

MARION INDEPENDENT SCHOOL DISTRICT  
MARION, IOWA

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

JUNE 30, 2012

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## Marion Independent School District

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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#### Board of Education

##### (Before September 2011 Election)

Dan Barkley	President	2011
Alan Tribble	Vice President	2013
Mary Ames	Board Member	2011
Tamara Koppedryer	Board Member	2011
Dennis Trout	Board Member	2011
Diane Bys	Board Member	2013
Bill Huntoon	Board Member	2013

##### (After September 2011 Election)

Dan Barkley	President	2015
Bill Huntoon	Vice President	2013
David Law	Board Member	2015
Shelly Pearson	Board Member	2015
Dennis Trout	Board Member	2015
Diane Bys	Board Member	2013
Alan Tribble	Board Member	2013

#### School Officials

Sarah Pinion	Superintendent	2012
Brian Bartz	District Secretary/Treasurer	2012
Matthew Novak	Attorney	2012
Brian Gruhn	Attorney	2012

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**(a professional corporation)**  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Marion Independent School District:

We have audited the accompanying financial statements of governmental activities, business type activities, each major fund and the aggregate remaining fund information of Marion Independent School District, Marion, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Marion Independent School District at June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 10, 2013 on our consideration of the Marion Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements and other knowledge we obtained during our audit of the basic

financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion Independent School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2011 (which is not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2006 (which are not presented herein) and expressed qualified opinions on those financial statements due to the inability to observe inventory recorded in the Enterprise, School Nutrition Fund. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 11, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

January 10, 2013

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$21,358,901 in fiscal 2011 to \$21,745,287 in fiscal 2012, while General Fund expenditures increased from \$20,798,275 in fiscal 2011 to \$21,082,679 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$1,308,374 in fiscal 2011 to a balance of \$1,970,982 in fiscal 2012, a 50.64% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state sources. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Marion Independent School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Marion Independent School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Marion Independent School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

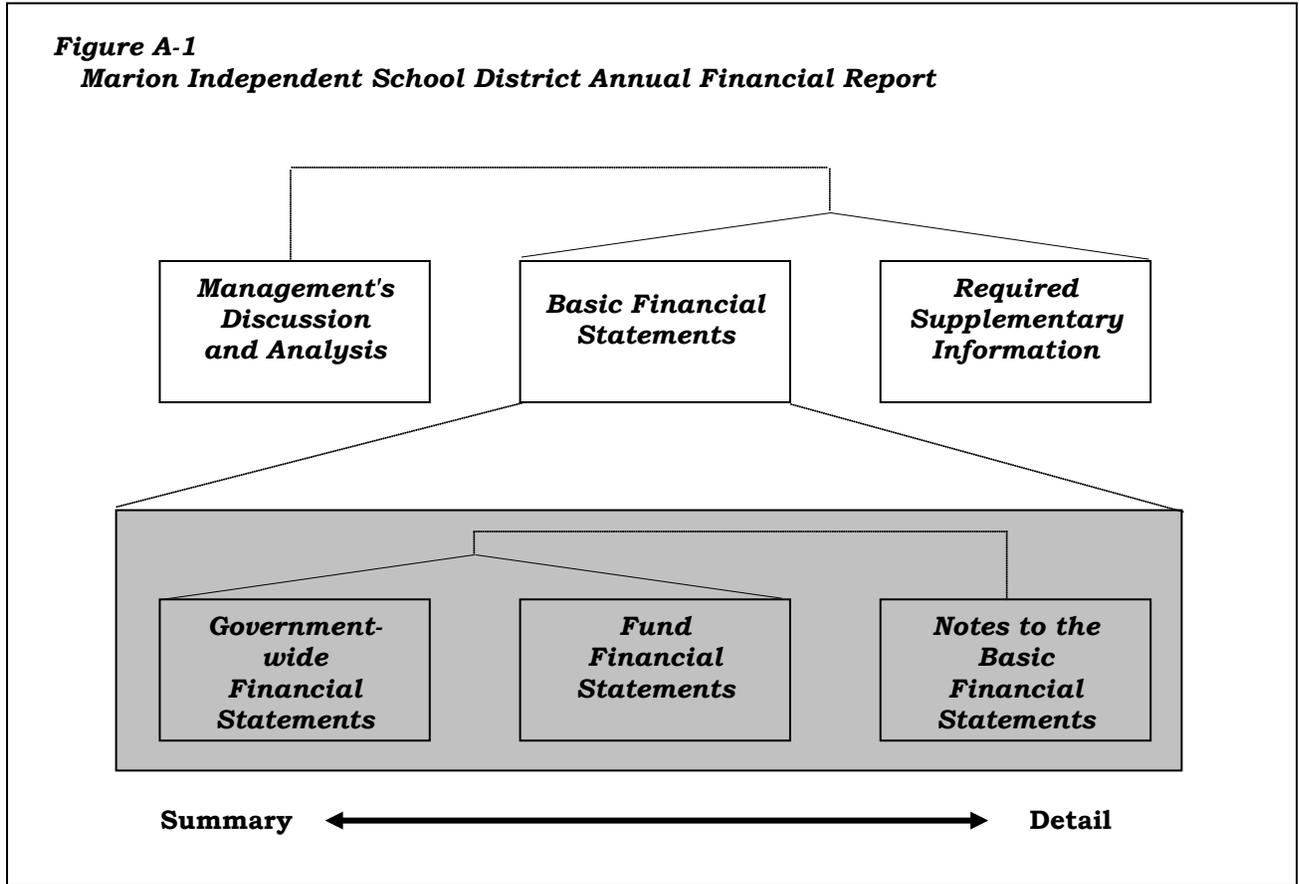


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition, MDE school store and student built house programs 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 federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the 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 fund, the School Nutrition Fund, MDE School Store Fund and Student Built House Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has one internal service fund, Flexible Benefits Fund.

The required financial statements for proprietary funds include a statement of net assets, statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for the assets that belong to others. These funds include the Agency Fund.

- Agency Funds - These are funds through which the District administers and accounts for certain revenue collected for District employee purchased of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for proprietary funds include a statement of fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 20,629,517	24,313,426	168,785	130,197	20,798,302	24,443,623	-14.91%
Capital assets	28,921,087	25,085,066	77,381	88,456	28,998,468	25,173,522	15.19%
Total assets	49,550,604	49,398,492	246,166	218,653	49,796,770	49,617,145	0.36%
Long-term obligations	25,747,810	26,719,379	-	-	25,747,810	26,719,379	-3.64%
Other liabilities	10,066,708	10,070,458	94,559	50,826	10,161,267	10,121,284	0.40%
Total liabilities	35,814,518	36,789,837	94,559	50,826	35,909,077	36,840,663	-2.53%
Net assets:							
Invested in capital assets, net of related debt	5,082,613	5,026,624	77,381	88,456	5,159,994	5,115,080	0.88%
Restricted	8,771,572	7,177,919	-	-	8,771,572	7,177,919	22.20%
Unrestricted	(118,099)	404,112	74,226	79,371	(43,873)	483,483	-109.07%
Total net assets	\$ 13,736,086	12,608,655	151,607	167,827	13,887,693	12,776,482	8.70%

The District's combined net assets increased by 8.70%, or \$1,111,211 from the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$1,593,653, or 22.20% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$527,356, or 109.07%. This decrease in unrestricted net assets was primarily a result of the District's increase in the restricted portion of the General Fund balance in the current year.

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

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 4,763,110	4,362,181	703,359	673,905	5,466,469	5,036,086	8.55%
Operating grants and contributions and restricted interest	1,893,688	3,369,901	320,709	312,863	2,214,397	3,682,764	-39.87%
General revenues:							
Property tax	6,666,498	6,118,477	-	-	6,666,498	6,118,477	8.96%
Income surtax	420,561	430,272	-	-	420,561	430,272	-2.26%
Statewide sales, services and use tax	1,793,031	1,682,935	-	-	1,793,031	1,682,935	6.54%
Unrestricted state grants	10,119,314	8,103,394	-	-	10,119,314	8,103,394	24.88%
Nonspecific program federal revenue	5,433	549,811	-	-	5,433	549,811	-99.01%
Other	115,776	224,585	227	294	116,003	224,879	-48.42%
Transfers	-	(40,322)	-	40,322	-	-	0.00%
Total revenues	25,777,411	24,801,234	1,024,295	1,027,384	26,801,706	25,828,618	3.77%
Program expenses:							
Governmental activities:							
Instructional	16,110,558	15,639,602	256,455	237,690	16,367,013	15,877,292	3.08%
Support services	6,145,787	5,479,406	19,440	17,437	6,165,227	5,496,843	12.16%
Non-instructional programs	-	41,083	764,620	773,765	764,620	814,848	-6.16%
Other expenses	2,393,635	2,171,671	-	-	2,393,635	2,171,671	10.22%
Total expenses	24,649,980	23,331,762	1,040,515	1,028,892	25,690,495	24,360,654	5.46%
Changes in net assets	1,127,431	1,469,472	(16,220)	(1,508)	1,111,211	1,467,964	-24.30%
Net assets beginning of year	12,608,655	11,139,183	167,827	169,335	12,776,482	11,308,518	12.98%
Net assets end of year	\$ 13,736,086	12,608,655	151,607	167,827	13,887,693	12,776,482	8.70%

In fiscal 2012, property tax, income surtax, statewide sales, services and use tax, unrestricted state grants and nonspecific program federal revenue accounted for 73.73% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.98% of the revenue from business type activities.

