

MARION INDEPENDENT SCHOOL DISTRICT
MARION, IOWA

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

JUNE 30, 2009

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MARION INDEPENDENT SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2008 Election)		
Thomas Thurman	President	2008
Dan Barkley	Vice President	2008
Mary Ames	Board Member	2011
Bill Huntoon	Board Member	2009
Alan Tribble	Board Member	2009
Dianne Bys	Board Member	2009
Tamara Koppedryer	Board Member	2008

<u>Board of Education</u>		
(After September 2008 Election)		
Dan Barkley	President	2011
Alan Tribble	Vice President	2009
Bill Huntoon	Board Member	2009
Dianne Bys	Board Member	2009
Mary Ames	Board Member	2011
Tamara Koppedryer	Board Member	2011
Dennis Trout	Board Member	2011

<u>School Officials</u>		
Nicholas Hobbs	Superintendent	(Resigned Feb. 26, 2009)
Dan Roe	Interim Superintendent	2009
Brian Bartz	District Secretary/Treasurer	2009
Matthew Novak	Attorney	2009
Brian Gruhn	Attorney	2009

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, 2009, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of the District's officials. 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, 2009, 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 18, 2010 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. 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, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 17 and 56 through 58 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 four years ended June 30, 2008 (which are not presented herein). For the two years ended June 30, 2008, we expressed unqualified opinions on those financial statements. 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. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
January 18, 2010

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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$19,235,142 in fiscal year 2008 to \$19,621,958 in fiscal year 2009, while General Fund expenditures increased from \$18,788,441 in fiscal year 2008 to \$20,234,053 in fiscal year 2009. This resulted in a decrease in the District's General Fund balance from \$1,887,477 in fiscal year 2008, to \$1,283,037 in fiscal year 2009, a 32% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a 21% decrease (-\$994,201) in tuition revenues and a 6% increase (+\$552,133) in state sources in fiscal 2009. The decrease in tuition revenues was due primarily to a funding cut to home school students.
- General Fund total assets increased from \$8,194,782 in fiscal year 2008 to \$8,927,250 in fiscal year 2009. This was an increase of \$732,468.

Overview of the Financial Statements

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

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

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

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

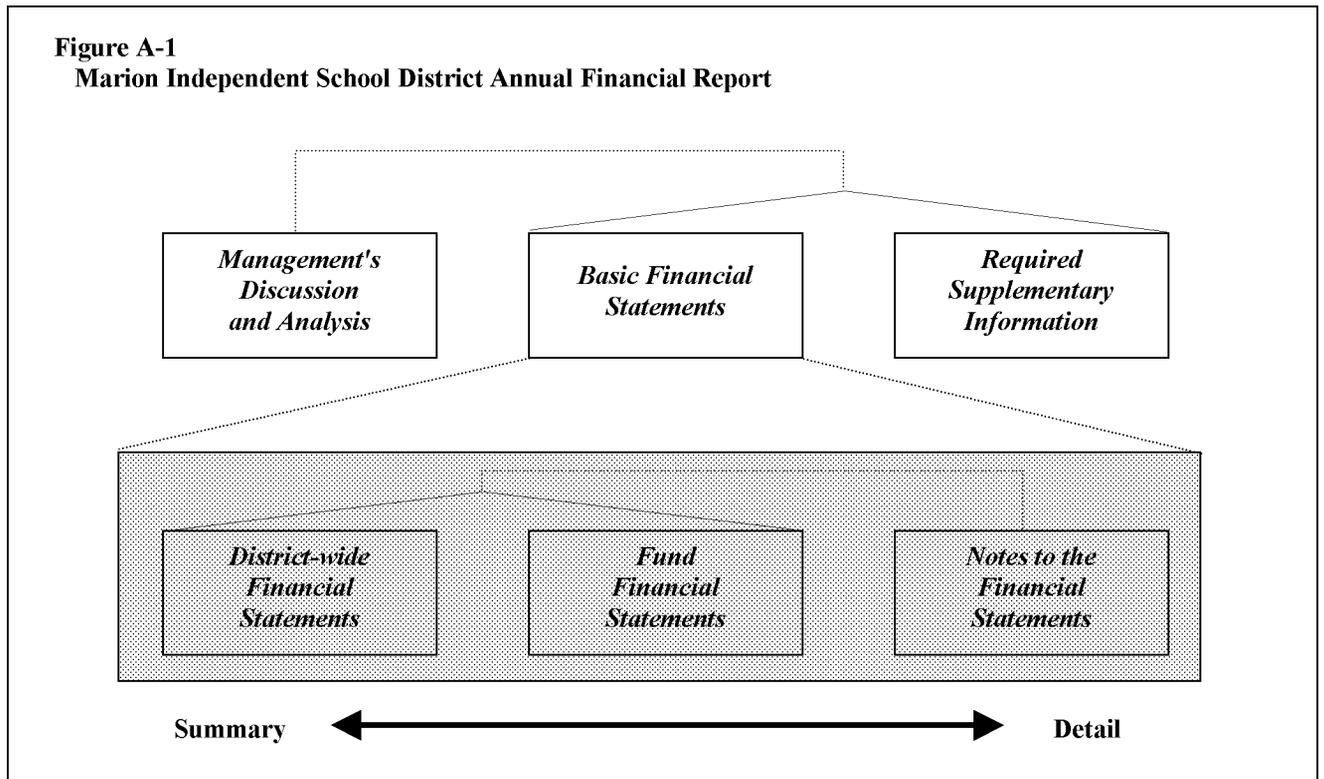


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and the student built house program	Marion does not administer resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether 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, 2009 compared to 2008.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009-2008</u>
Current and other assets	\$27,505,893	\$10,963,986	\$374,068	\$370,838	\$ 27,879,961	\$ 11,334,824	145.97%
Capital assets	<u>11,140,445</u>	<u>10,051,687</u>	<u>67,901</u>	<u>83,042</u>	<u>11,208,346</u>	<u>10,134,729</u>	10.59%
Total assets	<u>38,646,338</u>	<u>20,015,673</u>	<u>441,969</u>	<u>453,880</u>	<u>39,088,307</u>	<u>21,469,553</u>	82.06%
Long-term obligations	19,087,272	4,082,330	-	-	19,087,272	4,082,330	367.76%
Other liabilities	<u>8,789,978</u>	<u>7,008,075</u>	<u>55,934</u>	<u>42,505</u>	<u>8,845,912</u>	<u>7,050,580</u>	25.46%
Total liabilities	<u>27,877,250</u>	<u>11,090,405</u>	<u>55,934</u>	<u>42,505</u>	<u>27,933,184</u>	<u>11,132,910</u>	150.91%
Net assets							
Invested in capital assets, net of related debt	5,216,844	6,161,687	67,901	83,042	5,284,745	6,244,729	-15.37%
Restricted	4,072,910	1,524,935	-	-	4,072,910	1,524,935	167.09%
Unrestricted	<u>1,479,334</u>	<u>2,238,646</u>	<u>318,134</u>	<u>328,333</u>	<u>1,797,468</u>	<u>2,566,979</u>	-29.98%
Total net assets	<u>\$10,769,088</u>	<u>\$9,925,268</u>	<u>\$386,035</u>	<u>\$411,375</u>	<u>\$11,155,123</u>	<u>\$10,336,643</u>	7.92%

Overall the District's net assets increased 7.92% or \$818,480 due to the sale of bonds and the construction projects.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2009 as compared to 2008.

