,648	7,405,475
Federal sources	435,553	398,266	310,228	385,529
Total revenues	<u>\$ 19,869,654</u>	<u>\$ 18,898,156</u>	<u>\$ 17,151,819</u>	<u>\$ 16,869,934</u>
Expenditures:				
Instruction	\$ 12,340,648	\$ 11,563,732	\$ 10,943,342	\$ 10,742,516
Support services:				
Student services	652,306	648,527	637,042	647,126
Instructional staff services	844,966	720,864	607,026	716,121
Administration services	1,913,007	1,798,324	1,737,393	1,594,679
Operation and maintenance of plant services	1,681,926	1,728,086	1,670,449	1,573,423
Transportation services	462,305	343,540	381,364	383,700
Central and other support services	-	-	-	20,332
Non-instructional programs	9,974	-	-	6,252
Other expenditures:				
Facilities acquisition	105,682	471,857	377,251	457,804
Long-term debt:				
Principal	714,583	546,719	574,965	514,905
Interest and fiscal charges	241,024	265,558	281,517	296,247
AEA flowthrough	577,950	562,508	508,720	498,185
Total expenditures	<u>\$ 19,544,371</u>	<u>\$ 18,649,715</u>	<u>\$ 17,719,069</u>	<u>\$ 17,451,290</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended June 30, 2007

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 07	\$ <u>32,046</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 07	26,093
National School Lunch Program	10.555	FY 07	<u>203,705</u>
			<u>229,798</u>
U. S. Department of Cultural Affairs:			
Iowa Arts Council:			
Promotion of the Arts - Partnership Agreements	45.025	FY 07	<u>200</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	4086G	<u>141,619</u>
Grants for State Assessments and Related Activities	84.369	FY 07	<u>14,098</u>
Improving Teacher Quality State Grants	84.367	FY 07	<u>59,912</u>
State Grants for Innovative Programs	84.298	FY 07	<u>2,700</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 07	<u>5,130</u>
Hurricane Education Recovery	84.938	FY 07	<u>3,240</u>
Grant Wood Area Education Agency:			
Special Education - Grants to States	84.027	FY 07	<u>94,772</u>
Vocational Education Basic Grants to States	84.048	FY 07	<u>14,565</u>
Total			\$ <u><u>598,080</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 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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marion Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marion Independent School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Marion Independent School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of Marion Independent School District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Marion Independent School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

### 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, 2007 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.

Marion Independent School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Marion Independent School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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  
January 8, 2008

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, 2007. 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 auditing standards generally accepted in the United States of America, 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, 2007.

Internal Control Over Compliance

The management of Marion Independent School District is responsible for establishing and maintaining effective internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item III-A-07 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  
January 8, 2008

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was 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 as a low-risk auditee.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007

Part II: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

II-A-07 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.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

CFDA Number 10.553: School Breakfast Program and  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2007  
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: 2007  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-07 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, 2007

Part IV: Other Findings Related to Statutory Reporting:

IV-A-07 Certified Budget – Expenditures for the year ended June 30, 2007, exceeded the amounts budgeted in the instruction and non-instructional programs 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-07 Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-07 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-07 Business Transactions – No business transactions between the District and District officials or employees were noted.

IV-E-07 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-07 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-07 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.

IV-I-07 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.

IV-J-07 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.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

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

IV-K-07 Meal and Cell Phone Allowances – We noted that some employees receive flat dollar meal and cell phone allowances but the payments did not go through the District’s payroll process.

Recommendation – All flat dollar 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 the actual cost of meals and cell phones.

Response – Starting July 1, 2007, the reimbursement form has been adjusted to require employees to turn in receipts in order to be reimbursed through accounts payable for meals and cell phones.

Conclusion – Response accepted.