

MARION INDEPENDENT SCHOOL DISTRICT  
MARION, IOWA

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

JUNE 30, 2013

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MARION INDEPENDENT SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2012)		
Dan Barkley	President	2015
Bill Huntoon	Vice President	2013
Diane Bys	Board Member	2013
Alan Tribble	Board Member	2013
David Law	Board Member	2015
Shelly Pearson	Board Member	2015
Dennis Trout	Board Member	2015
(After September 2012)		
Dan Barkley	President	2015
David Law	Vice President	2015
Diane Bys	Board Member	2013
Bill Huntoon	Board Member	2013
Alan Tribble	Board Member	2013
Shelly Pearson	Board Member	2015
Dennis Trout	Board Member	2015
<u>School Officials</u>		
Sarah Pinion	Superintendent	2015
Brian Bartz	District Secretary/Treasurer and Business Manager	2013
Brett Nitzschke	Attorney	2013

DOUGLAS T. HUNT, CPA  
DONALD D. KAIN  
CHUCK C. CONVERSE, CPA  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Marion Independent School District:

Report on the Financial Statements

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, Marion Iowa, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marion Independent School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters*Required Supplementary Information*

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 17 and 56 through 58 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 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 inquiries, 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

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. The financial statements for the three years ended June 30, 2012 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein). For the three years ended June 30, 2009 and the year ended June 30, 2004, we expressed unqualified opinions on those financial statements. For the two years ended June 30, 2006, we expressed qualified opinions on the business-type activities and aggregate remaining fund information due to the inability to observe School Nutrition Fund inventory and unqualified opinions on the governmental activities and each major fund. 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financials 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2014 on our consideration of Marion Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Marion Independent School District's internal control over financial reporting and compliance.

Oskaloosa, Iowa  
March 4, 2014

*Hunt & Associates, P.C.*

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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, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### Financial Highlights

- General Fund revenues decreased from \$21,741,232 in fiscal year 2012 to \$21,584,856 in fiscal year 2013, while General Fund expenditures increased from \$21,082,679 in fiscal year 2012 to \$22,354,712 in fiscal year 2013. This resulted in a decrease in the District's General Fund balance from \$1,970,982 in fiscal year 2012, to \$1,220,688 in fiscal year 2013, a 38% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in property tax revenue and federal revenue.

## Overview of the Financial Statements

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

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

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

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

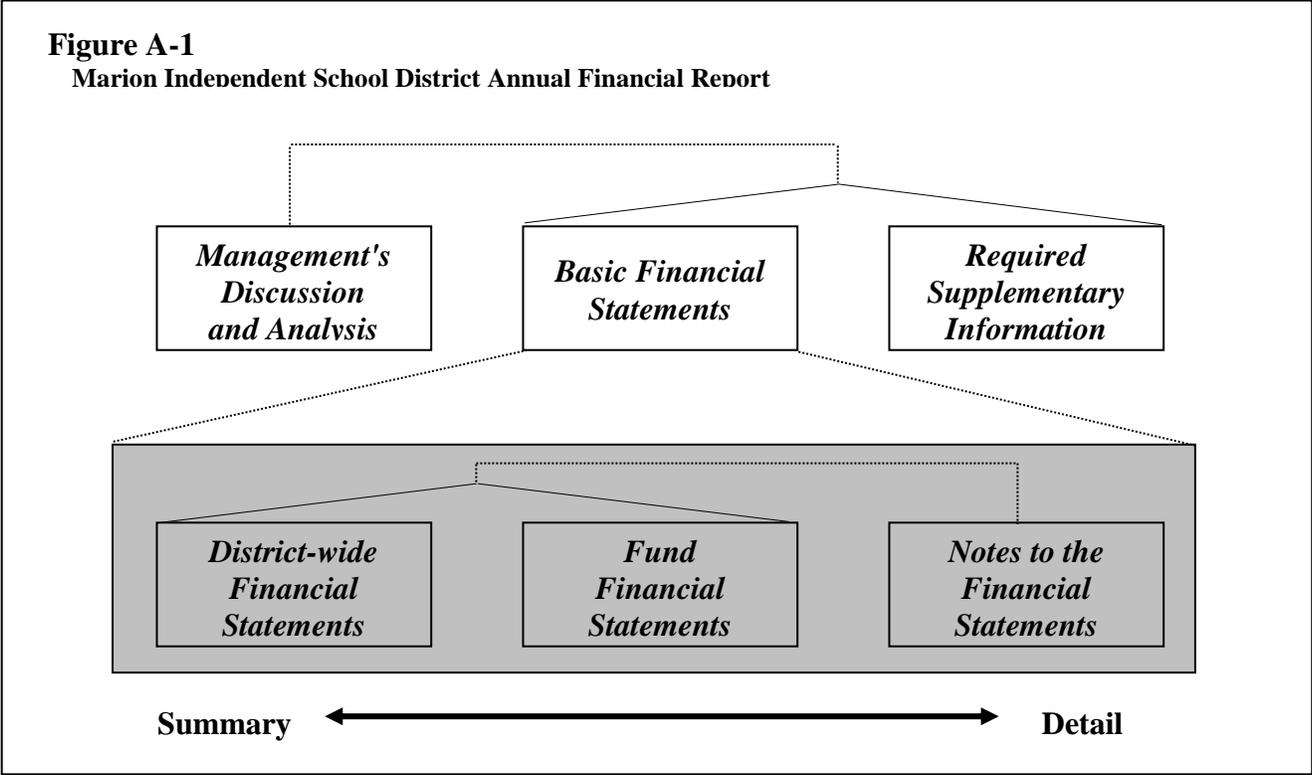


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

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

### District-wide Statements

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

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

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

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

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

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as Physical Plant and Equipment funds.

The District has three kinds of funds.

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
  - The District's governmental funds include the General Fund, Activity Fund, PPEL Fund, PERL Fund, Management Fund, Debt Service Fund, District Support Trust Fund, and Capital Projects Fund.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
  - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, the Student Store Fund and The Student Built House Fund.
- *Fiduciary funds:* The District 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 purchases 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.

### Financial Analysis of the District as a Whole

**Net assets** - Figure A-3 below provides a summary of the District's net position for the year ended June 30, 2013 compared to 2012.