	Change in Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2009	2008	2009	2008	2009	2008	2009-2008
Revenues							
Program revenues							
Charges for service and sales	4,534,276	5,417,084	740,986	905,852	5,275,262	6,322,936	-16.57%
Operating grants, contributions and restricted interest	2,688,025	2,032,657	295,089	281,343	2,983,114	2,314,000	28.92%
General revenues							
Property tax	5,326,286	5,443,728			5,326,286	5,443,728	-2.16%
Income Surtax	432,661	425,635			432,661	425,635	1.65%
Local option sales tax	1,628,625	1,671,417			1,628,625	1,671,417	-2.56%
Unrestricted state grants	8,207,786	7,830,086			8,207,786	7,830,086	4.82%
Unrestricted investment earnings	116,509	130,834	3,526	6,850	120,035	137,684	-12.82%
Other	122,532	66,465			122,532	66,465	84.36%
Total revenues	23,056,700	23,017,906	1,039,601	1,194,045	24,096,301	24,211,951	-4.8%
Program expenses							
Instruction	14,721,969	13,494,633			14,721,969	13,494,633	9.09%
Support services	5,969,983	6,044,209	10,980	10,595	5,980,963	6,054,804	-1.22%
Non-instructional programs	220	450	922,560	1,162,187	922,780	1,162,637	-20.06%
Other expenses	1,520,708	1,334,258	131,401		1,652,109	1,334,258	23.82%
Total expenses	22,212,880	20,873,550	1,064,941	1,172,782	23,277,821	22,046,332	5.59%
Change in net assets	843,820	2,144,356	-25,340	21,263	818,480	2,165,619	-62.21%

Property tax and unrestricted state grants account for 59% 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

Total and Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 14,721,969	\$ 8,275,621
Support services	5,969,983	5,861,114
Non-instructional programs	220	220
Other expenses	<u>1,520,708</u>	<u>853,624</u>
Total expenses	<u>\$22,212,880</u>	<u>\$ 14,990,579</u>

- The cost financed by users of the District’s programs was \$4,534,276. Exhibit B Total Governmental Activities – Charges for Services revenues total.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,688,025. Exhibit B, Total Governmental Activities, Operating Grants revenues total.
- The net cost of governmental activities was financed with \$5,326,286 in property tax, \$1,628,625 in local option sales and services tax, \$8,207,786 in state foundation aid and \$116,509 in interest income. Exhibit B General Revenues section

Business-Type Activities

Revenues of the District’s business-type activities were \$1,039,601 Exhibit B Business-type activity revenue – Charges for services (\$740,986) + Operating Grants (\$295,089) and interest (\$3,526) and expenses were \$1,064,941 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 \$18,474,570, Exhibit C, Total Fund Balances which is \$14,931,784 more than last year’s ending fund balances of \$3,542,786. (Exhibit E, Fund Balance, beginning of year.)

Governmental Fund Highlights

The District's General Fund Balance decreased from \$1,887,477 to \$1,283,037. There are several factors that affected this decrease. One of these factors is the District received only half of the funding for home school students that had been received in the past due to a change in state law.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$219,646 at June 30, 2008 to \$197,672 at June 30, 2009, representing a decrease of approximately 10%.

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 56.

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.

Expenditures exceeded the budget in the instruction function.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2009, the District had invested \$11,208,346, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 10.59% from last year. More detailed information about capital assets is available in Note 1D and Note 5 to the financial statements. Depreciation expense for the year was \$521,388.

Governmental activities account for \$11,140,445 with the remainder \$67,901 in the Proprietary, School Nutrition Fund.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
2009	2008	2009	2008	2009	2008	2009-08	
Land	\$ 985,427	\$ 695,344	\$ -	\$ -	\$ 985,427	\$ 695,344	41.72%
Construction in progress	1,162,857		-	-	1,162,857		
Buildings and improvements	8,114,528	8,356,129	-	-	8,114,528	8,356,129	-2.89%
Improvements, other than buildings	455,239	505,021	-	-	455,239	505,021	-9.86%
Furniture and equipment	422,394	495,193	67,901	83,042	490,295	578,235	-15.21%
Totals	<u>\$11,140,445</u>	<u>\$10,051,687</u>	<u>\$67,901</u>	<u>\$83,042</u>	<u>\$ 11,208,346</u>	<u>\$ 10,134,729</u>	10.59%

Long-Term Debt

At June 30, 2009, the District had \$19,087,272 in general obligation and other long-term debt outstanding. This represents an increase of 367.56 % 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.

	Outstanding Long-term Obligations		
	Total		Total
	School District		
	2009	2008	2009-2008
General obligation bonds	\$ 3,230,000	\$ 3,535,000	-8.63%
Revenue Bonds	15,450,000	0	
Capital loan notes	180,000	355,000	-49.3%
Compensated absences	64,647	67,366	-4.04%
Net OPEB liability	98,282	0	
Capital Lease Purchase Agreement	<u>64,343</u>	<u>124,964</u>	-48.51%
Total	<u>\$19,087,272</u>	<u>\$ 4,082,330</u>	367.56%

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 economic downturn has and will continue to affect the school district's finances. The district received a 10% across the board cut in the 2009/10 school year. This amounts to \$879,680 less cash coming in for the 2009/10 school year. The District will have to reduce expenses to keep a positive fund balance because there is not enough reserves to cover the revenue reduction.
- The enrollment for Marion Home School Assistance Program grew from 750 to 770 students from the fall of 2009 to the fall of 2010. This was in line with estimates. The state legislature reduced the funding for home school students by one half and required the same amount be spent on the program. This will significantly impact the district finances moving forward.
- 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 15th Street, Marion, IA 52302.

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Basic Financial Statements

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2009

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 20,818,405	\$ 147,035	\$ 20,965,440
Receivables:			
Property tax:			
Current year	97,583	-	97,583
Succeeding year	5,334,183	-	5,334,183
Income surtax	406,633	-	406,633
Accounts	6,743	213,915	220,658
Due from other governments	836,931	-	836,931
Employee loans receivable	1,000	-	1,000
Inventories	-	13,073	13,073
Prepaid expenses	4,415	45	4,460
Capital assets, net of accumulated depreciation (note 5)	11,140,445	67,901	11,208,346
Total assets	38,646,338	441,969	39,088,307
Liabilities			
Accounts payable	808,699	3,625	812,324
Salaries and benefits payable	2,197,705	15,540	2,213,245
Due to other governments	153,685	-	153,685
Accrued interest payable	199,960	-	199,960
Bank loan payable (note 6)	-	25,500	25,500
Early separation payable (note 7)	77,006	-	77,006
Deferred revenue:			
Succeeding year property tax	5,334,183	-	5,334,183
Other	18,740	11,269	30,009
Long-term liabilities (note 7):			
Portion due within one year:			
Bonds payable	320,000	-	320,000
Notes payable	180,000	-	180,000
Capital lease purchase agreement	64,343	-	64,343
Compensated absences	64,647	-	64,647
Portion due after one year:			
Bonds payable	18,360,000	-	18,360,000
Net OPEB liability	98,282	-	98,282
Total liabilities	27,877,250	55,934	27,933,184