The District's total revenues were \$26,801,706 of which \$25,777,411 was for governmental activities and \$1,024,295 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.77% increase in revenues and 5.89% increase in expenses. Operating grants and contributions, and restricted interest and nonspecific program federal revenues decreased by \$2,012,745. The increases in expenses were related to increases in negotiated salaries and benefits primarily in the support services function.

## Governmental Activities

Revenues for governmental activities were \$25,777,411 and expenses were \$24,649,980 for the year ended June 30, 2012.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 16,110,558	15,639,602	3.01%	10,235,946	8,767,658	16.75%
Support services	6,145,787	5,479,406	12.16%	6,064,324	5,369,945	12.93%
Non-instructional programs	0	41,083	-100.00%	0	41,083	-100.00%
Other expenses	2,393,635	2,171,671	10.22%	1,692,912	1,420,994	19.14%
Totals	\$ 24,649,980	23,331,762	5.65%	17,993,182	15,599,680	15.34%

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$4,763,110.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,893,688.
- The net cost of governmental activities was financed with \$6,666,498 in property tax, \$1,793,031 in statewide sales, services and uses tax, \$420,561 in income surtax, \$10,119,314 in unrestricted state grants, \$5,433 in nonspecific program federal revenues, \$58,201 in interest income and \$57,575 in other general revenues.

## Business Type Activities

Revenues of the District's business type activities were \$1,024,295 and expenses were \$1,040,515. The District's business type activities include the School Nutrition Fund, MDE School Store Fund and Student Built House Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

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 \$10,469,818, below last year's ending fund balances of \$14,185,099. The primary reason for the decrease in combined fund balance in fiscal 2012 is due to the decrease in the Capital Projects Fund balance.

## Governmental Fund Highlights

- The District's General Fund balance increased from \$1,308,374 on June 30, 2011 to \$1,970,982 on June 30, 2012. The fluctuation in the District's General Fund financial position is the product of many factors. The District had an increase in state sources along with increases in tuition revenues. The increase in expenditures was due to the increase in negotiated salaries and benefits expenditures.
- The Capital Projects fund balance decreased from \$10,912,252 in 2011 to \$6,484,536 in 2012. This resulted from the District continuing work on Vernon Middle School during the year.

### Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$199,925 at June 30, 2011 to \$183,252 at June 30, 2012, representing a decrease of 8.34%.

MDE School Store Fund net assets increased from \$225 at June 30, 2011 to \$1,821 at June 30, 2012, representing an increase of 709.33%.

Student Built House Fund net assets decreased from a deficit \$32,323 at June 30, 2011 to a deficit \$33,466 at June 30, 2012, representing a decrease of 3.54%.

### BUDGETARY HIGHLIGHTS

The District's total revenues were \$650,178 more than total budgeted revenues, a variance of 2.49%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2012, the District had invested \$28,998,468, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase 15.19% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$570,220.

The original cost of the District's capital assets was \$41,724,323. Governmental funds account for \$41,388,028 with the remainder of \$336,295 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$15,850,657 at June 30, 2012 compared to \$11,714,104 reported at June 30, 2011. The increase in construction in progress was due to capital facility building improvements that continued on the new Middle School.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 1,534,945	1,534,945	-	-	1,534,945	1,534,945	0.00%
Construction in progress	15,850,657	11,714,104	-	-	15,850,657	11,714,104	35.31%
Buildings	10,785,475	11,016,742	-	-	10,785,475	11,016,742	-2.10%
Land improvements	325,727	355,673	-	-	325,727	355,673	-8.42%
Machinery and equipment	424,283	463,602	77,381	88,456	501,664	552,058	-9.13%
Total	\$ 28,921,087	25,085,066	77,381	88,456	28,998,468	25,173,522	15.19%

## Long-Term Debt

At June 30, 2012, the District had \$25,747,810 in total long-term debt outstanding. This represents a decrease of 3.64% 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.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2012	2011	
General obligation bonds	\$ 10,930,000	11,295,000	-3.23%
Revenue bonds	14,255,000	14,935,000	-4.55%
Compensated absences	105,708	106,668	-0.90%
Net OPEB liability	457,102	382,711	19.44%
Totals	\$ 25,747,810	26,719,379	-3.64%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- With the District's current financial challenges in this uncertain economy, we are forced to shift funding to property taxes and other local revenues. The District will continue to explore all opportunities to reduce expenditures and/or increase revenues.

## 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/Treasurer, Marion Independent School District, 777 South 15th Street, Marion, Iowa, 52302.



**BASIC FINANCIAL STATEMENTS**

## MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 12,688,735	148,436	12,837,171
Receivables:			
Property tax:			
Delinquent	114,973	-	114,973
Succeeding year	6,543,779	-	6,543,779
Income surtax	426,353	-	426,353
Accounts	54,742	183	54,925
Due from other funds	44,994		44,994
Due from other governments	755,941	-	755,941
Inventories	-	20,166	20,166
Capital assets, net of accumulated depreciation	28,921,087	77,381	28,998,468
<b>TOTAL ASSETS</b>	<b>49,550,604</b>	<b>246,166</b>	<b>49,796,770</b>
<b>LIABILITIES</b>			
Due to other funds	-	44,994	44,994
Accounts payable	1,038,406	3,290	1,041,696
Salaries and benefits payable	2,111,406	605	2,112,011
Accrued interest payable	373,117	-	373,117
Bank loan payable	-	33,000	33,000
Deferred revenue:			
Succeeding year property tax	6,543,779	-	6,543,779
Unearned revenue	-	12,670	12,670
Long-term liabilities:			
Portion due within one year:			
Bonds payable	1,295,000	-	1,295,000
Compensated absences payable	105,708	-	105,708
Portion due after one year:			
Bonds payable	23,890,000	-	23,890,000
Net OPEB liability	457,102	-	457,102
<b>TOTAL LIABILITIES</b>	<b>35,814,518</b>	<b>94,559</b>	<b>35,909,077</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,082,613	77,381	5,159,994
Restricted for:			
Categorical funding	1,616,244	-	1,616,244
School infrastructure	2,330,952	-	2,330,952
Physical plant and equipment	1,271,378	-	1,271,378
Debt service	2,597,090	-	2,597,090
Management levy purposes	208,235	-	208,235
Student activities	238,751	-	238,751
Public education and recreation levy	10,008	-	10,008
Support trust	498,914	-	498,914
Unrestricted	(118,099)	74,226	(43,873)
<b>TOTAL NET ASSETS</b>	<b>\$ 13,736,086</b>	<b>151,607</b>	<b>13,887,693</b>

SEE NOTES TO FINANCIAL STATEMENTS.

## MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 10,924,601	3,734,063	377,533	(6,813,005)	-	(6,813,005)
Special	3,405,721	551,875	287,290	(2,566,556)	-	(2,566,556)
Other	1,780,236	415,088	508,763	(856,385)	-	(856,385)
	16,110,558	4,701,026	1,173,586	(10,235,946)	-	(10,235,946)
Support services:						
Student	870,634	-	-	(870,634)	-	(870,634)
Instructional staff	826,449	-	3,540	(822,909)	-	(822,909)
Administration	2,134,962	-	155	(2,134,807)	-	(2,134,807)
Operation and maintenance of plant	1,719,068	-	-	(1,719,068)	-	(1,719,068)
Transportation	594,674	62,084	15,684	(516,906)	-	(516,906)
	6,145,787	62,084	19,379	(6,064,324)	-	(6,064,324)
Long-term debt interest	1,227,216	-	-	(1,227,216)	-	(1,227,216)
Other expenditures:						
AEA flowthrough	700,723	-	700,723	-	-	-
Depreciation(unallocated)*	465,696	-	-	(465,696)	-	(465,696)
	1,166,419	-	700,723	(465,696)	-	(465,696)
Total governmental activities	24,649,980	4,763,110	1,893,688	(17,993,182)	-	(17,993,182)
Business Type activities:						
Instruction:						
Regular	256,455	255,225	-	-	(1,230)	(1,230)
Support services:						
Administration	13,433	-	-	-	(13,433)	(13,433)
Operation and maintenance of plant	6,007	-	-	-	(6,007)	(6,007)
	275,895	255,225	-	-	(20,670)	(20,670)
Non-instructional programs:						
Food service operations	753,276	435,196	320,709	-	2,629	2,629
School store operations	11,344	12,938	-	-	1,594	1,594
	764,620	448,134	320,709	-	4,223	4,223
Total business type activities	1,040,515	703,359	320,709	-	(16,447)	(16,447)
Total	\$ 25,690,495	5,466,469	2,214,397	(17,993,182)	(16,447)	(18,009,629)
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 5,589,210	-	5,589,210
Capital outlay				231,471	-	231,471
Debt service				845,817	-	845,817
Income surtax				420,561	-	420,561
Statewide sales, services and use tax				1,793,031	-	1,793,031
Unrestricted state grants				10,119,314	-	10,119,314
Nonspecific program federal revenues				5,433	-	5,433
Unrestricted investment earnings				58,201	227	58,428
Other				57,575	-	57,575
Total general revenues				19,120,613	227	19,120,840
Changes in net assets				1,127,431	(16,220)	1,111,211
Net assets beginning of year				12,608,655	167,827	12,776,482
Net assets end of year				\$ 13,736,086	151,607	13,887,693

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

SEE NOTES TO FINANCIAL STATEMENTS.

## MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General	Capital Projects	Total Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 3,869,312	6,749,357	2,030,311	12,648,980
Receivables:				
Property tax				
Delinquent	92,023	3,997	18,953	114,973
Succeeding year	5,115,093	250,486	1,178,200	6,543,779
Income surtax	-	426,353	-	426,353
Accounts	54,742	-	-	54,742
Due from other funds	44,994	6,500	-	51,494
Due from other governments	507,499	248,442	-	755,941
<b>TOTAL ASSETS</b>	<b>\$ 9,683,663</b>	<b>7,685,135</b>	<b>3,227,464</b>	<b>20,596,262</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	\$ -	-	6,500	6,500
Accounts payable	486,182	523,760	28,464	1,038,406
Salaries and benefits payable	2,111,406	-	-	2,111,406
Deferred revenue:				
Succeeding year property tax	5,115,093	250,486	1,178,200	6,543,779
Income surtax	-	426,353	-	426,353
Total liabilities	7,712,681	1,200,599	1,213,164	10,126,444
Fund balances:				
Reserved for:				
Categorical funding	1,616,244	-	-	1,616,244
School infrastructure	-	2,330,952	-	2,330,952
Construction	-	1,346,526	-	1,346,526
Physical plant and equipment	-	1,271,378	-	1,271,378
Debt Service	-	1,535,680	1,061,410	2,597,090
Management levy purposes	-	-	208,235	208,235
Student activities	-	-	238,751	238,751
Public education and recreation levy	-	-	10,008	10,008
Support trust	-	-	498,914	498,914
Unassigned				
General	354,738	-	-	354,738
Student activities	-	-	(3,018)	(3,018)
Total fund balances	1,970,982	6,484,536	2,014,300	10,469,818
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 9,683,663</b>	<b>7,685,135</b>	<b>3,227,464</b>	<b>20,596,262</b>

SEE NOTES TO FINANCIAL STATEMENTS.

MARION INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012

<b>Total fund balances of governmental funds(page 20)</b>	\$ 10,469,818
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	28,921,087
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.	(373,117)
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.	39,755
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	426,353
Long-term liabilities, including bonds payable, compensated absences payable and other post employment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governemental funds.	<u>(25,747,810)</u>
<b>Net assets of governmental activities(page 18)</b>	<u><u>\$ 13,736,086</u></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, 2012

	General	Capital Projects	Total Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 5,337,064	2,454,585	1,097,963	8,889,612
Tuition	4,199,459	-	-	4,199,459
Other	359,908	50,254	442,899	853,061
State sources	11,153,150	-	-	11,153,150
Federal sources	691,651	-	-	691,651
Total revenues	21,741,232	2,504,839	1,540,862	25,786,933
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	10,606,455	82,435	87,968	10,776,858
Special	3,273,719	-	-	3,273,719
Other	1,217,199	-	436,428	1,653,627
	15,097,373	82,435	524,396	15,704,204
Support services:				
Student	747,945	-	-	747,945
Instructional staff	694,697	-	-	694,697
Administration	1,965,899	38,026	6,646	2,010,571
Operation and maintenance of plant	1,482,810	2,061	111,090	1,595,961
Transportation	393,232	-	20,788	414,020
	5,284,583	40,087	138,524	5,463,194
Capital outlay	-	5,314,417	-	5,314,417
Long-term debt:				
Principal	-	-	1,045,000	1,045,000
Interest and fiscal charges	-	-	1,275,834	1,275,834
	-	-	2,320,834	2,320,834
Other expenditures:				
AEA flowthrough	700,723	-	-	700,723
Total expenditures	21,082,679	5,436,939	2,983,754	29,503,372
Excess(deficiency) of revenues over(under) expenditures	658,553	(2,932,100)	(1,442,892)	(3,716,439)
Other financing sources(uses):				
Sale of capital assets	1,158	-	-	1,158
Transfers in	2,897	-	1,495,616	1,498,513
Transfers out	-	(1,495,616)	(2,897)	(1,498,513)
Total other financing sources(uses)	4,055	(1,495,616)	1,492,719	1,158
Net change in fund balances	662,608	(4,427,716)	49,827	(3,715,281)
Fund balance beginning of year	1,308,374	10,912,252	1,964,473	14,185,099
Fund balance end of year	\$ 1,970,982	6,484,536	2,014,300	10,469,818

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, 2012

<b>Net change in fund balances - total governmental funds(page 22)</b>		\$ (3,715,281)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	\$ 4,395,166	
Depreciation expense	<u>(559,145)</u>	3,836,021
Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		1,045,000
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, interest expense is recognized as the interest accrues, regardless of when it is due.		48,618
The change in net assets of the Internal Service Fund is reported with governmental activities in the Statement of Net Assets.		(3,974)
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(9,522)
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.		
Compensated absences	960	
Other post employment benefits	<u>(74,391)</u>	<u>(73,431)</u>
<b>Changes in net assets of governmental activities(page 19)</b>		<u>\$ 1,127,431</u>

SEE NOTES TO FINANCIAL STATEMENTS.

## MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2012

	Nonmajor Enterprise Funds	Internal Service Fund - Flexible Benefits
<b>ASSETS</b>		
Cash and pooled investments	\$ 148,436	\$ 39,755
Accounts receivable	183	-
Inventories	20,166	-
Capital assets, net of accumulated depreciation	77,381	-
Total assets	<u>246,166</u>	<u>39,755</u>
<b>LIABILITIES</b>		
Due to other funds	44,994	-
Accounts payable	3,290	-
Salaries and benefits payable	605	-
Bank loan payable	33,000	-
Unearned revenue	12,670	-
Total liabilities	<u>94,559</u>	<u>-</u>
<b>NET ASSETS</b>		
Invested in capital assets	77,381	-
Unrestricted	74,226	39,755
Total net assets	<u>\$ 151,607</u>	<u>\$ 39,755</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, 2012

	Nonmajor Enterprise Funds	Internal Service Fund - Flexible Benefits
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 703,359	\$ 257,677
OPERATING EXPENSES:		
Instruction:		
Regular	256,455	-
Support services:		
Administration		
Services	13,433	-
Operation and maintenance of plant		
Services	3,806	-
Supplies	2,201	-
Non-instructional programs		
Food service operations:		
Salaries	331,783	-
Benefits	50,381	-
Services	2,126	-
Supplies	357,796	-
Other	115	-
Depreciation	11,075	-
Other enterprise operations:		
Benefits	-	261,692
Supplies	11,344	-
TOTAL OPERATING EXPENSES	1,040,515	261,692
OPERATING LOSS	(337,156)	(4,015)
NON-OPERATING REVENUES:		
Interest on investments	227	41
State sources	6,675	-
Federal sources	314,034	-
TOTAL NON-OPERATING REVENUES	320,936	41
Change in net assets	(16,220)	(3,974)
Net assets beginning of year	167,827	43,729
Net assets end of year	\$ 151,607	\$ 39,755

SEE NOTES TO FINANCIAL STATEMENTS.

## MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2012

	Nonmajor Enterprise Fund	Internal Service Fund - Flexible Benefits
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 436,501	\$ -
Cash received from miscellaneous sources	268,087	257,677
Cash payments to employees for services	(384,115)	-
Cash payments to suppliers for goods or services	(618,415)	(261,692)
Net cash used in operating activities	<u>(297,942)</u>	<u>(4,015)</u>
Cash flows from non-capital financing activities:		
Operating loan repayment	(1,000)	-
Borrowings from the General Fund	44,994	-
Repayment from the Student Activity Fund	65	-
State grants received	6,675	-
Federal grants received	285,834	-
Net cash provided by non-capital financing activities	<u>336,568</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	227	41
Net increase(decrease) in cash and cash equivalents	38,853	(3,974)
Cash and cash equivalents at beginning of year	<u>109,583</u>	<u>43,729</u>
Cash and cash equivalents at end of year	<u>\$ 148,436</u>	<u>\$ 39,755</u>
Reconciliation of operating income(loss) to net cash used in operating activities:		
Operating loss	\$ (337,156)	\$ (4,015)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities used	28,200	-
Depreciation	11,075	-
Increase in inventories	(3,373)	-
Decrease in accounts receivable	2,591	-
Decrease in prepaid expenses	1,047	-
Increase in accounts payable	2,987	-
Decrease in salaries and benefits payable	(1,951)	-
Decrease in unearned revenue	(1,362)	-
Net cash used in operating activities	<u>\$ (297,942)</u>	<u>\$ (4,015)</u>

During the year ended June 30, 2012, the District received Federal commodities valued at \$28,200.

SEE NOTES TO FINANCIAL STATEMENTS.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2012

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 642
Total assets	<u>\$ 642</u>
<b>LIABILITIES</b>	
Due to other groups	642
Total liabilities	<u>\$ 642</u>

SEE NOTES TO FINANCIAL STATEMENTS.

# MARION INDEPENDENT SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

### **Note 1. Summary of Significant Accounting Policies**

The Marion Independent School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve, a preschool program, 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. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Marion, Iowa, and the agricultural territory in Linn County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, Marion Independent School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The 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 do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Linn County Assessor's Conference Board.

#### B. Basis of Presentation

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

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 that are attributed to the acquisition, construction, or improvement of those assets.

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

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but 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 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

The 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.

### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible

within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

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

##### Cash, Pooled Investments and Cash Equivalents

The cash balance 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 purpose 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, they have a maturity date no longer than three months.

Property Taxes

Property taxes in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 and will not be recorded as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

Due from Other Governments

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

Inventories

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

Capital Assets

Capital assets, which include property, machinery, and equipment and intangibles, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Intangibles	150,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20-50 years
Intangibles	5-10 years
Machinery and equipment	5-20 years

#### Salaries and Benefits Payable

Payroll and related payroll taxes and benefits for teachers with annual contracts corresponding to the school year, but which have balances payable in July and August 2012, have been accrued as a liability as it is applicable to the fiscal year ended June 30, 2012.

#### Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue 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 revenues consist of unspent federal grant proceeds, succeeding year property tax receivable, and other receivables not collected within sixty days after year end.

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

#### Unearned Revenue

Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

#### Compensated Absences

District employees accumulate a limited amount of earned but unused vacation benefits payable to employees. The cost of vacation payments expected to be liquidated currently are recorded as a liability of the General Fund. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012.

#### Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

## Restricted Net Assets

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

### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

### Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 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, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,992,341 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

### Note 3. Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 1,495,616
General	Special Revenue: Management Levy	<u>2,897</u>
Total		<u>\$ 1,498,513</u>

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

### Note 4. Due from and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
Capital Projects: Physical Plant and Equipment Levy	Debt Service	\$ 6,500
General	School Nutrition	44,994
Total		<u>\$ 51,494</u>

The interfund balances are due to timing differences involved in various reimbursements.

**Note 5. Capital Assets**

A summary of changes in property and equipment comprising capital assets is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,534,945	-	-	1,534,945
Construction in progress	11,714,104	4,136,553	-	15,850,657
Total capital assets not being depreciated	<u>13,249,049</u>	<u>4,136,553</u>	<u>-</u>	<u>17,385,602</u>
Capital assets being depreciated:				
Buildings	20,364,288	184,138	547,357	20,001,069
Land improvements	1,060,856	20,345	-	1,081,201
Machinery and equipment	2,866,026	54,130	-	2,920,156
Total capital assets being depreciated	<u>24,291,170</u>	<u>258,613</u>	<u>547,357</u>	<u>24,002,426</u>
Less accumulated depreciation for:				
Buildings	9,347,546	415,405	547,357	9,215,594
Land improvements	705,183	50,291	-	755,474
Machinery and equipment	2,402,424	93,449	-	2,495,873
Total accumulated depreciation	<u>12,455,153</u>	<u>559,145</u>	<u>547,357</u>	<u>12,466,941</u>
Total capital assets being depreciated, net	<u>11,836,017</u>	<u>(300,532)</u>	<u>-</u>	<u>11,535,485</u>
Governmental activities capital assets, net	<u>\$ 25,085,066</u>	<u>3,836,021</u>	<u>-</u>	<u>28,921,087</u>
Business type activities:				
Machinery and equipment	\$ 336,295	-	-	336,295
Less accumulated depreciation	247,839	11,075	-	258,914
Business type activities capital assets, net	<u>\$ 88,456</u>	<u>(11,075)</u>	<u>-</u>	<u>77,381</u>

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 32,221
Other	178

Support services:

Operation and maintenance of plant	5,448
Transportation	55,602
	<u>93,449</u>

Unallocated depreciation	<u>465,696</u>
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Total governmental activities depreciation expense	<u><u>\$ 559,145</u></u>
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Business type activities:

Food services	<u><u>\$ 11,075</u></u>
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**Note 6. Short-Term Loans Payable**

During the year ended June 30, 2012, 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 2012. The Student Built House Fund short-term loan includes interest at 6%.

	<u>Balance Beginning of Year</u>	<u>Loans Received</u>	<u>Loans Repaid</u>	<u>Balance End of Year</u>
Bank Loan	<u>\$ 34,000</u>	<u>73,000</u>	<u>74,000</u>	<u>33,000</u>

**Note 7. Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 11,295,000	-	365,000	10,930,000	585,000
Revenue Bonds	14,935,000	-	680,000	14,255,000	710,000
Compensated Absences	106,668	105,708	106,668	105,708	105,708
Net OPEB liability	382,711	74,391	-	457,102	-
Total	<u>\$ 26,719,379</u>	<u>180,099</u>	<u>1,151,668</u>	<u>25,747,810</u>	<u>1,400,708</u>

**General Obligation Bonds**

Details of the District June 30, 2012 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of November 1, 2009			Bond Issue of October 1, 2010			Total		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Principal	Interest	Total
2013	3.00 %	\$ 390,000	63,900	3.00 %	\$ 195,000	299,300	585,000	363,200	948,200
2014	3.00	410,000	52,200	3.00	200,000	293,450	610,000	345,650	955,650
2015	3.00	430,000	39,900	3.00	210,000	286,450	640,000	326,350	966,350
2016	3.00	450,000	27,000	3.00	215,000	281,150	665,000	308,150	973,150
2017	3.00	450,000	13,500	3.00	220,000	274,700	670,000	288,200	958,200
2018-2022		-	-	3.00	2,035,000	1,190,350	2,035,000	1,190,350	3,225,350
2023-2027		-	-	3.25-3.50	3,605,000	739,375	3,605,000	739,375	4,344,375
2028-2030		-	-	3.50-4.00	2,120,000	169,250	2,120,000	169,250	2,289,250
Total		\$ 2,130,000	196,500		\$ 8,800,000	3,534,025	10,930,000	3,730,525	14,660,525

### Revenue Bonds

On April 1, 2009, the District issued revenue bonds of \$15,450,000 for capital facility construction. The Revenue Bonds will be paid with statewide sales, services and use taxes collected in the Capital Projects Fund. Details of the District's June 30, 2012 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 1, 2009			
	Interest Rate	Principal	Interest	Total
2013	4.25 %	\$ 710,000	670,613	1,380,613
2014	4.25	565,000	643,519	1,208,519
2015	4.25	545,000	619,931	1,164,931
2016	4.25	570,000	596,238	1,166,238
2017	4.25	590,000	571,588	1,161,588
2018-2022	4.00-4.375	3,510,000	2,451,552	5,961,552
2023-2027	4.60-5.00	4,065,000	1,551,877	5,616,877
2028-2030	5.125-5.375	3,700,000	433,814	4,133,814
Total		\$ 14,255,000	7,539,132	21,794,132

The District has pledged future statewide sales, services and use tax revenues to repay \$15,450,000 bonds issued in April 2009. The bonds were issued for the purpose of financing a portion of the costs of the Middle School classroom addition project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District in accordance with Chapter 423E of the Code of Iowa and are payable through 2030. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitations of the District. The total principal and interest remaining to be paid on the notes is \$21,794,132. For the current year, principal of \$680,000 and interest of \$700,150 was paid on the bonds and total statewide sales, services and use tax revenues were \$1,793,031.