Figure A-3

	Condensed Statement of Net Position						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
	2012	2013	2012	2013	2012	2013	2012-2013
Current and other assets	\$20,629,517	\$19,644,123	\$403,210	\$321,644	\$ 21,032,727	\$ 19,965,767	-5.07%
Capital assets	<u>28,921,087</u>	<u>29,472,159</u>	<u>77,381</u>	<u>510,741</u>	<u>28,998,468</u>	<u>29,982,900</u>	3.39%
Total assets	<u>49,550,604</u>	<u>49,116,282</u>	<u>480,591</u>	<u>832,385</u>	<u>50,031,195</u>	<u>49,948,667</u>	-1.16%
Long-term obligations	25,747,810	24,534,344	-	-	25,747,810	24,534,344	-4.71%
Other liabilities	<u>10,066,708</u>	<u>10,465,643</u>	<u>94,559</u>	<u>76,373</u>	<u>10,161,267</u>	<u>10,542,016</u>	3.75%
Total liabilities	<u>35,814,518</u>	<u>34,999,987</u>	<u>94,559</u>	<u>76,373</u>	<u>35,909,077</u>	<u>35,076,360</u>	-2.32%
Net position							
Net investment in capital assets	5,082,613	5,582,159	77,381	510,741	5,159,994	6,092,900	18.08%
Restricted	8,771,572	9,593,592	-	-	8,771,572	9,593,592	9.37%
Unrestricted	<u>(118,099)</u>	<u>(1,059,456)</u>	<u>308,651</u>	<u>245,271</u>	<u>190,552</u>	<u>(814,185)</u>	-527.28%
Total net position, as restated	<u>\$13,736,086</u>	<u>\$14,116,295</u>	<u>\$386,032</u>	<u>\$756,012</u>	<u>\$14,122,118</u>	<u>\$14,872,037</u>	5.31%

**Changes in net position** – Figure A-4 shows the changes in net position for the year ended June 30, 2013 as compared to 2012.

Figure A-4

	Governmental		Change in Net Position		Total		Total Change
	Activites		Business-type		School District		
	2013	2012	2013	2012	2013	2012	
<b>Revenues</b>							
Program revenues							
Changes for service							
and sales	4,821,016	4,763,110	684,869	703,359	5,505,885	5,466,469	0.72%
Operating grants,							
contributions							
and restriced							
interest	2,888,537	1,893,688	332,134	320,709	3,220,671	2,214,397	45.44%
Capital Contributions	276,537		457,130		733,667		N/A
General revenues							
Property tax	6,550,043	6,666,498			6,550,043	6,666,498	-1.75%
Income surtax	454,729	420,561			454,729	420,561	8.12%
Local option sales tax	1,551,558	1,793,031			1,551,558	1,793,031	-13.47%
Unrestricted state							
grants	9,195,798	10,119,314			9,195,798	10,119,314	-9.13%
Nonspecific Program							
Federal							
Revenue		5,433				5,433	-100.00%
Other	71,148	115,776	171	227	71,319	116,003	-38.52%
<b>Total revenues</b>	<b>25,809,366</b>	<b>25,777,411</b>	<b>1,474,304</b>	<b>1,024,295</b>	<b>27,283,670</b>	<b>26,801,706</b>	<b>1.80%</b>
Program expenses							
Instruction	16,500,423	16,110,558		256,455	16,500,423	16,367,013	0.82%
Support services	6,042,555	6,145,787	18,494	19,440	6,061,049	6,165,227	-1.69%
Non-instructional							
programs			1,085,830	530,195	1,085,830	530,195	104.80%
Other expenses	2,886,179	2,393,635			2,886,179	2,393,635	20.58%
<b>Total expenses</b>	<b>25,429,157</b>	<b>24,649,980</b>	<b>1,104,324</b>	<b>806,090</b>	<b>26,533,481</b>	<b>25,456,070</b>	<b>4.23%</b>
<b>Change in net position</b>	<b>380,209</b>	<b>1,127,431</b>	<b>369,980</b>	<b>218,205</b>	<b>750,189</b>	<b>1,345,636</b>	<b>-44.25%</b>

Property tax and unrestricted state grants account for 61% of the total governmental activities revenue. The District's total governmental expenses primarily relate to instruction and support services which account for 89% of the total expenses.

### Governmental Activities

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

	<u>Total and Net Cost of Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 16,500,423	\$ 9,605,321
Support services	6,042,555	5,943,813
Non-instructional programs	0	0
Other expenses	<u>2,886,179</u>	<u>1,893,933</u>
Total expenses	<u>\$25,429,157</u>	<u>\$ 17,443,067</u>

- The cost financed by users of the District's programs was \$4,821,016. Exhibit B Total Governmental Activities – Charges for Services revenues total.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,888,537. Exhibit B, Total Governmental Activities, Operating Grants revenues total.
- The net cost of governmental activities was financed with \$8,556,330 in property and other tax, \$9,195,798 in state foundation aid and \$27,243 in interest income. Exhibit B General Revenues section

### Business-Type Activities

Revenues of the District's business-type activities were \$1,474,304 and expenses were \$1,104,324. The District's business-type activities include the School Nutrition Fund, School Store and Student-built House. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### Financial Analysis of the District's Funds

As previously noted, the Marion Independent School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$9,045,709, Exhibit C, Total Fund Balances which is \$1,424,109 less than last year's ending fund balances of \$10,469,818. (Exhibit E, Fund Balance, beginning of year.)

## **Governmental Fund Highlights**

The District's General Fund Balance decreased from \$1,970,982 to \$1,220,688. There are several factors that affected this decrease.

## **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$183,252 at June 30, 2012 to \$544,843 at June 30, 2013, representing an increase of approximately 197%. The increase resulted from equipment purchased by the capital projects fund which was then contributed to the School Nutrition Fund.

## **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. (Districts having private-purpose trust and agency funds are not required to adopt a budget for these funds.) Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. The District did not amend its annual operating budget. A schedule showing the final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund are not presented in the budgetary comparison on page 56.

## **Legal Budgetary Highlights**

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

## **Capital Asset and Debt Administration**

### **Capital Assets**

At June 30, 2013, the District had invested \$29,982,900, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. This amount represents a net increase of 3.39% from last year. More detailed information about capital assets is available in Note 1D and Note 5 to the financial statements. Depreciation expense for the year was \$571,411.

Governmental activities account for \$29,472,159 with the remainder \$510,741 in the Proprietary, School Nutrition Fund.

See Figure A-6 for a summary of capital assets at actual historical cost.