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 5,216,844	\$ 67,901	\$ 5,284,745
Restricted for:			
Categorical funding	152,334	-	152,334
Management levy	178,295	-	178,295
Public education and recreation levy	38,085	-	38,085
Physical plant and equipment levy	713,905	-	713,905
Other special revenue purposes	207,875	-	207,875
Debt service	1,501,743	-	1,501,743
Capital projects	1,280,673	-	1,280,673
Unrestricted	<u>1,479,334</u>	<u>318,134</u>	<u>1,797,468</u>
Total net assets	<u>\$ 10,769,088</u>	<u>\$ 386,035</u>	<u>\$ 11,155,123</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 14,721,969	\$ 4,472,587	\$ 1,973,761
Support services:			
Student services	752,383	2,896	13,124
Instructional staff services	882,307	-	15,600
Administration services	2,149,903	-	-
Operation and maintenance of plant services	1,767,134	13,201	1,360
Transportation services	418,256	45,592	17,096
	<u>5,969,983</u>	<u>61,689</u>	<u>47,180</u>
Non-instructional programs	<u>220</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	94,388	-	-
Long-term debt interest and fiscal charges	358,177	-	-
AEA flowthrough	667,084	-	667,084
Depreciation (unallocated) *	401,059	-	-
	<u>1,520,708</u>	<u>-</u>	<u>667,084</u>
Total governmental activities	<u>22,212,880</u>	<u>4,534,276</u>	<u>2,688,025</u>
Business-Type Activities:			
Support services:			
Administration services	9,674	-	-
Operation and maintenance of plant services	1,306	-	-
	<u>10,980</u>	<u>-</u>	<u>-</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (8,275,621)	\$ -	\$ (8,275,621)
(736,363)	-	(736,363)
(866,707)	-	(866,707)
(2,149,903)	-	(2,149,903)
(1,752,573)	-	(1,752,573)
(355,568)	-	(355,568)
(5,861,114)	-	(5,861,114)
(220)	-	(220)
(94,388)	-	(94,388)
(358,177)	-	(358,177)
-	-	-
(401,059)	-	(401,059)
(853,624)	-	(853,624)
(14,990,579)	-	(14,990,579)
-	(9,674)	(9,674)
-	(1,306)	(1,306)
-	(10,980)	(10,980)

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Business-Type Activities (continued):			
Non-instructional programs:			
Food service operations	\$ 817,703	\$ 507,959	\$ 295,089
School store operations	7,993	7,453	-
Student built house	96,864	225,574	-
	922,560	740,986	295,089
Other expenditures:			
Facilities acquisition	131,401	-	-
	1,064,941	740,986	295,089
Total business-type activities			
	\$ 23,277,821	\$ 5,275,262	\$ 2,983,114

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
 Income surtax
 Statewide sales and services tax
 Unrestricted state grants
 Unrestricted investment earnings
 Other

Total general revenues

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
\$ -	\$ (14,655)	\$ (14,655)
-	(540)	(540)
-	128,710	128,710
-	113,515	113,515
-	(131,401)	(131,401)
-	(28,866)	(28,866)
(14,990,579)	(28,866)	(15,019,445)
\$ 4,927,619	\$ -	\$ 4,927,619
230,456	-	230,456
168,211	-	168,211
432,661	-	432,661
1,628,625	-	1,628,625
8,207,786	-	8,207,786
116,509	3,526	120,035
122,532	-	122,532
15,834,399	3,526	15,837,925
843,820	(25,340)	818,480
9,925,268	411,375	10,336,643
<u>\$ 10,769,088</u>	<u>\$ 386,035</u>	<u>\$ 11,155,123</u>

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and pooled investments	\$ 3,483,519	\$ 15,913,146	\$ 1,387,068	\$ 20,783,733
Receivables:				
Property tax:				
Current year	84,702	-	12,881	97,583
Succeeding year	4,794,076	-	540,107	5,334,183
Income surtax	-	-	406,633	406,633
Interfund receivable (note 4)	63,110	-	46,266	109,376
Accounts	6,237	-	506	6,743
Due from other governments	490,872	346,059	-	836,931
Employee loans receivable	1,000	-	-	1,000
Prepaid expenses	3,734	-	681	4,415
	<hr/>			
Total assets	\$ <u>8,927,250</u>	\$ <u>16,259,205</u>	\$ <u>2,394,142</u>	\$ <u>27,580,597</u>

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 434,374	\$ 369,211	\$ 5,114	\$ 808,699
Salaries and benefits payable	2,197,072	-	633	2,197,705
Due to other governments	153,685	-	-	153,685
Interfund payable (note 4)	46,266	-	63,110	109,376
Early separation payable (note 7)	-	-	77,006	77,006
Deferred revenue:				
Succeeding year property tax	4,794,076	-	540,107	5,334,183
Other	18,740	-	406,633	425,373
Total liabilities	<u>7,644,213</u>	<u>369,211</u>	<u>1,092,603</u>	<u>9,106,027</u>
Fund balances:				
Reserved for:				
Categorical funding	152,334	-	-	152,334
Prepaid expenses	3,734	-	681	4,415
Debt service	-	-	25,349	25,349
Revenue bonds sinking fund	-	53,191	-	53,191
Revenue bonds reserve fund	-	1,435,609	-	1,435,609
Unreserved, reported in:				
General fund	1,126,969	-	-	1,126,969
Special revenue funds	-	-	1,275,509	1,275,509
Capital projects fund	-	14,401,194	-	14,401,194
Total fund balances	<u>1,283,037</u>	<u>15,889,994</u>	<u>1,301,539</u>	<u>18,474,570</u>
Total liabilities and fund balances	<u>\$ 8,927,250</u>	<u>\$ 16,259,205</u>	<u>\$ 2,394,142</u>	<u>\$ 27,580,597</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, 2009

Total fund balances of governmental funds	\$ 18,474,570
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.	11,140,445
Other long-term assets, including income surtax receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	406,633
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.	(199,960)
Long-term liabilities, including bonds and notes payable, capital lease purchase agreements, compensated absences, and OPEB liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(19,087,272)
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>34,672</u>
Net assets of governmental activities	<u>\$ 10,769,088</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, 2009