The resolution providing for the issuance of the statewide sales, services and use 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 statewide sales, services and use 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.

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

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 204 active and 15 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a self-funded 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 are established and may be amended by the MIIP Board of Directors. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding 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, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 120,442
Interest on net OPEB obligation	9,568
Adjustment to annual required contribution	<u>(24,361)</u>
Annual OPEB cost	105,649
Contributions made	<u>(31,258)</u>
Increase in net OPEB obligation	74,391
Net OPEB obligation beginning of year	382,711
Net OPEB obligation end of year	<u><u>\$ 457,102</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 260,046	79.90%	\$ 325,569
2011	105,829	46.00%	382,711
2012	105,649	29.59%	457,102

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$677,974, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$677,974. The covered payroll (annual payroll of active employees covered by the plan) was \$13,704,988, and the ratio of the UAAL to covered payroll was 4.9%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, 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, 2011 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 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 2006 Society of Actuaries Study and applying the termination factors used in the 2006 Society of Actuaries Study.

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

#### **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 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$1,105,993, \$963,043 and \$926,950 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. 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. MIIP provides coverage and protection in the following categories: medical, dental and vision.

Each members' contributions to the MIIP funds current operations and provides 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 expense due and payable in the current year. 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 District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to MIIP for the year ended June 30, 2012 were \$1,512,248.

**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 \$700,723 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 12. Categorical Funding**

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

Program	Amount
Statewide voluntary preschool	\$ 176,030
Foster care	3,425
Talented and gifted	25,740
Tobacco settlement	607
Nonpublic textbook services	5,812
Home school assistance program	1,044,395
Teacher salary supplement	100,460
Educator quality, professional development	169,054
Beginning teacher mentoring and induction program	333
Market factor	1,628
Educator quality, market factor	10,089
Educator quality, model core curriculum	78,671
	<hr/>
Total reserved for categorical funding	<u>\$ 1,616,244</u>

**Note 13. Construction Commitments**

The District has entered into various contracts totaling \$16,932,808 for the a new middle school and football stadium bleachers. As of June 30, 2012, costs of \$15,850,657 had been incurred against the contracts. The balance of \$1,082,151 remaining at June 30, 2012 will be paid as work on the projects progresses.

**Note 14. Deficit Net Assets/Fund Balance**

The District had a deficit unrestricted net assets balance in the governmental activities of \$118,099. The Student Activity Fund had a deficit unassigned fund balance of \$3,018. The Enterprise, Student Built House Fund had deficit unrestricted net assets of \$33,466.



REQUIRED SUPPLEMENTARY INFORMATION

MARION INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND  
CHANGES IN BALANCES -  
ACTUAL TO BUDGET - ALL GOVERNMENTAL FUND TYPES  
AND PROPRIETARY FUND TYPE

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

	Governmental Fund Types - Actual	Proprietary Fund Types - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 13,942,132	703,586	14,645,718	14,025,722	14,025,722	619,996
State appropriations	11,153,150	6,675	11,159,825	11,240,328	11,240,328	(80,503)
Federal appropriations	691,651	314,034	1,005,685	895,000	895,000	110,685
Total revenues	25,786,933	1,024,295	26,811,228	26,161,050	26,161,050	650,178
Expenditures/Expenses:						
Instruction	15,704,204	256,455	15,960,659	16,390,000	16,390,000	429,341
Support services	5,463,194	19,440	5,482,634	6,535,000	6,535,000	1,052,366
Non-instructional programs	-	764,620	764,620	925,000	925,000	160,380
Other expenditures	8,335,974	-	8,335,974	12,724,637	12,724,637	4,388,663
Total expenditures/expenses	29,503,372	1,040,515	30,543,887	36,574,637	36,574,637	6,030,750
Deficiency of revenues under expenditures/expenses	(3,716,439)	(16,220)	(3,732,659)	(10,413,587)	(10,413,587)	6,680,928
Other financing sources, net	1,158	-	1,158	260,000	260,000	(258,842)
Deficiency of revenues and other other financing sources under expenditures/expenses	(3,715,281)	(16,220)	(3,731,501)	(10,153,587)	(10,153,587)	6,422,086
Balance beginning of year	14,185,099	167,827	14,352,926	12,367,424	12,367,424	1,985,502
Balance end of year	\$ 10,469,818	151,607	10,621,425	2,213,837	2,213,837	8,407,588

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED JUNE 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Government 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 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 GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. 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 Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 830,169	\$ 830,169	0.0%	\$ 15,025,791	5.5%
2011	July 1, 2009	-	830,169	830,169	0.0%	14,969,166	5.5%
2012	July 1, 2011	-	677,974	677,974	0.0%	13,704,988	4.9%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2012

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Management Levy	Student Activity	Public Education and Recreation Levy	District Support Trust	Total Special Revenue Funds	Debt Service	
<b>ASSETS</b>							
Cash and pooled investments	\$ 203,888	264,197	10,008	498,914	977,007	1,053,304	2,030,311
Receivables:							
Property tax:							
Current year delinquent	4,347	-	-	-	4,347	14,606	18,953
Succeeding year	230,001	-	-	-	230,001	948,199	1,178,200
<b>TOTAL ASSETS</b>	<b>\$ 438,236</b>	<b>264,197</b>	<b>10,008</b>	<b>498,914</b>	<b>1,211,355</b>	<b>2,016,109</b>	<b>3,227,464</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Due to other funds	\$ -	-	-	-	-	6,500	6,500
Accounts payable	-	28,464	-	-	28,464	-	28,464
Deferred revenue:							
Succeeding year property tax	230,001	-	-	-	230,001	948,199	1,178,200
Total liabilities	230,001	28,464	-	-	258,465	954,699	1,213,164
Fund balances:							
Restricted for:							
Management levy purposes	208,235	-	-	-	208,235	-	208,235
Student activities	-	238,751	-	-	238,751	-	238,751
Public education and recreation levy	-	-	10,008	-	10,008	-	10,008
Support trust	-	-	-	498,914	498,914	-	498,914
Debt Service	-	-	-	-	-	1,061,410	1,061,410
Unassigned	-	(3,018)	-	-	(3,018)	-	(3,018)
	208,235	235,733	10,008	498,914	952,890	1,061,410	2,014,300
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 438,236</b>	<b>264,197</b>	<b>10,008</b>	<b>498,914</b>	<b>1,211,355</b>	<b>2,016,109</b>	<b>3,227,464</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Management Levy	Student Activity	Public Education and Recreation Levy	District Support Trust	Total Special Revenue Funds	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 252,146	-	-	-	252,146	845,817	1,097,963
Other	19,568	418,895	-	4,352	442,815	84	442,899
Total revenues	271,714	418,895	-	4,352	694,961	845,901	1,540,862
EXPENDITURES:							
Current:							
Instruction:							
Regular	87,968	-	-	-	87,968	-	87,968
Other	-	436,428	-	-	436,428	-	436,428
Support services:							
Administration	6,646	-	-	-	6,646	-	6,646
Operation and maintenance of plant	103,559	-	7,531	-	111,090	-	111,090
Transportation	20,788	-	-	-	20,788	-	20,788
Long-term Debt:							
Principal	-	-	-	-	-	1,045,000	1,045,000
Interest and fiscal charges	-	-	-	-	-	1,275,834	1,275,834
Total expenditures	218,961	436,428	7,531	-	662,920	2,320,834	2,983,754
Excess(deficiency) of revenues over(under) expenditures	52,753	(17,533)	(7,531)	4,352	32,041	(1,474,933)	(1,442,892)
Other financing sources(uses):							
Transfer in	-	-	-	-	-	1,495,616	1,495,616
Transfer out	(2,897)	-	-	-	(2,897)	-	(2,897)
Total other financing sources(uses)	(2,897)	-	-	-	(2,897)	1,495,616	1,492,719
Net change in fund balances	49,856	(17,533)	(7,531)	4,352	29,144	20,683	49,827
Fund balance beginning of year	158,379	253,266	17,539	494,562	923,746	1,040,727	1,964,473
Fund balance end of year	\$ 208,235	235,733	10,008	498,914	952,890	1,061,410	2,014,300