Figure A-6

	<u>Capital Assets, Historical Cost</u>						<u>Total Change 2013-12</u>
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total School District</u>		
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	
Land	\$ 1,534,945	\$ 1,534,945	\$ -	\$ -	\$ 1,534,945	\$1,534,945	0.00%
Construction in progress	16,512,971	15,850,657	-	-	16,512,971	15,850,657	4.18%
Buildings and improvements	20,015,830	20,001,069	-	-	20,015,830	20,001,069	.07%
Improvements, other than buildings	1,461,222	1,081,201	-	-	1,461,222	1,081,201	35.15%
Furniture and equipment	<u>2,954,857</u>	<u>2,920,156</u>	<u>796,841</u>	<u>336,295</u>	<u>3,751,698</u>	<u>3,256,451</u>	15.21%
Totals	<u>\$42,479,825</u>	<u>\$41,388,028</u>	<u>\$796,841</u>	<u>\$336,295</u>	<u>\$ 43,276,666</u>	<u>\$ 41,724,323</u>	3.72%

### Long-Term Debt

At June 30, 2013, the District had \$24,534,344 in general obligation and other long-term debt outstanding. This represents a decrease of 4.71 % 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

	<u>Outstanding Long-term Obligations</u>		
	<u>Total School District</u>		<u>Total Change</u>
	<u>2013</u>	<u>2012</u>	<u>2013- 2012</u>
General obligation bonds	\$10,345,000	\$10,930,000	-5.35%
Revenue Bonds	13,545,000	14,255,000	-4.98%
Compensated absences	111,088	105,708	5.09%
Net OPEB liability	<u>533,256</u>	<u>457,102</u>	16.67%
Total	<u>\$24,534,344</u>	<u>\$ 25,747,810</u>	-4.71%

## **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 and Business Manager, Marion Independent School District, 777 South 15<sup>th</sup> Street, Marion, IA 52302.

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## Basic Financial Statements

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 11,044,511	\$ 57,361	\$ 11,101,872
Receivables:			
Property tax:			
Current year	79,598	-	79,598
Succeeding year	7,220,026	-	7,220,026
Income surtax	430,082	-	430,082
Accounts	28,976	53	29,029
Due from other governments	706,074	5,320	711,394
Interfund balances (note 4)	34,856	(34,856)	-
Deposit on land	100,000	-	100,000
Inventories	-	293,766	293,766
Capital assets, net of accumulated depreciation (note 5)	29,472,159	510,741	29,982,900
	<hr/>	<hr/>	<hr/>
Total assets	49,116,282	832,385	49,948,667
Liabilities			
Accounts payable	695,453	838	696,291
Salaries and benefits payable	2,193,597	-	2,193,597
Accrued interest payable	356,567	-	356,567
Bank loan payable (note 6)	-	63,000	63,000
Deferred revenue:			
Succeeding year property tax	7,220,026	-	7,220,026
Other	-	12,535	12,535
Long-term liabilities (note 7):			
Portion due within one year:			
Bonds payable	1,175,000	-	1,175,000
Compensated absences	111,088	-	111,088
Portion due after one year:			
Bonds payable	22,715,000	-	22,715,000
Net OPEB liability	533,256	-	533,256
	<hr/>	<hr/>	<hr/>
Total liabilities	34,999,987	76,373	35,076,360

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Net Position			
Net investment in capital assets	\$ 5,582,159	\$ 510,741	\$ 6,092,900
Restricted for:			
Categorical funding	1,695,056	-	1,695,056
School infrastructure	3,042,861	-	3,042,861
Physical plant and equipment levy purposes	1,916,787	-	1,916,787
Debt service	1,978,150	-	1,978,150
Management levy purposes	197,182	-	197,182
Student activities	260,325	-	260,325
Public education and recreation	2,398	-	2,398
Support trust purposes	500,833	-	500,833
Unrestricted	<u>(1,059,456)</u>	<u>245,271</u>	<u>(814,185)</u>
Total net position	<u>\$ 14,116,295</u>	<u>\$ 756,012</u>	<u>\$ 14,872,307</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 16,500,423	\$ 4,765,956	\$ 2,129,146	\$ -
Support services:				
Student	801,569	-	13,058	-
Instructional staff	851,433	-	10,280	-
Administration	2,136,509	-	-	-
Operation and maintenance of plant	1,796,757	13,844	-	-
Transportation	456,287	41,216	20,344	-
	<u>6,042,555</u>	<u>55,060</u>	<u>43,682</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	731,493	-	-	276,537
Long-term debt interest and fiscal charges	1,021,262	-	-	-
AEA flowthrough	715,709	-	715,709	-
Depreciation (unallocated) *	417,715	-	-	-
	<u>2,886,179</u>	<u>-</u>	<u>715,709</u>	<u>276,537</u>
Total governmental activities	<u>25,429,157</u>	<u>4,821,016</u>	<u>2,888,537</u>	<u>276,537</u>

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (9,605,321)	\$ -	\$ (9,605,321)
(788,511)	-	(788,511)
(841,153)	-	(841,153)
(2,136,509)	-	(2,136,509)
(1,782,913)	-	(1,782,913)
(394,727)	-	(394,727)
(5,943,813)	-	(5,943,813)
(454,956)	-	(454,956)
(1,021,262)	-	(1,021,262)
-	-	-
(417,715)	-	(417,715)
(1,893,933)	-	(1,893,933)
(17,443,067)	-	(17,443,067)

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Business-Type Activities:</b>				
Support services:				
Administration	\$ 10,917	\$ -	\$ -	\$ -
Operation and maintenance of plant	7,577	-	-	-
	<u>18,494</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs:				
Food service operations	827,603	418,032	330,634	457,130
School store operations	9,796	8,860	1,500	-
Student built house operations	248,431	257,977	-	-
	<u>1,085,830</u>	<u>684,869</u>	<u>332,134</u>	<u>457,130</u>
 Total business-type activities	 <u>1,104,324</u>	 <u>684,869</u>	 <u>332,134</u>	 <u>457,130</u>
 Total	 <u>\$ 26,533,481</u>	 <u>\$ 5,505,885</u>	 <u>\$ 3,220,671</u>	 <u>\$ 733,667</u>

General revenues:

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

Total general revenues

Change in net position

Net position beginning of year, as restated (note 14)

Net position end of year

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

See notes to financial statements.

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ -	\$ (10,917)	\$ (10,917)
-	(7,577)	(7,577)
-	(18,494)	(18,494)
-	378,193	378,193
-	564	564
-	9,546	9,546
-	388,303	388,303
-	369,809	369,809
(17,443,067)	369,809	(17,073,258)
\$ 5,350,366	\$ -	\$ 5,350,366
948,985	-	948,985
250,692	-	250,692
454,729	-	454,729
1,551,558	-	1,551,558
9,195,798	-	9,195,798
27,423	171	27,594
43,725	-	43,725
17,823,276	171	17,823,447
380,209	369,980	750,189
13,736,086	386,032	14,122,118
<u>\$ 14,116,295</u>	<u>\$ 756,012</u>	<u>\$ 14,872,307</u>

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 3,394,556	\$ 5,714,863	\$ 1,875,836	\$ 10,985,255
Receivables:				
Property tax:				
Current year	62,642	2,955	14,001	79,598
Succeeding year	5,729,458	250,645	1,239,923	7,220,026
Income surtax	-	430,082	-	430,082
Interfund (note 4)	34,856	4,840	-	39,696
Accounts	26,087	-	2,889	28,976
Due from other governments	449,765	256,309	-	706,074
Deposit on land	-	100,000	-	100,000
	<hr/>			
Total assets	<u>\$ 9,697,364</u>	<u>\$ 6,759,694</u>	<u>\$ 3,132,649</u>	<u>\$ 19,589,707</u>