	General	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 4,619,594	\$ 1,628,625	\$ 1,134,963	\$ 7,383,182
Tuition	3,723,146	-	-	3,723,146
Other	283,363	66,768	523,243	873,374
State sources	10,020,602	-	580	10,021,182
Federal sources	975,253	-	-	975,253
Total revenues	<u>19,621,958</u>	<u>1,695,393</u>	<u>1,658,786</u>	<u>22,976,137</u>
Expenditures:				
Current:				
Instruction	14,012,811	-	647,433	14,660,244
Support services:				
Student services	748,079	-	-	748,079
Instructional staff services	767,701	34,178	76,490	878,369
Administration services	2,085,837	35,484	2,146	2,123,467
Operation and maintenance of plant services	1,592,783	-	157,867	1,750,650
Transportation services	359,538	-	9,175	368,713
	<u>5,553,938</u>	<u>69,662</u>	<u>245,678</u>	<u>5,869,278</u>
Non-instructional programs	220	-	-	220
Other expenditures:				
Facilities acquisition	-	1,415,699	57,980	1,473,679
Long term debt:				
Principal	-	-	540,621	540,621
Interest and fiscal charges	-	185,400	178,390	363,790
AEA flowthrough	667,084	-	-	667,084
	<u>667,084</u>	<u>1,601,099</u>	<u>776,991</u>	<u>3,045,174</u>
Total expenditures	<u>20,234,053</u>	<u>1,670,761</u>	<u>1,670,102</u>	<u>23,574,916</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(612,095)</u>	<u>24,632</u>	<u>(11,316)</u>	<u>(598,779)</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	General	Capital Projects	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Compensation for loss of capital assets	\$ 7,655	\$ -	\$ -	\$ 7,655
Interfund transfers in (note 3)	-	-	491,547	491,547
Interfund transfers out (note 3)	-	(240,031)	(251,516)	(491,547)
Revenue bonds issued	-	15,450,000	-	15,450,000
Premium on sale of bonds	-	72,908	-	72,908
Total other financing sources (uses)	<u>7,655</u>	<u>15,282,877</u>	<u>240,031</u>	<u>15,530,563</u>
Net change in fund balances	(604,440)	15,307,509	228,715	14,931,784
Fund balances beginning of year	<u>1,887,477</u>	<u>582,485</u>	<u>1,072,824</u>	<u>3,542,786</u>
Fund balances end of year	<u>\$ 1,283,037</u>	<u>\$ 15,889,994</u>	<u>\$ 1,301,539</u>	<u>\$ 18,474,570</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, 2009

Net change in fund balances - total governmental funds \$ 14,931,784

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of 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	\$ 1,595,005	
Depreciation expense	<u>(506,247)</u>	1,088,758

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. (15,450,000)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 540,621

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. (179,787)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	2,719	
Net OPEB liability	<u>(98,282)</u>	(95,563)

The change in net assets of the Internal Service Fund is reported with governmental activities in the Statement of Net Assets. 8,007

Change in net assets of governmental activities \$ 843,820

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	Nonmajor Enterprise Funds	Internal Service Fund - Flexible Benefits
Assets		
Cash and cash equivalents	\$ 147,035	\$ 34,672
Accounts receivable	213,915	-
Inventories	13,073	-
Prepaid expenses	45	-
Capital assets, net of accumulated depreciation (note 5)	67,901	-
Total assets	<u>441,969</u>	<u>34,672</u>
Liabilities		
Accounts payable	3,625	-
Salaries and benefits payable	15,540	-
Bank loan payable (note 6)	25,500	-
Deferred revenue	11,269	-
Total liabilities	<u>55,934</u>	<u>-</u>
Net Assets		
Invested in capital assets	67,901	-
Unrestricted	318,134	34,672
Total net assets	<u>\$ 386,035</u>	<u>\$ 34,672</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, 2009

	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Fund - Flexible Benefits</u>
Operating revenues:		
Local sources:		
Charges for services	\$ 740,986	\$ 271,413
Operating expenses:		
Support services:		
Administration services	9,674	-
Operation and maintenance of plant services	1,306	-
Non-instructional programs	922,560	263,672
Other expenditures:		
Facilities acquisition	131,401	-
	<u>1,064,941</u>	<u>263,672</u>
Operating income (loss)	<u>(323,955)</u>	<u>7,741</u>
Non-operating revenues:		
Interest on investments	3,526	266
State sources	8,366	-
Federal sources	286,723	-
Total non-operating revenues	<u>298,615</u>	<u>266</u>
Change in net assets	(25,340)	8,007
Net assets beginning of year	<u>411,375</u>	<u>26,665</u>
Net assets end of year	<u>\$ 386,035</u>	<u>\$ 34,672</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2009

	Nonmajor Enterprise Funds	Internal Service Fund - Flexible Benefits
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 504,954	\$ -
Cash received from miscellaneous operating activities	232,979	271,413
Cash payments to employees for services	(369,817)	-
Cash payments to suppliers for goods or services	<u>(635,273)</u>	<u>(263,672)</u>
Net cash provided by (used by) operating activities	<u>(267,157)</u>	<u>7,741</u>
Cash flows from non-capital financing activities:		
State grants received	8,366	-
Federal grants received	258,222	-
Operating loan proceeds	25,500	-
Operating loan payments	<u>(17,500)</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>274,588</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>3,526</u>	<u>266</u>
Net increase in cash and cash equivalents	10,957	8,007
Cash and cash equivalents beginning of year	<u>136,078</u>	<u>26,665</u>
Cash and cash equivalents end of year	<u>\$ 147,035</u>	<u>\$ 34,672</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2009

	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Fund - Flexible Benefits</u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:		
Operating income (loss)	\$ (323,955)	\$ 7,741
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	15,141	-
Commodities used	28,575	-
(Increase) in accounts receivable	(4,053)	-
Decrease in due from other governments	772	-
Decrease in inventories	10,979	-
(Increase) in prepaid expenses	(45)	-
Increase in accounts payable	151	-
Increase in salaries and benefits payable	5,050	-
Increase in deferred revenue	228	-
Net cash provided by (used by) operating activities	<u>\$ (267,157)</u>	<u>\$ 7,741</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received \$28,575 of federal commodities.

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2009

	<u>Agency</u>
Assets:	
Cash	\$ 529
Accounts receivable	<u>110</u>
Total assets	<u>639</u>
Liabilities:	
Other payables	<u>639</u>
Net assets	<u>\$ -</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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 750 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, 2009

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

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, 2009

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.

The 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, 2009

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, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2008.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2009 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, 2009, 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.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Capital Assets – Capital assets, which include property, furniture, and equipment, 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 unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Deferred revenue for governmental activities in the Statement of Net Assets consists of unspent grant proceeds and the 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 meal revenues.

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.

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 who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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. Net assets restricted through enabling legislation as of June 30, 2009 consists of \$4,072,910.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures in the instruction function exceeded the amount budgeted.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2009 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.

At June 30, 2009, the District had investments as follows:

	<u>Amortized Cost/ Fair Value</u>
Iowa Schools Joint Investment Trust, Diversified Portfolio	\$ 1,379,576
Money market mutual fund	<u>53,191</u>
	<u>\$ 1,432,767</u>

The investment in the Iowa Schools Joint Investment Trust, Diversified Portfolio is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the money market mutual fund is valued at fair value.

Credit Risk – The investments in the Iowa Schools Joint Investment Trust and money market mutual fund were rated Aaa by Moody's Investors Service.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 240,031
	Special Revenue:	
	Physical Plant and Equipment Levy	<u>251,516</u>
Total		<u>\$ 491,547</u>

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 4. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2009 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue: Physical Plant and Equipment Levy	\$ 63,110
Special Revenue: Management Levy	General	<u>46,266</u>
Total		<u>\$ 109,376</u>

The interfund balances are due to timing differences involved in various reimbursements. These balances are not included on the District-wide Statement of Net Assets.