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET  
CAPITAL PROJECTS ACCOUNTS  
JUNE 30, 2012

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	Capital Projects Construction	Physical Plant and Equipment Levy	
<b>ASSETS</b>				
Cash and pooled investments	\$ 3,619,623	1,851,997	1,277,737	6,749,357
Receivables:				
Property tax:				
Delinquent	-	-	3,997	3,997
Succeeding year	-	-	250,486	250,486
Income surtax	-	-	426,353	426,353
Due from other funds	6,500	-	-	6,500
Due from other governments	248,442	-	-	248,442
<b>TOTAL ASSETS</b>	<b>\$ 3,874,565</b>	<b>1,851,997</b>	<b>1,958,573</b>	<b>7,685,135</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 7,933	505,471	10,356	523,760
Succeeding year property tax	-	-	250,486	250,486
Income surtax	-	-	426,353	426,353
Total liabilities	7,933	505,471	687,195	1,200,599
Fund balances:				
Restricted for:				
Debt service	1,535,680	-	-	1,535,680
School infrastructure	2,330,952	-	-	2,330,952
Construction	-	1,346,526	-	1,346,526
Physical plant and equipment levy	-	-	1,271,378	1,271,378
Total fund balances	3,866,632	1,346,526	1,271,378	6,484,536
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,874,565</b>	<b>1,851,997</b>	<b>1,958,573</b>	<b>7,685,135</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
CAPITAL PROJECTS ACCOUNTS  
YEAR ENDED JUNE 30, 2012

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	Capital Projects Construction	Physical Plant and Equipment Levy	
REVENUES:				
Local sources:				
Local tax	\$ 1,793,031	-	661,554	2,454,585
Other	35,914	11,098	3,242	50,254
Total revenues	<u>1,828,945</u>	<u>11,098</u>	<u>664,796</u>	<u>2,504,839</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	-	-	82,435	82,435
Support services:				
Administration	36,436	-	1,590	38,026
Operation and maintenance of plant	-	-	2,061	2,061
	<u>36,436</u>	<u>-</u>	<u>3,651</u>	<u>40,087</u>
Capital outlay	382,766	4,836,130	95,521	5,314,417
Total expenditures	<u>419,202</u>	<u>4,836,130</u>	<u>181,607</u>	<u>5,436,939</u>
Excess(deficiency)of revenues over(under) expenditures	1,409,743	(4,825,032)	483,189	(2,932,100)
Other financing uses:				
Transfers out	(1,495,616)	-	-	(1,495,616)
Net change in fund balances	(85,873)	(4,825,032)	483,189	(4,427,716)
Fund balance beginning of year	<u>3,952,505</u>	<u>6,171,558</u>	<u>788,189</u>	<u>10,912,252</u>
Fund balance end of year	<u>\$ 3,866,632</u>	<u>1,346,526</u>	<u>1,271,378</u>	<u>6,484,536</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR ENTERPRISE FUNDS  
JUNE 30, 2012

	School Nutrition	MDE School Store	Student Built House	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 145,470	1,821	1,145	148,436
Accounts receivables	-	-	183	183
Inventories	20,166	-	-	20,166
Capital assets, net of accumulated depreciation	77,381	-	-	77,381
Total assets	<u>243,017</u>	<u>1,821</u>	<u>1,328</u>	<u>246,166</u>
<b>LIABILITIES</b>				
Due to other funds	44,994	-	-	44,994
Accounts payable	1,496	-	1,794	3,290
Salaries and benefits payable	605	-	-	605
Bank loan payable	-	-	33,000	33,000
Unearned revenues	12,670	-	-	12,670
Total liabilities	<u>59,765</u>	<u>-</u>	<u>34,794</u>	<u>94,559</u>
<b>NET ASSETS:</b>				
Invested in capital assets	77,381	-	-	77,381
Unrestricted	105,871	1,821	(33,466)	74,226
Total net assets	<u>\$ 183,252</u>	<u>1,821</u>	<u>(33,466)</u>	<u>151,607</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED JUNE 30, 2012

	School Nutrition	MDE School Store	Student Built House	Total
OPERATING REVENUES:				
Local sources:				
Charges for services	\$ 435,196	12,938	255,225	703,359
OPERATING EXPENSES:				
Instruction:				
Regular	-	-	256,455	256,455
Support services:				
Administration				
Services	13,433	-	-	13,433
Operation and maintenance of plant				
Services	3,806	-	-	3,806
Supplies	2,201	-	-	2,201
Non-instructional programs				
Food service operations:				
Salaries	331,783	-	-	331,783
Benefits	50,381	-	-	50,381
Services	2,126	-	-	2,126
Supplies	357,796	-	-	357,796
Other	115	-	-	115
Depreciation	11,075	-	-	11,075
Other enterprise operations:				
Supplies	-	11,344	-	11,344
TOTAL OPERATION EXPENSES	772,716	11,344	256,455	1,040,515
OPERATING INCOME(LOSS)	(337,520)	1,594	(1,230)	(337,156)
NON-OPERATING REVENUES:				
Interest on investments	138	2	87	227
State sources	6,675	-	-	6,675
Federal sources	314,034	-	-	314,034
TOTAL NON-OPERATING REVENUES	320,847	2	87	320,936
Change in net assets	(16,673)	1,596	(1,143)	(16,220)
Net assets beginning of year	199,925	225	(32,323)	167,827
Net assets end of year	\$ 183,252	1,821	(33,466)	151,607

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## MARION INDEPENDENT SCHOOL DISTRICT

 COMBINING STATEMENT OF CASH FLOWS  
 NONMAJOR ENTERPRISE FUNDS  
 YEAR ENDED JUNE 30, 2012

	School Nutrition	MDE School Store	Student Built House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 436,501	-	-	436,501
Cash received from miscellaneous sources	-	12,938	255,149	268,087
Cash payments to employees for services	(384,115)	-	-	(384,115)
Cash payments to suppliers for goods or services	(352,107)	(11,344)	(254,964)	(618,415)
Net cash provided by(used in) operating activities	(299,721)	1,594	185	(297,942)
Cash flows from non-capital financing activities:				
Operating loan repayment	-	-	(1,000)	(1,000)
Borrowings from the General Fund	44,994	-	-	44,994
Repayment from the Student Activity Fund	-	-	65	65
State grants received	6,675	-	-	6,675
Federal grants received	285,834	-	-	285,834
Net cash provided by(used in) non-capital financing activities	337,503	-	(935)	336,568
Cash flows from investing activities:				
Interest on investments	138	2	87	227
Net increase(decrease) in cash and cash equivalents	37,920	1,596	(663)	38,853
Cash and cash equivalents at beginning of year	107,550	225	1,808	109,583
Cash and cash equivalents at end of year	\$ 145,470	1,821	1,145	148,436
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (337,520)	1,594	(1,230)	(337,156)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities used	28,200	-	-	28,200
Depreciation	11,075	-	-	11,075
Increase in inventories	(3,373)	-	-	(3,373)
Decrease(Increase) in accounts receivable	2,667	-	(76)	2,591
Decrease in prepaid expenses	1,047	-	-	1,047
Increase in accounts payable	1,496	-	1,491	2,987
Decrease in salaries and benefits payable	(1,951)	-	-	(1,951)
Decrease in unearned revenue	(1,362)	-	-	(1,362)
Net cash provided by(used in) operating activities	\$ (299,721)	1,594	185	(297,942)