MARION INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 553,901	\$ 113,792	\$ 27,760	\$ 695,453
Salaries and benefits payable	2,193,317	-	280	2,193,597
Interfund payable (note 4)	-	-	4,840	4,840
<b>Deferred revenue:</b>				
Succeeding year property tax	5,729,458	250,645	1,239,923	7,220,026
Other	-	430,082	-	430,082
<b>Total liabilities</b>	<b><u>8,476,676</u></b>	<b><u>794,519</u></b>	<b><u>1,272,803</u></b>	<b><u>10,543,998</u></b>
<b>Fund balances:</b>				
<b>Nonspendable:</b>				
Deposit on land	-	100,000	-	100,000
<b>Restricted for:</b>				
Categorical funding (note 12)	1,695,056	-	-	1,695,056
Revenue bonds	-	1,435,609	-	1,435,609
School infrastructure	-	2,942,861	-	2,942,861
Physical plant and equipment	-	1,486,705	-	1,486,705
Management levy purposes	-	-	197,182	197,182
Student activities	-	-	260,325	260,325
Public education and recreation	-	-	2,398	2,398
Support trust purposes	-	-	500,833	500,833
Revenue bonds sinking fund	-	-	892,763	892,763
Debt service	-	-	6,345	6,345
Unassigned	(474,368)	-	-	(474,368)
<b>Total fund balances</b>	<b><u>1,220,688</u></b>	<b><u>5,965,175</u></b>	<b><u>1,859,846</u></b>	<b><u>9,045,709</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 9,697,364</u></b>	<b><u>\$ 6,759,694</u></b>	<b><u>\$ 3,132,649</u></b>	<b><u>\$ 19,589,707</u></b>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 June 30, 2013

Total fund balances of governmental funds	\$ 9,045,709
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	29,472,159
Other long-term assets, including income surtax receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	430,082
The Internal Service Fund is used to charge the costs of the District's flexible benefits plan to the governmental funds. The net position of the Internal Service Fund is therefore included in governmental activities.	59,256
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.	(356,567)
Long-term liabilities, including bonds payable, compensated absences, and net OPEB liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(24,534,344)</u>
Net position of governmental activities	<u>\$ 14,116,295</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, 2013

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 5,116,913	\$ 2,253,097	\$ 1,178,485	\$ 8,548,495
Tuition	4,219,602	-	-	4,219,602
Other	238,314	303,521	442,919	984,754
State sources	11,438,826	153	708	11,439,687
Federal sources	571,201	-	-	571,201
Total revenues	<u>21,584,856</u>	<u>2,556,771</u>	<u>1,622,112</u>	<u>25,763,739</u>
Expenditures:				
Current:				
Instruction	<u>15,882,347</u>	<u>8,236</u>	<u>510,178</u>	<u>16,400,761</u>
Support services:				
Student	799,443	-	-	799,443
Instructional staff	851,844	-	-	851,844
Administration	2,066,232	30,491	7,733	2,104,456
Operation and maintenance of plant	1,650,640	17,599	120,740	1,788,979
Transportation	388,497	26,720	23,905	439,122
	<u>5,756,656</u>	<u>74,810</u>	<u>152,378</u>	<u>5,983,844</u>
Other expenditures:				
Facilities acquisition	-	1,796,570	-	1,796,570
Long term debt:				
Principal	-	-	1,295,000	1,295,000
Interest and fiscal charges	-	1,000	1,036,812	1,037,812
AEA flowthrough	715,709	-	-	715,709
	<u>715,709</u>	<u>1,797,570</u>	<u>2,331,812</u>	<u>4,845,091</u>
Total expenditures	<u>22,354,712</u>	<u>1,880,616</u>	<u>2,994,368</u>	<u>27,229,696</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(769,856)</u>	<u>676,155</u>	<u>(1,372,256)</u>	<u>(1,465,957)</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Other financing sources (uses):				
Sale of equipment	\$ 109	\$ -	\$ -	\$ 109
Compensation for loss of capital assets	16,740	24,999	-	41,739
Interfund transfers in (note 3)	2,713	-	1,220,515	1,223,228
Interfund transfers out (note 3)	-	(1,220,515)	(2,713)	(1,223,228)
Total other financing sources (uses)	<u>19,562</u>	<u>(1,195,516)</u>	<u>1,217,802</u>	<u>41,848</u>
Net change in fund balances	(750,294)	(519,361)	(154,454)	(1,424,109)
Fund balances beginning of year	<u>1,970,982</u>	<u>6,484,536</u>	<u>2,014,300</u>	<u>10,469,818</u>
Fund balances end of year	<u>\$ 1,220,688</u>	<u>\$ 5,965,175</u>	<u>\$ 1,859,846</u>	<u>\$ 9,045,709</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013

Net change in fund balances - total governmental funds \$ (1,424,109)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Position and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 1,091,797	
Depreciation expense	<u>(540,725)</u>	551,072

Income surtax revenue not received until several months after the District's fiscal year end is not considered available revenue and is deferred in the governmental funds. It is, however, recorded as revenue in the Statement of Activities. 3,729

The change in net position of the Internal Service Fund is reported with governmental activities in the Statement of Activities due to the integral nature of the fund to the governmental funds. 19,501

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position. 1,295,000

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, however, interest expense is recognized as the interest accrues, regardless of when it is due. 16,550

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

Compensated absences	(5,380)	
Net OPEB liability	<u>(76,154)</u>	<u>(81,534)</u>

Change in net position of governmental activities \$ 380,209

See notes to financial statements.

## MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS

June 30, 2013

	Nonmajor Enterprise Funds	Internal Service - Flexible Benefits
	<u>          </u>	<u>          </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 57,361	\$ 59,256
Accounts receivable	53	-
Due from other governments	5,320	-
Inventories	293,766	-
Total current assets	<u>356,500</u>	<u>59,256</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 5)	<u>510,741</u>	-
Total assets	<u>867,241</u>	<u>59,256</u>
Liabilities		
Current liabilities:		
Accounts payable	838	-
Interfund payable (note 4)	34,856	-
Bank loan payable (note 6)	63,000	-
Deferred revenue	12,535	-
Total current liabilities	<u>111,229</u>	<u>-</u>
Net Position		
Net investment in capital assets	510,741	-
Unrestricted	<u>245,271</u>	<u>59,256</u>
Total net position	<u>\$ 756,012</u>	<u>\$ 59,256</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
Year Ended June 30, 2013

	Nonmajor Enterprise Funds	Internal Service - Flexible Benefits
Operating revenues:		
Local sources:		
Charges for services	\$ 684,869	\$ 226,752
Operating expenses:		
Support services:		
Administration	10,917	-
Operation and maintenance of plant	7,577	-
Non-instructional programs	851,130	207,301
Other expenditures:		
Facilities acquisition and construction	234,700	-
	<u>1,104,324</u>	<u>207,301</u>
Operating income (loss)	(419,455)	19,451
Non-operating revenues:		
Interest on investments	171	50
Capital contributions	457,130	-
Local grants	1,500	-
State sources	6,402	-
Federal sources	324,232	-
Total non-operating revenues	<u>789,435</u>	<u>50</u>
Change in net position	369,980	19,501
Net position beginning of year, as restated (note 14)	<u>386,032</u>	<u>39,755</u>
Net position end of year	<u>\$ 756,012</u>	<u>\$ 59,256</u>

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2013

	Nonmajor Enterprise Funds	Internal Service - Flexible Benefits
	<u>          </u>	<u>          </u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 417,538	\$ -
Cash received from miscellaneous operating activities	267,326	226,752
Cash payments to employees for services	(404,189)	-
Cash payments to suppliers for goods or services	<u>(687,555)</u>	<u>(207,301)</u>
Net cash provided by (used by) operating activities	<u>(406,880)</u>	<u>19,451</u>
Cash flows from non-capital financing activities:		
State grants received	6,402	-
Federal grants received	284,648	-
Local grants received	1,500	-
Operating loan proceeds	63,000	-
Operating loan payments	<u>(33,000)</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>322,550</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(6,916)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>171</u>	<u>50</u>
Net increase (decrease) in cash and cash equivalents	(91,075)	19,501
Cash and cash equivalents beginning of year	<u>148,436</u>	<u>39,755</u>
Cash and cash equivalents end of year	<u>\$ 57,361</u>	<u>\$ 59,256</u>

MARION INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2013

	Nonmajor Enterprise Funds	Internal Service - Flexible Benefits
	<u>        </u>	<u>        </u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:		
Operating income (loss)	\$ (419,455)	\$ 19,451
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	30,686	-
Commodities used	34,264	-
Decrease in accounts receivable	130	-
(Increase) in inventories	(39,175)	-
(Decrease) in accounts payable	(2,452)	-
(Decrease) in salaries and benefits payable	(605)	-
(Decrease) in interfund payable	(10,138)	-
(Decrease) in deferred revenue	(135)	-
	<u>                    </u>	<u>                    </u>
Net cash provided by (used by) operating activities	\$ <u>(406,880)</u>	\$ <u>19,451</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2013, the District received \$34,264 of federal commodities and \$457,130 of equipment contributed from other funds.

See notes to financial statements.

MARION INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
 FIDUCIARY FUNDS  
 June 30, 2013

	<u>Agency</u>
Assets:	
Cash	\$ <u>875</u>
Liabilities:	
Other payables	\$ <u>875</u>

See notes to financial statements.

## MARION INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

Marion Independent School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve, 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 agricultural territory in Linn County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

For financial reporting purposes, Marion Independent School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Marion Independent School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Linn County Assessor's Conference Board.

#### B. Basis of Presentation

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

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. Combining schedules are also included for the Capital Projects 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 revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

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 position and changes in net position. The District's fiduciary funds include the following:

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary 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 the 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 position 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.

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 funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2012.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2013 will not be received by the District until several months after the fiscal year end. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

Interfund Receivables and Payables – During the course of its operations, the District may have certain transactions between funds or pooled cash balances. To the extent that these transactions between funds had not been paid or received as of June 30, 2013, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Intangibles	150,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

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

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

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

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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 are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures did not exceed the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 2. Cash and Pooled Investments (continued)

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>2,368,776</u>

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

Credit Risk – The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor’s Financial Services.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 1,220,515
General	Special Revenue - Management Levy	<u>2,713</u>
Total		<u>\$ 1,223,228</u>

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

Note 4. Interfund Receivables and Payables

At June 30, 2013, interfund receivables and payables consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Interfund balances between governmental funds:		
Pooled cash balances:		
Capital Projects	Debt Service	\$ <u>4,840</u>
Interfund balances between governmental and proprietary funds:		
Other receivables:		
General	Enterprise - School Nutrition	<u>34,856</u>
Total		<u>\$ 39,696</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 4. Interfund Receivables and Payables (continued)

The pooled cash balances are temporary financing between funds which is necessary due to the timing of expected property tax collections and the related debt service expenditures. The other receivables interfund balances are due to timing differences involved in payroll reimbursements at year end.

The balances between governmental funds are not included on the District-wide Statement of Net Position. The balances between governmental and proprietary funds have been eliminated on the face of the District-wide Statement of Net Position.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2013 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	15,850,657	731,581	69,267	16,512,971
Total capital assets not being depreciated	<u>17,385,602</u>	<u>731,581</u>	<u>69,267</u>	<u>18,047,916</u>
Capital assets being depreciated:				
Buildings	20,001,069	14,761	-	20,015,830
Improvements other than buildings	1,081,201	380,021	-	1,461,222
Furniture and equipment	2,920,156	34,701	-	2,954,857
Total capital assets being depreciated	<u>24,002,426</u>	<u>429,483</u>	<u>-</u>	<u>24,431,909</u>
Less accumulated depreciation for:				
Buildings	9,215,594	406,111	-	9,621,705
Improvements other than buildings	755,474	47,701	-	803,175
Furniture and equipment	2,495,873	86,913	-	2,582,786
Total accumulated depreciation	<u>12,466,941</u>	<u>540,725</u>	<u>-</u>	<u>13,007,666</u>
Total capital assets being depreciated, net	<u>11,535,485</u>	<u>(111,242)</u>	<u>-</u>	<u>11,424,243</u>
Governmental activities capital assets, net	<u>\$ 28,921,087</u>	<u>\$ 620,339</u>	<u>\$ 69,267</u>	<u>\$ 29,472,159</u>
Business-type activities:				
Furniture and equipment	\$ 336,295	\$ 464,046	\$ 3,500	\$ 796,841
Less accumulated depreciation	258,914	30,686	3,500	286,100
Business-type activities capital assets, net	<u>\$ 77,381</u>	<u>\$ 433,360</u>	<u>\$ -</u>	<u>\$ 510,741</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 5. Capital Assets (continued)

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction	\$ 56,844
Support services:	
Administration	15,980
Operation and maintenance of plant	6,438
Transportation	<u>43,748</u>
	123,010
Unallocated depreciation	<u>417,715</u>
Total depreciation expense - governmental activities	<u>\$ 540,725</u>

Business-type activities:

Food service operations	<u>\$ 30,686</u>
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Note 6. Short-Term Loans Payable

During the year ended June 30, 2013 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 credit limit of \$60,000 and is available until June 2014. The Student Built House Fund short-term loan includes interest at 5.5%.