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 695,344	\$ 290,083	\$ -	\$ 985,427
Construction in progress	-	1,162,857	-	1,162,857
Total capital assets not being depreciated	<u>695,344</u>	<u>1,452,940</u>	-	<u>2,148,284</u>
Capital assets being depreciated:				
Buildings	16,609,087	111,751	-	16,720,838
Improvements other than buildings	1,060,856	-	-	1,060,856
Furniture and equipment	2,755,291	30,314	-	2,785,605
Total capital assets being depreciated	<u>20,425,234</u>	<u>142,065</u>	-	<u>20,567,299</u>
Less accumulated depreciation for:				
Buildings	8,252,958	353,352	-	8,606,310
Improvements other than buildings	555,835	49,782	-	605,617
Furniture and equipment	2,260,098	103,113	-	2,363,211
Total accumulated depreciation	<u>11,068,891</u>	<u>506,247</u>	-	<u>11,575,138</u>
Total capital assets being depreciated, net	<u>9,356,343</u>	<u>(364,182)</u>	-	<u>8,992,161</u>
Governmental activities capital assets, net	<u>\$ 10,051,687</u>	<u>\$ 1,088,758</u>	<u>\$ -</u>	<u>\$ 11,140,445</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 324,951	\$ -	\$ -	\$ 324,951
Less accumulated depreciation	241,909	15,141	-	257,050
Business-type activities capital assets, net	<u>\$ 83,042</u>	<u>\$ (15,141)</u>	<u>\$ -</u>	<u>\$ 67,901</u>

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

Governmental activities:	
Instruction	\$ 22,413
Support services:	
Administration	15,600
Operation and maintenance of plant services	16,101
Transportation	51,074
	<u>105,188</u>
Unallocated depreciation	<u>401,059</u>
Total governmental activities depreciation expense	<u>\$ 506,247</u>
Business-type activities:	
Food service operations	<u>\$ 15,141</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 6. Short-Term Loans Payable

During the year ended June 30, 2009, 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 \$190,000 and is available until December 2009. The Student Built House Fund short-term loan includes interest at 6%.

A summary of the short-term debt activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Loans Received	Loans Repaid	Balance End of Year
Bank Loan	\$ 17,500	\$ 25,500	\$ 17,500	\$ 25,500

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,535,000	\$ -	\$ 305,000	\$ 3,230,000	\$ 320,000
Revenue bonds	-	15,450,000	-	15,450,000	-
Capital loan notes	355,000	-	175,000	180,000	180,000
Capital lease purchase agreement	124,964	-	60,621	64,343	64,343
Compensated absences	67,366	64,647	67,366	64,647	64,647
Net OPEB liability	-	98,282	-	98,282	-
Total	\$ 4,082,330	\$ 15,612,929	\$ 607,987	\$ 19,087,272	\$ 628,990

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 ended June 30, 2008, and 30% for early separation taken in the year ended June 30, 2009. Early retirement benefits will be paid into a 403b plan in July following the start of retirement.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 7. Long-Term Liabilities (continued)

Early Separation (continued)

At June 30, 2009, the District has obligations to four participants with a total liability of \$77,006. Actual early separation disbursements for the year ended June 30, 2009 totaled \$90,616. 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.

General Obligation Bonds

Details of the District's June 30, 2009 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>
2010	4.40 %	\$ 320,000	\$ 148,878	\$ 468,878
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>\$ 3,230,000</u>	<u>\$ 725,632</u>	<u>\$ 3,955,632</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 7. Long-Term Liabilities (continued)

Revenue Bonds

Details of the District's June 30, 2009 school infrastructure sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2010	- %	\$ -	\$ 552,366	\$ 552,366
2011	4.250	515,000	725,544	1,240,544
2012	4.250	680,000	700,150	1,380,150
2013	4.250	710,000	670,613	1,380,613
2014	4.250	565,000	643,519	1,208,519
2015	4.250	545,000	619,931	1,164,931
2016	4.250	570,000	596,238	1,166,238
2017	4.250	590,000	571,588	1,161,588
2018	4.000	615,000	546,750	1,161,750
2019	4.200	640,000	521,010	1,161,010
2020	4.375	670,000	492,914	1,162,914
2021	4.600	700,000	462,158	1,162,158
2022	4.750	730,000	428,720	1,158,720
2023	4.875	765,000	392,736	1,157,736
2024	5.000	800,000	354,089	1,154,089
2025	5.000	840,000	313,089	1,153,089
2026	5.125	885,000	269,411	1,154,411
2027	5.200	930,000	222,552	1,152,552
2028	-	-	198,372	198,372
2029	5.350	2,010,000	144,605	2,154,605
2030	5.375	1,690,000	90,837	1,780,837
		<u>\$ 15,450,000</u>	<u>\$ 9,517,192</u>	<u>\$ 24,967,192</u>

The District pledged future school infrastructure (statewide) sales and services tax revenues to repay the \$15,450,000 bonds issued in April 2009. The bonds were issued for the purpose of financing a portion of the costs of the construction of a high school addition and a new middle school building. The bonds are payable solely from the proceeds of the school infrastructure (statewide) sales and services tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 12 to 100 percent of the school infrastructure (statewide) sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$24,967,192. For the current year, no principal and interest were paid on the bonds and total statewide sales and services tax revenues were \$1,628,625.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 7. Long-Term Liabilities (continued)

Revenue Bonds (continued)

The resolution providing for the issuance of the school infrastructure sales and services tax revenue bonds includes the following provisions:

- a) \$1,435,609 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Fund to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Fund. The balance of the proceeds shall be deposited to the Project Fund.
- b) All proceeds from the school infrastructure sales and services tax shall be placed in a Revenue Fund.
- c) Beginning July 1, 2009, monies in the Revenue Fund shall be disbursed to make monthly deposits into a Sinking Fund to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Fund after the required transfer to the Sinking Fund may be transferred to the Project Fund to be used for any lawful purpose.

Capital Loan Notes

Details of the District's June 30, 2009 capital loan notes indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2010	3.125 %	\$ <u>180,000</u>	\$ <u>5,625</u>	\$ <u>185,625</u>

Capital Lease Purchase Agreement

During the year ended June 30, 2008, the District entered into a capital lease purchase agreement for the purchase of computers and related equipment and maintenance agreements. The agreement is payable in three equal annual payments and includes interest at 6.14%.

Details of the District's June 30, 2009 capital lease purchase agreement indebtedness are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ <u>64,343</u>	\$ <u>3,951</u>	\$ <u>68,294</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 8. Other Postemployment Benefits (OPEB)

The District prospectively implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description – The District participates in an agent multiple-employer health care plan called the Metro Interagency Insurance Plan (MIIP). This plan provides medical and prescription drug benefits for eligible employees and retirees and their spouses. There are 270 active and 16 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a self-insured plan with MIIP. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members and the District are established and may be amended by the MIIP Board of Directors. The District currently finances the benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The District’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District’s annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan and changes in the District’s net OPEB obligation:

Annual required contribution	\$ 98,282
Interest on net OPEB obligation	-
Annual OPEB cost	<u>98,282</u>
Contributions made	-
Increase in net OPEB obligation	<u>98,282</u>
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u><u>\$ 98,282</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 8. Other Postemployment Benefits (OPEB) (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2009 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 98,282	0%	\$ 98,282

Funded Status and Funding Progress – As of July 1, 2007, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$1,069,868, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,069,868. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$14,732,170, and the ratio of the UAAL to covered payroll was 7.3%. As of June 30, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2007 actuarial valuation date, the frozen entry age actuarial cost method was used and allocated based on service. The actuarial assumptions include a 5% discount rate based on the District's funding policy and a projected annual medical trend rate of 6%.

Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000 and applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Valuation Report as of June 30, 2007.

The UAAL is being amortized as a level dollar amount on a closed basis over 30 years.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$848,195, \$764,636, and \$677,091, 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.

The total premiums paid into the plan by all six members from July 1, 2008 to June 30, 2009 were \$27,922,258, of which \$1,399,921 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 \$667,084 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 12. Construction Commitments

The District has entered into a contract totaling \$2,934,875 for a high school addition. As of June 30, 2009, costs of \$366,581 had been incurred against the contract. The balance of \$2,568,294 remaining at June 30, 2009 will be paid as work on the project progresses.

Note 13. Subsequent Events

On November 1, 2009, the District issued \$3,205,000 of general obligation school refunding bonds. Proceeds from the issuance will be used to redeem the District's outstanding bonds dated February 1, 1998. The refunding bonds will be paid over eight years with a 3% interest rate.

In January 2010, the District approved contracts totaling \$14,888,233 for the construction of and equipment for a new middle school.

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Required Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances –
 Budget and Actual – All Governmental Funds
 and Proprietary Funds
 Required Supplementary Information
 Year Ended June 30, 2009

	Governmental Funds - Actual	Proprietary Funds - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	\$ 11,979,702	\$ 744,512	\$ 12,724,214	\$ 12,800,644	\$ 12,800,644	\$ (76,430)
State sources	10,021,182	8,366	10,029,548	9,636,037	9,636,037	393,511
Federal sources	975,253	286,723	1,261,976	575,000	575,000	686,976
Total revenues	22,976,137	1,039,601	24,015,738	23,011,681	23,011,681	1,004,057
EXPENDITURES/EXPENSES:						
Instruction	14,660,244	-	14,660,244	13,825,000	14,500,000	(160,244)
Support services	5,869,278	10,980	5,880,258	7,265,500	7,265,500	1,385,242
Non-instructional programs	220	922,560	922,780	898,500	1,200,000	277,220
Other expenditures	3,045,174	131,401	3,176,575	2,647,071	4,000,000	823,425
Total expenditures/expenses	23,574,916	1,064,941	24,639,857	24,636,071	26,965,500	2,325,643
Excess (deficiency) of revenues over (under) expenditures/ expenses	(598,779)	(25,340)	(624,119)	(1,624,390)	(3,953,819)	3,329,700
Other financing sources, net	15,530,563	-	15,530,563	191,000	191,000	15,339,563
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	14,931,784	(25,340)	14,906,444	(1,433,390)	(3,762,819)	18,669,263
Balance beginning of year	3,542,786	411,375	3,954,161	2,202,788	2,202,788	1,751,373
Balance end of year	<u>\$ 18,474,570</u>	<u>\$ 386,035</u>	<u>\$ 18,860,605</u>	<u>\$ 769,398</u>	<u>\$ (1,560,031)</u>	<u>\$ 20,420,636</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2009

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis.

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, the District adopted one budget amendment increasing budgeted expenditures by \$2,329,429.

During the year ended June 30, 2009, expenditures in the instruction function exceeded the amount budgeted.

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

(In Thousands)

Required Supplementary Information

Year Ended June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	\$ -	\$ 1,070	\$ 1,070	0.0%	\$ 14,732	7.3%

See note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Physical Plant and Equipment Levy
Assets				
Cash and pooled investments	\$ 203,460	\$ 211,606	\$ 38,085	\$ 435,903
Receivables:				
Property tax:				
Current year	5,575	-	-	3,083
Succeeding year	213,584	-	-	162,424
Income surtax	-	-	-	406,633
Interfund receivable	46,266	-	-	-
Accounts	-	506	-	-
Prepaid expenses	-	681	-	-
Total assets	\$ 468,885	\$ 212,793	\$ 38,085	\$ 1,008,043
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 4,285	\$ -	\$ 829
Salaries and benefits payable	-	633	-	-
Interfund payable	-	-	-	63,110
Early separation payable	77,006	-	-	-
Deferred revenue:				
Succeeding year property tax	213,584	-	-	162,424
Other	-	-	-	406,633
Total liabilities	290,590	4,918	-	632,996
Fund balances:				
Reserved for:				
Prepaid expenses	-	681	-	-
Debt service	-	-	-	-
Unreserved:				
Undesignated	178,295	207,194	38,085	375,047
Total fund balances	178,295	207,875	38,085	375,047
Total liabilities and fund balances	\$ 468,885	\$ 212,793	\$ 38,085	\$ 1,008,043

See accompanying independent auditor's report.

<u>District Support Trust</u>	<u>Debt Service</u>	<u>Total</u>
\$ 476,888	\$ 21,126	\$ 1,387,068
-	4,223	12,881
-	164,099	540,107
-	-	406,633
-	-	46,266
-	-	506
-	-	681
<u>\$ 476,888</u>	<u>\$ 189,448</u>	<u>\$ 2,394,142</u>
\$ -	\$ -	\$ 5,114
-	-	633
-	-	63,110
-	-	77,006
-	164,099	540,107
-	-	406,633
<u>-</u>	<u>164,099</u>	<u>1,092,603</u>
-	-	681
-	25,349	25,349
<u>476,888</u>	<u>-</u>	<u>1,275,509</u>
<u>476,888</u>	<u>25,349</u>	<u>1,301,539</u>
<u>\$ 476,888</u>	<u>\$ 189,448</u>	<u>\$ 2,394,142</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Physical Plant and Equipment Levy
Revenues:				
Local sources:				
Local tax	\$ 303,964	\$ -	\$ -	\$ 600,733
Other	26,626	477,709	-	13,977
State sources	251	-	-	139
Total revenues	<u>330,841</u>	<u>477,709</u>	<u>-</u>	<u>614,849</u>
Expenditures:				
Current:				
Instruction	195,533	451,900	-	-
Support services:				
Instructional staff services	-	-	-	76,490
Administration services	2,146	-	-	-
Operation and maintenance of plant services	117,566	-	1,468	38,833
Transportation services	9,175	-	-	-
Other expenditures:				
Facilities acquisition	-	-	-	57,980
Long term debt:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>324,420</u>	<u>451,900</u>	<u>1,468</u>	<u>173,303</u>
Excess (deficiency) of revenues over (under) expenditures	6,421	25,809	(1,468)	441,546
Other financing sources (uses):				
Interfund transfers in	-	-	-	-
Interfund transfers out	-	-	-	(251,516)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(251,516)</u>
Net change in fund balances	6,421	25,809	(1,468)	190,030
Fund balances beginning of year	<u>171,874</u>	<u>182,066</u>	<u>39,553</u>	<u>185,017</u>
Fund balances end of year	<u>\$ 178,295</u>	<u>\$ 207,875</u>	<u>\$ 38,085</u>	<u>\$ 375,047</u>

See accompanying independent auditor's report.