During the year ended June 30, 2012, the District received Federal commodities valued at \$28,200.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
DISTRICT-WIDE:				
HOME SCHOOL PROGRAM	\$ 16,953	15,631	15,189	17,395
MISCELLANEOUS	19,935	87	155	19,867
INTEREST	563	582	-	1,145
TOTAL DISTRICT-WIDE	37,451	16,300	15,344	38,407
EMERSON ELEMENTARY:				
LIBRARY ACTIVITIES	39	-	-	39
MISCELLANEOUS	4,050	1,047	80	5,017
FOUNDATION DONATIONS	72	-	-	72
QUILL/YEARBOOK	125	-	-	125
TOTAL EMERSON ELEMENTARY	4,286	1,047	80	5,253
STARRY ELEMENTARY:				
MISCELLANEOUS	5,204	-	153	5,051
RESALE	1,501	-	-	1,501
QUILL/YEARBOOK	1,540	-	-	1,540
WELLS FARGO	206	-	206	-
TOTAL STARRY ELEMENTARY	8,451	-	359	8,092
FRANCIS MARION ELEMENTARY:				
MISCELLANEOUS	6,010	2,045	1,661	6,394
STUDENT MAGAZINES	2,002	-	147	1,855
TOTAL FRANCIS MARION ELEMENTARY	8,012	2,045	1,808	8,249
VERNON MIDDLE SCHOOL:				
VOCAL	3,581	15,539	15,790	3,330
INSTRUMENTAL	4,847	14,080	11,501	7,426
HONOR BAND	1,552	6,597	6,403	1,746
CHEERLEADERS	521	-	-	521
GENERAL ACTIVITIES	2,323	-	274	2,049
LIBRARY ACTIVITIES	1,318	-	-	1,318
MISCELLANEOUS	352	-	-	352
SCIENCE CLUB	1,490	-	-	1,490
WASHINGTON DC TRIP	30	-	-	30
SODA - STUDENTS	1,908	470	1,932	446
STUDENT SENATE	1,053	676	250	1,479
QUILL/YEARBOOK	1,008	143	-	1,151
STUDENT MAGAZINES	20,991	9,230	6,413	23,808
ATHLETICS	3,604	5,803	9,185	222
ATHLETIC BEVERAGES	62	-	62	-
TOTAL VERNON MIDDLE SCHOOL	44,640	52,538	51,810	45,368

## MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2012

Account (Continued)	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HIGH SCHOOL:				
DRAMA	\$ 1,739	942	467	2,214
SPEECH	1,170	502	1,478	194
VOCAL	5,494	7,983	12,515	962
INSTRUMENTAL	6,501	11,231	13,494	4,238
CROSS-COUNTRY	196	2,135	2,249	82
BOWLING	630	3,154	3,513	271
CHEERLEADERS	9,477	36,775	40,251	6,001
BOYS' BASKETBALL	5,562	18,058	19,370	4,250
FOOTBALL	(1,370)	51,631	49,930	331
BOYS' SOCCER	1,723	566	2,632	(343)
BASEBALL	4,062	33,722	40,300	(2,516)
BOYS' TRACK	3,315	5,753	8,035	1,033
BOYS' TENNIS	738	-	93	645
BOYS' GOLF	(47)	1,792	1,596	149
WRESTLING	4,996	13,564	8,645	9,915
GIRLS' BASKETBALL	3,982	5,958	5,407	4,533
VOLLEYBALL	10,420	20,569	25,348	5,641
GIRLS' SOCCER	4,991	1,901	826	6,066
SOFTBALL	855	4,672	4,934	593
GIRLS' TRACK	318	3,983	3,044	1,257
GIRLS' TENNIS	284	456	598	142
GIRLS' GOLF	32	125	204	(47)
ARCHERY	239	455	278	416
MISCELLANEOUS	8,574	3,576	4,422	7,728
HEALTH	-	11	-	11
SCIENCE CLUB	387	-	-	387
CREATIVE, INC.	214	154	301	67
STUDENT NEWSPAPER	(311)	1,848	1,433	104
MUSICAL	3,206	2,398	1,580	4,024
NATIONAL HONOR SOCIETY	194	513	527	180
ACADEMIC COMPETITION	701	-	-	701
THESPIANS	3,011	1,080	492	3,599
TOM BEGLEY MEMORIAL	86	-	-	86
FRENCH	(8)	-	-	(8)
TRENDS IN FASHION	6	-	6	-
FBLA	33	-	-	33
VTR TECHNICIAN	7	-	-	7
SODA - STUDENTS	71	-	-	71
SPANISH	712	-	-	712
STUDENT SENATE	2,783	624	1,322	2,085
QUILL/YEARBOOK	2,029	7,185	9,057	157
ATHLETIC FACILITIES	2,646	-	(369)	3,015
ARTS & CRAFTS	1,248	1,925	2,365	808
ATHLETICS	29,929	17,597	22,991	24,535
ATHLETIC OFFICIALS	3,577	-	3,577	-
GATE RECEIPTS	(612)	66,618	65,243	763

## MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2012

Account (Continued)	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HIGH SCHOOL(CONTINUED):				
CLASS OF 2010	\$ 1,989	-	1,989	-
CLASS OF 2011	1,576	-	1,576	-
CLASS OF 2012	602	-	-	602
CLASS OF 2013	2,307	5,328	2,222	5,413
CLASS OF 2014	70	5,884	656	5,298
CLASS OF 2015	-	741	500	241
WEIGHT ROOM	30	-	30	-
ACTIVITY TICKETS	19,103	3,660	-	22,763
WELLNESS	815	352	108	1,059
ROBOTICS	144	1,544	1,792	(104)
TOTAL HIGH SCHOOL	150,426	346,965	367,027	130,364
<b>GRAND TOTAL</b>	<b>\$ 253,266</b>	<b>418,895</b>	<b>436,428</b>	<b>235,733</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



## MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>ASSETS</b>				
Cash and pooled investments	\$ 598	930	886	642
Total assets	<u>\$ 598</u>	<u>930</u>	<u>886</u>	<u>642</u>
<b>LIABILITIES</b>				
Due to other groups	\$ 598	930	886	642
Total liabilities	<u>\$ 598</u>	<u>930</u>	<u>886</u>	<u>642</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 TEN YEARS

	Modified Accrual Basis			
	2012	2011	2010	2009
Revenues:				
Local sources:				
Local tax	\$ 8,889,612	8,227,569	7,816,155	7,383,182
Tuition	4,199,459	3,839,854	3,912,745	3,723,146
Other	853,061	857,061	796,687	873,374
Intermediate sources	-	-	-	-
State sources	11,153,150	10,436,573	9,299,692	10,021,182
Federal sources	691,651	1,476,384	1,841,651	975,253
<b>Total</b>	<b>\$ 25,786,933</b>	<b>24,837,441</b>	<b>23,666,930</b>	<b>22,976,137</b>
Expenditures:				
Current:				
Instruction	\$ 15,704,204	15,755,164	15,191,450	14,660,244
Support services:				
Student	747,945	644,226	735,693	748,079
Instructional staff	694,697	661,537	762,839	878,369
Administration	2,010,571	1,996,261	2,117,859	2,123,467
Operation and maintenance of plant	1,595,961	1,572,162	1,607,511	1,750,650
Transportation	414,020	473,574	466,653	368,713
Other support services	-	-	-	-
Non-instructional programs	-	41,083	260	220
Capital outlay	5,314,417	9,178,260	5,978,106	1,473,679
Long-term debt:				
Principal	1,045,000	875,000	594,343	540,621
Interest and fiscal charges	1,275,834	837,044	693,030	363,790
Other expenditures:				
AEA flowthrough	700,723	750,677	744,881	667,084
<b>Total</b>	<b>\$ 29,503,372</b>	<b>32,784,988</b>	<b>28,892,625</b>	<b>23,574,916</b>

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2008	2007	2006	2005	2004	2003
7,518,496	5,813,388	5,265,851	5,259,733	5,452,049	5,388,765
4,717,347	4,245,422	3,673,297	3,158,067	3,078,582	2,733,819
820,513	966,980	854,494	634,143	544,676	679,824
-	-	-	-	3,623	7,011
9,469,509	8,390,311	8,706,248	7,789,648	7,405,475	7,162,859
466,853	435,553	398,266	310,228	385,529	331,221
22,992,718	19,851,654	18,898,156	17,151,819	16,869,934	16,303,499
13,487,534	12,340,648	11,563,732	10,943,342	10,742,516	9,709,927
691,993	652,306	648,527	637,042	647,126	613,608
986,728	844,966	720,864	607,026	716,121	661,889
2,133,151	1,913,007	1,798,324	1,737,393	1,594,679	1,507,089
1,752,569	1,681,926	1,728,086	1,670,449	1,573,423	1,521,039
337,961	462,305	343,540	381,364	383,700	365,960
-	-	-	-	20,332	16,716
450	9,974	-	-	6,252	9,204
793,613	105,682	471,857	377,251	457,804	457,577
1,033,717	714,583	546,719	574,965	514,905	498,265
217,193	241,024	265,558	281,517	296,247	312,601
616,027	577,950	562,508	508,720	498,185	511,333
22,050,936	19,544,371	18,649,715	17,719,069	17,451,290	16,185,208