	<u>Balance Beginning of Year</u>	<u>Loans Received</u>	<u>Loans Repaid</u>	<u>Balance End of Year</u>
Bank loan	\$ <u>33,000</u>	\$ <u>63,000</u>	\$ <u>33,000</u>	\$ <u>63,000</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 10,930,000	\$ -	\$ 585,000	\$ 10,345,000	\$ 610,000
Revenue bonds	14,255,000	-	710,000	13,545,000	565,000
Compensated absences	105,708	111,088	105,708	111,088	111,088
Net OPEB liability	457,102	76,154	-	533,256	-
<b>Total</b>	<b>\$ 25,747,810</b>	<b>\$ 187,242</b>	<b>\$ 1,400,708</b>	<b>\$ 24,534,344</b>	<b>\$ 1,286,088</b>

General Obligation Bonds

Details of the District's June 30, 2013 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of November 1, 2009			Bond Issue of October 1, 2010		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2014	3.00 %	\$ 410,000	\$ 52,200	3.00 %	\$ 200,000	\$ 293,450
2015	3.00	430,000	39,900	3.00	210,000	286,450
2016	3.00	450,000	27,000	3.00	215,000	281,150
2017	3.00	450,000	13,500	3.00	220,000	274,700
2018	-	-	-	3.00	485,000	268,100
2019-2023	-	-	-	3.00-3.50	2,120,000	1,111,425
2024-2028	-	-	-	3.50-4.25	3,715,000	632,450
2029-2030	-	-	-	4.00	1,440,000	87,000
<b>Total</b>		<b>\$ 1,740,000</b>	<b>\$ 132,600</b>		<b>\$ 8,605,000</b>	<b>\$ 3,234,725</b>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 7. Long-Term Liabilities (continued)

General Obligation Bonds (continued)

Year Ending June 30,	Total		
	Principal	Interest	Total
2014	\$ 610,000	\$ 345,650	\$ 955,650
2015	640,000	326,350	966,350
2016	665,000	308,150	973,150
2017	670,000	288,200	958,200
2018	485,000	268,100	753,100
2019-2023	2,120,000	1,111,425	3,231,425
2024-2028	3,715,000	632,450	4,347,450
2029-2030	1,440,000	87,000	1,527,000
Total	\$ <u>10,345,000</u>	\$ <u>3,367,325</u>	\$ <u>13,712,325</u>

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, 2013 revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2014	4.250 %	\$ 565,000	\$ 643,519	\$ 1,208,519
2015	4.250	545,000	619,931	1,164,931
2016	4.250	570,000	596,238	1,166,238
2017	4.250	590,000	571,588	1,161,588
2018	4.000	615,000	546,750	1,161,750
2019-2023	4.200-4.875	3,660,000	2,297,538	5,957,538
2024-2028	5.000-5.200	3,300,000	1,357,514	4,657,514
2029-2030	5.350-5.375	3,700,000	235,441	3,935,441
		\$ <u>13,545,000</u>	\$ <u>6,868,519</u>	\$ <u>20,413,519</u>

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 7. Long-Term Liabilities (continued)

Revenue Bonds (continued)

The District has pledged future statewide sales, services and use tax revenues to repay the \$15,450,000 bonds issued in April 2009. The bonds were issued for the purpose of financing a portion of the costs of the 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 and the debt is not subject to the constitutional debt limitations of the District. Annual principal and interest are expected to require approximately 15 to 140 percent of the statewide sales and services tax revenues. The total principal and interest remaining to be paid on the bonds is \$20,413,519. For the current year, principal of \$710,000 and interest of \$670,613 was paid on the bonds and total statewide sales, services and use tax revenues were \$1,551,558.

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. The District has 227 active and 15 retired members in the plan. Retired 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.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

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, 2013, the amount actually contributed to the plan and changes in the District’s net OPEB obligation:

Annual required contribution	\$ 130,357
Interest on net OPEB obligation	11,428
Adjustment to annual required contribution	<u>(31,111)</u>
Annual OPEB cost	110,674
Contributions made	<u>(34,520)</u>
Increase in net OPEB obligation	76,154
Net OPEB obligation beginning of year	<u>457,102</u>
Net OPEB obligation end of year	<u>\$ 533,256</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$34,520 to the medical plan.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 105,829	46.0%	\$ 382,711
2012	105,649	29.6%	457,102
2013	110,674	31.2%	533,256

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, 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 approximately \$14,981,000, and the ratio of the UAAL to covered payroll was 4.5%. As of June 30, 2013, there were no trust fund assets.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

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 frozen entry age 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, applied on a 2/3 female, 1/3 male basis. The UAAL is being amortized as a level dollar cost over service of the group 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 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$1,259,631, \$1,105,993, and \$963,043, respectively, equal to the required contributions for each year.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 10. Risk Management

Marion Independent School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

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

The District's contributions to MIIP are recorded as expenditures from its General Fund at the time of payment. The total premiums paid into the plan by all six members from July 1, 2012 to June 30, 2013 were \$29,861,511, of which \$1,558,215 was paid by Marion Independent School District.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$715,709 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 12. Categorical Funding

The District's fund balance restricted for categorical funding at June 30, 2013 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Home school assistance program	\$ 1,221,134
Gifted and talented programs	32,797
Four year old preschool state aid	107,539
Teacher salary supplement	98,870
Textbook aid for nonpublic students	4,376
Professional development for model core curriculum	64,437
Professional development	155,814
Market factor incentives	<u>10,089</u>
Total	<u>\$ 1,695,056</u>

Note 13. Construction Commitments

The District has entered into various contracts totaling \$15,370,237 for a new middle school and a track resurfacing project. As of June 30, 2013, costs of \$14,889,389 had been incurred against the contracts. The balance of \$480,848 remaining at June 30, 2013 will be paid as work on the projects progresses.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 14. Restatement of Beginning Balance

The student built house constructed in the fiscal year ended June 30, 2012 was not sold by the fiscal year end but was available for sale and, therefore, should have been included in inventory until the house was sold. The beginning balance of the Enterprise, Student Built House Fund has been restated to properly reflect the student built house in inventory.

The District has corrected this item for the year ended June 30, 2013 and the effect of this correction on the related financial statement items is as follows:

	Net Position, Business-type Activities	Net Position, Enterprise, Student Built House Fund
	<u>                    </u>	<u>                    </u>
Balances June 30, 2012, as previously reported	\$ 151,607	\$ (33,466)
Adjustments:		
Inventory correction	<u>234,425</u>	<u>234,425</u>
Balances July 1, 2012, as restated	<u>\$ 386,032</u>	<u>\$ 200,959</u>

Note 15. Deficit Net Position/Fund Balance

At June 30, 2013, the governmental activities had a deficit unrestricted net position of \$1,059,456 and the General Fund had a deficit unassigned fund balance of \$474,368.