<u>District Support Trust</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ 230,266	\$ 1,134,963
4,084	847	523,243
-	190	580
<u>4,084</u>	<u>231,303</u>	<u>1,658,786</u>
-	-	647,433
-	-	76,490
-	-	2,146
-	-	157,867
-	-	9,175
-	-	57,980
-	540,621	540,621
-	178,390	178,390
<u>-</u>	<u>719,011</u>	<u>1,670,102</u>
4,084	(487,708)	(11,316)
-	491,547	491,547
-	-	(251,516)
<u>-</u>	<u>491,547</u>	<u>240,031</u>
4,084	3,839	228,715
<u>472,804</u>	<u>21,510</u>	<u>1,072,824</u>
<u>\$ 476,888</u>	<u>\$ 25,349</u>	<u>\$ 1,301,539</u>

MARION INDEPENDENT SCHOOL DISTRICT

 COMBINING SCHEDULE OF NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 June 30, 2009

	School Nutrition	MDE School Store	Student Built House	Total
Assets				
Cash and cash equivalents	\$ 144,781	\$ 1,324	\$ 930	\$ 147,035
Accounts receivable	266	-	213,649	213,915
Inventories	13,073	-	-	13,073
Prepaid expenses	45	-	-	45
Capital assets, net of accumulated depreciation	67,901	-	-	67,901
Total assets	226,066	1,324	214,579	441,969
Liabilities				
Accounts payable	1,585	33	2,007	3,625
Salaries and benefits payable	15,540	-	-	15,540
Bank loan payable	-	-	25,500	25,500
Deferred revenue	11,269	-	-	11,269
Total liabilities	28,394	33	27,507	55,934
Net Assets				
Invested in capital assets	67,901	-	-	67,901
Unrestricted	129,771	1,291	187,072	318,134
Total net assets	\$ 197,672	\$ 1,291	\$ 187,072	\$ 386,035

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, 2009

	<u>School Nutrition</u>	<u>MDE School Store</u>	<u>Student Built House</u>	<u>Total</u>
Operating revenues:				
Local sources:				
Charges for services	\$ 507,959	\$ 7,453	\$ 225,574	\$ 740,986
Operating expenses:				
Support services:				
Administration services	9,348	-	326	9,674
Operation and maintenance of plant services	273	-	1,033	1,306
Non-instructional programs	817,703	7,993	96,864	922,560
Other expenditures:				
Facilities acquisition	-	-	131,401	131,401
	<u>827,324</u>	<u>7,993</u>	<u>229,624</u>	<u>1,064,941</u>
Operating loss	(319,365)	(540)	(4,050)	(323,955)
Non-operating revenues:				
Interest on investments	2,302	30	1,194	3,526
State sources	8,366	-	-	8,366
Federal sources	286,723	-	-	286,723
Total non-operating revenues	<u>297,391</u>	<u>30</u>	<u>1,194</u>	<u>298,615</u>
Change in net assets	(21,974)	(510)	(2,856)	(25,340)
Net assets beginning of year	<u>219,646</u>	<u>1,801</u>	<u>189,928</u>	<u>411,375</u>
Net assets end of year	<u>\$ 197,672</u>	<u>\$ 1,291</u>	<u>\$ 187,072</u>	<u>\$ 386,035</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2009

	School Nutrition	MDE School Store	Student Built House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 504,954	\$ -	\$ -	\$ 504,954
Cash received from miscellaneous operating activities	3,926	7,453	221,600	232,979
Cash payments to employees for services	(369,817)	-	-	(369,817)
Cash payments to suppliers for goods or services	(396,452)	(7,960)	(230,861)	(635,273)
Net cash used by operating activities	<u>(257,389)</u>	<u>(507)</u>	<u>(9,261)</u>	<u>(267,157)</u>
Cash flows from non-capital financing activities:				
State grants received	8,366	-	-	8,366
Federal grants received	258,222	-	-	258,222
Operating loan proceeds	-	-	25,500	25,500
Operating loan payments	-	-	(17,500)	(17,500)
Net cash provided by non-capital financing activities	<u>266,588</u>	<u>-</u>	<u>8,000</u>	<u>274,588</u>
Cash flows from investing activities:				
Interest on investments	<u>2,302</u>	<u>30</u>	<u>1,194</u>	<u>3,526</u>
Net increase (decrease) in cash and cash equivalents	11,501	(477)	(67)	10,957
Cash and cash equivalents beginning of year	<u>133,280</u>	<u>1,801</u>	<u>997</u>	<u>136,078</u>
Cash and cash equivalents end of year	<u>\$ 144,781</u>	<u>\$ 1,324</u>	<u>\$ 930</u>	<u>\$ 147,035</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2009

	School Nutrition	MDE School Store	Student Built House	Total
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (319,365)	\$ (540)	\$ (4,050)	\$ (323,955)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation	15,141	-	-	15,141
Commodities used	28,575	-	-	28,575
(Increase) in accounts receivable	(79)	-	(3,974)	(4,053)
Decrease in due from other governments	772	-	-	772
Decrease in inventories	10,979	-	-	10,979
(Increase) in prepaid expenses	(45)	-	-	(45)
Increase (decrease) in accounts payable	1,355	33	(1,237)	151
Increase in salaries and benefits payable	5,050	-	-	5,050
Increase in deferred revenue	228	-	-	228
Net cash used in operating activities	<u>\$ (257,389)</u>	<u>\$ (507)</u>	<u>\$ (9,261)</u>	<u>\$ (267,157)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received \$28,575 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, 2009

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District Wide:				
Interest	\$ 24,580	\$ 11,377	\$ -	\$ 35,957
Home School Program	9,450	14,502	12,359	11,593
High School:				
Wellness	828	782	755	855
Foundation Donations	419	-	-	419
Drama	1,877	602	498	1,981
Speech	(932)	1,918	986	-
Vocal	13,235	10,060	9,544	13,751
Instrumental	5,071	12,191	12,671	4,591
Miscellaneous	12,832	4,402	11,312	5,922
Science Club	504	2,827	2,244	1,087
Creative, Inc.	331	-	97	234
Student Newspaper	(80)	1,643	1,265	298
Musical	5,745	3,763	5,398	4,110
National Honor Society	106	1,221	1,109	218
Academic Competition	701	-	-	701
Thespians	1,464	56	(321)	1,841
French	190	294	308	176
Trends in Fashion	6	-	-	6
FBLA	1,737	1,281	588	2,430
VTR Technician	7	-	-	7
SODA - Students	181	1,045	805	421
Spanish	710	-	-	710
Student Senate	9,622	2,641	7,978	4,285
Quill/Yearbook	318	9,499	9,839	(22)
Arts & Crafts	1,274	1,215	1,274	1,215
Class of 2008	652	-	-	652
Class of 2009	1,551	-	130	1,421
Class of 2010	2,554	5,108	5,492	2,170
Class of 2011	644	4,941	2,040	3,545
Class of 2012	-	-	19	(19)
General Athletics	42,019	288,223	270,400	59,842
Project Graduation	-	14,816	13,558	1,258
Vernon:				
PEER Helpers	51	-	-	51
Vocal	598	15,057	15,583	72
Instrumental	1,404	9,298	10,393	309
Honor Band	4,167	7,648	9,830	1,985
Cheerleaders	449	1,246	1,179	516