MARION INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2012

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
FUND FOR THE IMPROVEMENT OF EDUCATION (CAROL M. WHITE PHYSICAL EDUCATION PROGRAM)			
	84.215	FY 12	\$ <u>129,591</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM			
	10.553	FY 12	35,475
NATIONAL SCHOOL LUNCH PROGRAM			
	10.555	FY 12	278,559 *
			<u>314,034</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	4086-G	<u>176,827</u>
IMPROVING TEACHER QUALITY STATE GRANTS			
	84.367	FY 11	1,610
IMPROVING TEACHER QUALITY STATE GRANTS			
	84.367	FY 12	56,145
			<u>57,755</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)			
	84.369	FY 12	<u>12,896</u>
EDUCATION JOBS FUND			
	84.410	FY 12	<u>5,433</u>
GRANTWOOD AREA EDUCATION AGENCY:			
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 12	<u>15,234</u>
SPECIAL EDUCATION CLUSTER (IDEA):			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)			
	84.027	FY 12	96,387
SPECIAL EDUCATION - GRANTS TO STATES (PART B SECTION 611) (HIGH CLAIM COST)			
	84.027	FY 11	5,216
			<u>101,603</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:			
LEARN AND SERVE AMERICA - SCHOOL AND COMMUNITY BASED PROGRAMS			
	94.004	FY 11	<u>6,626</u>
TOTAL			<u>\$ 819,999</u>

\* Includes \$28,200 of non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Marion Independent School District and is presented in conformity with 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 financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

**(a professional corporation)**

**117 West 3rd Street North, Newton, Iowa 50208-3040**

**Telephone (641) 792-1910**

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 the  
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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 10, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Marion Independent School District is responsible for establishing and maintaining effective internal controls 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 our 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompany Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-12 and II-C-12 to be significant deficiencies.

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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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, and is not intended to be and should not be used by anyone other than these specified parties.

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



NOLTE, CORNMAN & JOHNSON, P.C.

January 10, 2013

# **NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

**(a professional corporation)**

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**Telephone (641) 792-1910**

Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on 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, 2012. Marion Independent School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Marion Independent School District's management. Our responsibility is to express an opinion on Marion Independent School District's compliance based on our audit.

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

In our opinion, Marion Independent School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

**Members American Institute & Iowa Society of Certified Public Accountants**

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses.

A deficiency in the 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 material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

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.



NOLTE, CORNMAN & JOHNSON, P.C.

January 10, 2013

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the 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 program were as follows:
  - Individual Program
    - CFDA Number 84.215 - Fund for the Improvement of Education - Carol M. White Physical Education Program
  - Clustered Program:
    - Nutrition Cluster:
      - 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, 2012

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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 cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. Also vouchers are processed, disbursements are recorded and checks are prepared by the same person. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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 our procedures and make changes as we deem necessary to improve internal control.

Conclusion - Response accepted.

II-B-12 Gate Admissions - We noted during our audit that ticket takers were not reconciling the gate admissions after the event and that pre-numbered tickets were not used at basketball games.

Recommendation - The District should review internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures.

Response - We will have ticket takers reconcile gate admissions in the future.

Conclusion - Response accepted.

II-C-12 Purchase Orders - We noted during our audit that 10 out of 28 disbursements tested from the Student Activity Fund had a purchase order that was completed after the invoice was received or after an employee had purchased the items.

Recommendation - Better internal control is achieved when pre-numbered purchase orders are used and the sequence is monitored. The District should review the purchase order system in place. Purchase orders provide approval to order, therefore, pre-numbered purchase orders should be approved by the administrator before the ordering of supplies takes place.

Response - Procedures will be reviewed with staff to ensure that purchase orders are completed prior to items being purchased.

Conclusion - Response accepted.

OTHER MATTERS:

II-D-12 Student Activity Fund Interest Allocation - We noted during the year that it appears that interest earned within the Student Activity Fund was not allocated during the year.

Recommendation - Interest received in the Student Activity Fund should be allocated amongst the individual activity fund accounts that earned the interest during the year. Allocation of interest should be done at least annually.

Response - In the future interest will be allocated on an annual basis.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 84.215: Fund for the Improvement of Education - Carol M. White Physical Education Program  
Federal Award Year: 2012  
U.S. Department of Education

CFDA Number 10.553: School Breakfast Program  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2012  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

III-A-12 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 cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. Also vouchers are processed, disbursements are recorded and checks are prepared by the same person. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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 our procedures and make changes as we deem necessary to improve internal control.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 did not exceed the amount budgeted.

IV-B-12 Questionable Disbursements We noted during our audit that the District purchased gift cards out of the Special Revenue, Student Activity Fund. We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund. The gift cards and clothing for coaches do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

The District should review the procedures in place. The District should not purchase gift cards. The District should require sufficient documentation as support for payment and retain documentation to support payments.

Response - The District will seek alternatives to the District purchasing clothing items for coaches.

Conclusion - Response accepted.

IV-C-12 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-12 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Vivian Quinn, Teacher Husband owns Quinn Storage Garages	Storage garage rental	\$ 880

In accordance with the Attorney General's Opinion dated November 9, 1976, the above transactions with the teachers' spouses do not appear to represent a conflict of interest.

IV-E-12 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-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - In the future board minutes will be published with two weeks as required by 279.35 of the Code of Iowa.

Conclusion - Response accepted.

IV-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students which were reported was overstated by 1.0 students. This was due to the District counting a student that was not a resident student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District's auditor will contact the Iowa Department of Education and Department of Management to resolve this matter.

Conclusion - Response accepted.

IV-H-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-12 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-J-12 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-K-12 Categorical Funding - No instances of categorical funding used to supplant rather than supplement other funds were noted.

IV-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use 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, services and use tax. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the reported the following information regarding the statewide sales, services, and use tax revenue in the District's CAR:

Beginning balance		\$	3,952,505
Statewide sales and services tax revenue	\$	1,793,031	
Other local revenue		35,914	1,828,945
			<u>5,781,450</u>
Expenditures/transfers out:			
School infrastructure construction		319,616	
Other		99,586	
Transfers to other funds:			
Debt service fund		1,495,616	1,914,818
			<u>1,914,818</u>
Ending balance		\$	<u>3,866,632</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

IV-M-12 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students.

**ACT Prep Test:** We noted during our audit that ACT prep test revenues and expenditures were recorded in the Student Activity Fund.

Recommendation - These items would appear instructional in nature and therefore more appropriately handled in the General Fund.

Response - These items will be recorded in the General Fund.

Conclusion - Response accepted.

**Purchases of Instructional Supplies** - We noted during our audit purchases from the District's MS Student Activity Fund account within the Student Activity Fund that appear to be instructional in nature.

Recommendation - These expenditures appear to be more appropriate in the General Fund.

Response - These items will be recorded in the General Fund.

Conclusion - Response accepted.

**Administratively Maintained Accounts:** We noted during our audit that there are numerous accounts within the Student Activity Fund which appear to be administratively maintained, rather than a student organization. These accounts include the Athletic Facilities, Gate Receipts, Activity Tickets, Tom Begley Memorial, District Wide Miscellaneous and the various miscellaneous accounts at each building.

Recommendation - The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. In addition we noted items purchased from several of these accounts, which appear instructional in nature and therefore more appropriate from the General Fund.

Response - We will work on reviewing these accounts and transferring items to a more appropriate fund.

Conclusion - Response accepted.

IV-N-12 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations that have been outstanding for over a year.

Recommendation - The District should determine if the outstanding checks should be reissued, voided or submitted to the State as unclaimed property. If the checks are submitted as unclaimed property, the District must do so annually before November 1st as required by Chapter 556.1(10) and 556.11 of the Code of Iowa.

Response - The District will research these outstanding checks and determine the appropriate course of action to be taken.

Conclusion - Response accepted.

IV-O-12 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - We will have the Board President sign officials' contracts in the future.

Conclusion - Response accepted.

IV-P-12 Financial Condition - The District had several accounts in the Special Revenue, Student Activity Fund that had deficit balances at the end of the year totaling \$3,018. The District also had deficit net assets in the governmental activities of \$118,099. The Enterprise, Student Built House Fund had deficit unrestricted net assets of \$33,466.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit. The District should consider additional approval of bills from the Student Activity Fund. A workout plan for the deficit accounts should also be considered for the Student Activity Fund.

Response - The District is working on a budgeting plan for the deficit accounts. The deficit net assets in the governmental activities were due to an increasing OPEB liability, as well as a substantial increase in the amount restricted for categorical funding.

Conclusion - Response accepted.