Note 16. Subsequent Event

In July 2013, the District closed on a real estate purchase agreement of \$700,000. A deposit of \$100,000 was paid in the year ended June 30, 2013 with the balance of \$600,000 paid at the closing.

Required Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances –  
Budget and Actual – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year Ended June 30, 2013

	Governmental Funds - Actual	Proprietary Funds - Enterprise - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
<b>REVENUES:</b>					
Local sources	\$ 13,752,851	\$ 1,143,670	\$ 14,896,521	\$ 14,127,356	\$ 769,165
State sources	11,439,687	6,402	11,446,089	11,483,277	(37,188)
Federal sources	571,201	324,232	895,433	938,000	(42,567)
<b>Total revenues</b>	<b>25,763,739</b>	<b>1,474,304</b>	<b>27,238,043</b>	<b>26,548,633</b>	<b>689,410</b>
<b>EXPENDITURES/EXPENSES:</b>					
Instruction	16,400,761	-	16,400,761	16,850,000	449,239
Support services	5,983,844	18,494	6,002,338	6,959,000	956,662
Non-instructional programs	-	851,130	851,130	885,000	33,870
Other expenditures	4,845,091	234,700	5,079,791	8,310,229	3,230,438
<b>Total expenditures/expenses</b>	<b>27,229,696</b>	<b>1,104,324</b>	<b>28,334,020</b>	<b>33,004,229</b>	<b>4,670,209</b>
Excess (deficiency) of revenues over (under) expenditures/expenses	(1,465,957)	369,980	(1,095,977)	(6,455,596)	5,359,619
Other financing sources, net	41,848	-	41,848	255,000	(213,152)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(1,424,109)	369,980	(1,054,129)	(6,200,596)	5,146,467
Balance beginning of year, as restated	10,469,818	386,032	10,855,850	7,620,612	3,235,238
Balance end of year	<u>\$ 9,045,709</u>	<u>\$ 756,012</u>	<u>\$ 9,801,721</u>	<u>\$ 1,420,016</u>	<u>\$ 8,381,705</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
Year Ended June 30, 2013

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

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

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

During the year ended June 30, 2013, expenditures did not exceed the amounts budgeted.

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
(In Thousands)

Required Supplementary Information  
Year Ended June 30, 2013

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( (b-a)/c )
2009	July 1, 2007	\$ -	\$ 1,070	\$ 1,070	0.0%	\$ 14,732	7.3%
2010	July 1, 2009	-	830	830	0.0%	15,026	5.5%
2011	July 1, 2009	-	830	830	0.0%	14,969	5.5%
2012	July 1, 2011	-	678	678	0.0%	13,705	4.9%
2013	July 1, 2011	-	678	678	0.0%	14,981	4.5%

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

See accompanying independent auditor's report.

Supplementary Information

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2013

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	District Support Trust
<b>Assets</b>				
Cash and pooled investments	\$ 194,366	\$ 285,336	\$ 2,538	\$ 500,833
Receivables:				
Property tax:				
Current year	2,816	-	-	-
Succeeding year	300,001	-	-	-
Accounts	-	2,889	-	-
<b>Total assets</b>	<b>\$ 497,183</b>	<b>\$ 288,225</b>	<b>\$ 2,538</b>	<b>\$ 500,833</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 27,620	\$ 140	\$ -
Salaries and benefits payable	-	280	-	-
Interfund payable	-	-	-	-
Deferred revenue:				
Succeeding year property tax	300,001	-	-	-
<b>Total liabilities</b>	<b>300,001</b>	<b>27,900</b>	<b>140</b>	<b>-</b>
<b>Fund balances:</b>				
<b>Restricted for:</b>				
Management levy purposes	197,182	-	-	-
Student activities	-	260,325	-	-
Public education and recreation	-	-	2,398	-
Support trust purposes	-	-	-	500,833
Revenue bonds sinking fund	-	-	-	-
Debt service	-	-	-	-
<b>Total fund balances</b>	<b>197,182</b>	<b>260,325</b>	<b>2,398</b>	<b>500,833</b>
<b>Total liabilities and fund balances</b>	<b>\$ 497,183</b>	<b>\$ 288,225</b>	<b>\$ 2,538</b>	<b>\$ 500,833</b>

See accompanying independent auditor's report.

<u>Debt Service</u>	<u>Total</u>
\$ 892,763	\$ 1,875,836
11,185	14,001
939,922	1,239,923
-	2,889
<u>\$ 1,843,870</u>	<u>\$ 3,132,649</u>
\$ -	\$ 27,760
-	280
4,840	4,840
939,922	1,239,923
<u>944,762</u>	<u>1,272,803</u>
-	197,182
-	260,325
-	2,398
-	500,833
892,763	892,763
6,345	6,345
<u>899,108</u>	<u>1,859,846</u>
<u>\$ 1,843,870</u>	<u>\$ 3,132,649</u>

MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended June 30, 2013

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	District Support Trust
Revenues:				
Local sources:				
Local tax	\$ 230,062	\$ -	\$ -	\$ -
Other	-	440,990	-	1,919
State sources	146	-	-	-
Total revenues	<u>230,208</u>	<u>440,990</u>	<u>-</u>	<u>1,919</u>
Expenditures:				
Current:				
Instruction	93,780	416,398	-	-
Support services:				
Administration	7,733	-	-	-
Operation and maintenance of plant	113,130	-	7,610	-
Transportation	23,905	-	-	-
Other expenditures:				
Long term debt:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>238,548</u>	<u>416,398</u>	<u>7,610</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	(8,340)	24,592	(7,610)	1,919
Other financing sources (uses):				
Interfund transfers in	-	-	-	-
Interfund transfers out	(2,713)	-	-	-
Total other financing sources (uses)	<u>(2,713)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(11,053)	24,592	(7,610)	1,919
Fund balances beginning of year	<u>208,235</u>	<u>235,733</u>	<u>10,008</u>	<u>498,914</u>
Fund balances end of year	<u>\$ 197,182</u>	<u>\$ 260,325</u>	<u>\$ 2,398</u>	<u>\$ 500,833</u>

See accompanying independent auditor's report.