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2009

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Vernon (continued):				
General Activities	\$ 1,044	\$ 2,318	\$ 2,372	\$ 990
Library Activities	1,318	-	-	1,318
PE/Health	(164)	-	-	(164)
Science Club	1,490	-	-	1,490
Student Newspaper	505	-	-	505
Washington DC Trip	244	1,837	1,729	352
SODA - Students	809	1,136	698	1,247
Student Senate	832	-	263	569
Quill/Yearbook	1,271	5,673	5,450	1,494
Student Magazines	4,234	18,769	14,483	8,520
Athletics	11,131	6,791	8,354	9,568
Athletic Beverages	1,289	-	11	1,278
Miscellaneous	-	-	(352)	352
Emerson:				
Library Activities	39	-	-	39
Miscellaneous	2,378	5,595	5,100	2,873
Foundation Donations	72	-	-	72
Yearbook	-	880	570	310
Starry:				
Wells Fargo	395	-	118	277
Miscellaneous	3,092	627	(461)	4,180
Resale	144	-	144	-
Yearbook	-	1,710	1,134	576
Francis Marion:				
Instrumental	2,675	988	1,832	1,831
Miscellaneous	3,000	2,949	2,342	3,607
Student Magazines	2,003	780	780	2,003
Total	\$ 182,066	\$ 477,709	\$ 451,900	\$ 207,875

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2009

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ 332	\$ 2,553	\$ 2,356	\$ 529
Accounts receivable	-	110	-	110
Total assets	<u>\$ 332</u>	<u>\$ 2,663</u>	<u>\$ 2,356</u>	<u>\$ 639</u>
Liabilities				
Other payables	<u>\$ 332</u>	<u>\$ 2,663</u>	<u>\$ 2,356</u>	<u>\$ 639</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 FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2009	2008	2007	2006	2005
Revenues:					
Local sources:					
Local tax	\$ 7,383,182	\$ 7,518,496	\$ 5,831,388	\$ 5,265,851	\$ 5,259,733
Tuition	3,723,146	4,717,347	4,245,422	3,673,297	3,158,067
Other	873,374	820,513	966,980	854,494	634,143
State sources	10,021,182	9,469,509	8,390,311	8,706,248	7,789,648
Federal sources	975,253	466,853	435,553	398,266	310,228
Total revenues	\$ 22,976,137	\$ 22,992,718	\$ 19,869,654	\$ 18,898,156	\$ 17,151,819
Expenditures:					
Instruction	\$ 14,660,244	\$ 13,487,534	\$ 12,340,648	\$ 11,563,732	\$ 10,943,342
Support services:					
Student services	748,079	691,993	652,306	648,527	637,042
Instructional staff services	878,369	986,728	844,966	720,864	607,026
Administration services	2,123,467	2,133,151	1,913,007	1,798,324	1,737,393
Operation and maintenance of plant services	1,750,650	1,752,569	1,681,926	1,728,086	1,670,449
Transportation services	368,713	337,961	462,305	343,540	381,364
Non-instructional programs	220	450	9,974	-	-
Other expenditures:					
Facilities acquisition	1,473,679	793,613	105,682	471,857	377,251
Long-term debt:					
Principal	540,621	1,033,717	714,583	546,719	574,965
Interest and fiscal charges	363,790	217,193	241,024	265,558	281,517
AEA flowthrough	667,084	616,027	577,950	562,508	508,720
Total expenditures	\$ 23,574,916	\$ 22,050,936	\$ 19,544,371	\$ 18,649,715	\$ 17,719,069

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

Grantor / Program	CFDA Number	Grant Number	Expenditures
Direct:			
U. S. Department of Education: Fund for the Improvement of Education (Carol M. White Physical Education Program)	84.215	FY 09	\$ <u>211,603</u>
Indirect:			
U. S. Department of Agriculture: Iowa Department of Education: Child Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 09	32,183
National School Lunch Program	10.555	FY 09	225,965
National School Lunch Program (non-cash)	10.555	FY 09	<u>28,575</u>
			<u>286,723</u>
U. S. Department of Education: Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	4086G	170,998
Title 1 Grants to Local Educational Agencies	84.010	4086GC	<u>15,774</u>
			<u>186,772</u>
Special Education Cluster Programs:			
Special Education - Preschool Grants	84.173	FY 09	125
Special Education - Grants to States	84.027	FY 09	<u>5,748</u>
			<u>5,873</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 09	<u>7,268</u>
Improving Teacher Quality State Grants	84.367	FY 09	<u>70,086</u>
Grants for State Assessments and Related Activities	84.369	FY 09	<u>13,124</u>
State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	FY 09	<u>153,303</u>
Grant Wood Area Education Agency: Special Education Cluster Program:			
Special Education - Grants to States	84.027	FY 09	99,559
Special Education - Grants to States, Recovery Act	84.391	FY 09	<u>54,665</u>
			<u>154,224</u>
Career and Technical Education - Basic Grants to States	84.048	FY 09	<u>15,737</u>
Total			\$ <u><u>1,104,713</u></u>

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

Basis of Presentation –

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

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Marion Independent School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marion Independent School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 18, 2010. 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, including 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 deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies 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-B-09 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, 2009 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 18, 2010

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

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, 2009. 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, 2009.

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 deficiencies in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

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 18, 2010

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including 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.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.215 – Fund for the Improvement of Education
 - CFDA Number 84.367 – Improving Teacher Quality State Grants
 - 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, 2009

Part II: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

II-A-09 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, the preparing of bank deposits, and the posting of the cash receipts to the cash receipts journal in the Activity Fund can all be performed by the same person. Also, 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 improvement internal control.

Conclusion – Response accepted.

II-B-09 Financial Reporting – During the audit, we identified material amounts of property tax receipts that were recorded in an incorrect fund in the District’s financial statements. Adjustments were subsequently made by the District to properly record these amounts in the financial statements.

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

Response – We will double check these in the future to avoid such misclassifications.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

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: 2009
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.215: Fund for the Improvement of Education
Federal Award Year: 2009
U.S. Department of Education

CFDA Number 84.367: Improving Teacher Quality State Grants
Federal Award Year: 2009
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-09 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, 2009

Part IV: Other Findings Related to Statutory Reporting:

IV-A-09 Certified Budget – Expenditures for the year ended June 30, 2009, exceeded the amount budgeted in the instruction function.

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 in the future.

Conclusion – Response accepted.

IV-B-09 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-09 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-09 Business Transactions – No business transactions between the District and District officials or employees were noted.

IV-E-09 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-09 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-09 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-09 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-09 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely. However, we noted significant differences between funds for property tax revenues as noted in item II-B-09.

Recommendation – The District should report the differences as upward and downward adjustments to beginning balance for the respective funds on the Certified Annual Report for the year ending June 30, 2010.

Response – We will make the appropriate adjustments on next year’s Certified Annual Report.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

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

IV-J-09 Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IV-K-09 Statewide Sales and Services Tax – No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance	\$	-
Statewide sales and services tax revenue		1,628,625
Expenditures/transfers out:		
Debt service for school infrastructure:		
General obligation debt		<u>163,830</u>
Ending balance	\$	<u>1,464,795</u>

IV-L-09 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 work on reviewing these accounts and transferring items to more appropriate funds.

Conclusion – Response accepted.