<u>Debt Service</u>	<u>Total</u>
\$ 948,423	\$ 1,178,485
10	442,919
562	708
<u>948,995</u>	<u>1,622,112</u>
-	510,178
-	7,733
-	120,740
-	23,905
1,295,000	1,295,000
<u>1,036,812</u>	<u>1,036,812</u>
<u>2,331,812</u>	<u>2,994,368</u>
(1,382,817)	(1,372,256)
1,220,515	1,220,515
-	(2,713)
<u>1,220,515</u>	<u>1,217,802</u>
(162,302)	(154,454)
<u>1,061,410</u>	<u>2,014,300</u>
<u>\$ 899,108</u>	<u>\$ 1,859,846</u>

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET  
CAPITAL PROJECTS ACCOUNTS  
June 30, 2013

	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Construction Projects	Total
<b>Assets</b>				
Cash and pooled investments	\$ 3,663,610	\$ 1,512,132	\$ 539,121	\$ 5,714,863
Receivables:				
Property tax:				
Current year	-	2,955	-	2,955
Succeeding year	-	250,645	-	250,645
Income surtax	-	430,082	-	430,082
Interfund	-	4,840	-	4,840
Due from other governments	256,309	-	-	256,309
Deposit on land	100,000	-	-	100,000
Total assets	\$ 4,019,919	\$ 2,200,654	\$ 539,121	\$ 6,759,694
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 80,570	\$ 33,222	\$ -	\$ 113,792
Deferred revenue:				
Succeeding year property tax	-	250,645	-	250,645
Other	-	430,082	-	430,082
Total liabilities	80,570	713,949	-	794,519
<b>Fund balances:</b>				
Nonspendable:				
Deposit on land	100,000	-	-	100,000
Restricted for:				
Revenue bonds	1,435,609	-	-	1,435,609
School infrastructure	2,403,740	-	539,121	2,942,861
Physical plant and equipment	-	1,486,705	-	1,486,705
Total fund balances	3,939,349	1,486,705	539,121	5,965,175
Total liabilities and fund balances	\$ 4,019,919	\$ 2,200,654	\$ 539,121	\$ 6,759,694

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS ACCOUNTS  
 Year Ended June 30, 2013

	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Construction Projects	Total
Revenues:				
Local sources:				
Local tax	\$ 1,551,558	\$ 701,539	\$ -	\$ 2,253,097
Other	17,053	8,219	278,249	303,521
State sources	-	153	-	153
Total revenues	<u>1,568,611</u>	<u>709,911</u>	<u>278,249</u>	<u>2,556,771</u>
Expenditures:				
Current:				
Instruction	-	8,236	-	8,236
Support services:				
Administration	25,366	5,125	-	30,491
Operation and maintenance of plant	-	17,599	-	17,599
Transportation	-	26,720	-	26,720
Other expenditures:				
Facilities acquisition	249,013	461,903	1,085,654	1,796,570
Long term debt:				
Interest and fiscal charges	1,000	-	-	1,000
Total expenditures	<u>275,379</u>	<u>519,583</u>	<u>1,085,654</u>	<u>1,880,616</u>
Excess (deficiency) of revenues over (under) expenditures	1,293,232	190,328	(807,405)	676,155
Other financing sources (uses):				
Compensation for loss of capital assets	-	24,999	-	24,999
Interfund transfers out	(1,220,515)	-	-	(1,220,515)
Total other financing sources (uses)	<u>(1,220,515)</u>	<u>24,999</u>	<u>-</u>	<u>(1,195,516)</u>
Net change in fund balances	72,717	215,327	(807,405)	(519,361)
Fund balances beginning of year	<u>3,866,632</u>	<u>1,271,378</u>	<u>1,346,526</u>	<u>6,484,536</u>
Fund balances end of year	<u>\$ 3,939,349</u>	<u>\$ 1,486,705</u>	<u>\$ 539,121</u>	<u>\$ 5,965,175</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT  
 COMBINING SCHEDULE OF NET POSITION  
 NONMAJOR ENTERPRISE FUNDS  
 June 30, 2013

	School Nutrition	MDE School Store	Student Built House	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 54,575	\$ 2,388	\$ 398	\$ 57,361
Accounts receivable	53	-	-	53
Due from other governments	5,320	-	-	5,320
Inventories	21,957	-	271,809	293,766
Total current assets	<u>81,905</u>	<u>2,388</u>	<u>272,207</u>	<u>356,500</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	510,741	-	-	510,741
Total assets	<u>592,646</u>	<u>2,388</u>	<u>272,207</u>	<u>867,241</u>
Liabilities				
Current liabilities:				
Accounts payable	412	-	426	838
Interfund payable	34,856	-	-	34,856
Bank loan payable	-	-	63,000	63,000
Deferred revenue	12,535	-	-	12,535
Total current liabilities	<u>47,803</u>	<u>-</u>	<u>63,426</u>	<u>111,229</u>
Net Position				
Net investment in capital assets	510,741	-	-	510,741
Unrestricted	34,102	2,388	208,781	245,271
Total net position	<u>\$ 544,843</u>	<u>\$ 2,388</u>	<u>\$ 208,781</u>	<u>\$ 756,012</u>

See accompanying independent auditor's report.

## MARION INDEPENDENT SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 NONMAJOR ENTERPRISE FUNDS  
 Year Ended June 30, 2013

	<u>School Nutrition</u>	<u>MDE School Store</u>	<u>Student Built House</u>	<u>Total</u>
Operating revenues:				
Local sources:				
Charges for services	\$ 418,032	\$ 8,860	\$ 257,977	\$ 684,869
Operating expenses:				
Support services:				
Administration	10,917	-	-	10,917
Operation and maintenance of plant	5,757	-	1,820	7,577
Non-instructional programs	827,603	9,796	13,731	851,130
Other expenditures:				
Facilities acquisition and construction	-	-	234,700	234,700
	<u>844,277</u>	<u>9,796</u>	<u>250,251</u>	<u>1,104,324</u>
Operating income (loss)	(426,245)	(936)	7,726	(419,455)
Non-operating revenues:				
Interest on investments	72	3	96	171
Capital contributions	457,130	-	-	457,130
Local grants	-	1,500	-	1,500
State sources	6,402	-	-	6,402
Federal sources	324,232	-	-	324,232
Total non-operating revenues	<u>787,836</u>	<u>1,503</u>	<u>96</u>	<u>789,435</u>
Change in net position	361,591	567	7,822	369,980
Net position beginning of year, as restated	<u>183,252</u>	<u>1,821</u>	<u>200,959</u>	<u>386,032</u>
Net position end of year	<u>\$ 544,843</u>	<u>\$ 2,388</u>	<u>\$ 208,781</u>	<u>\$ 756,012</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT  
COMBINING SCHEDULE OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
Year Ended June 30, 2013

	School Nutrition	MDE School Store	Student Built House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 417,538	\$ -	\$ -	\$ 417,538
Cash received from miscellaneous operating activities	306	8,860	258,160	267,326
Cash payments to employees for services	(404,189)	-	-	(404,189)
Cash payments to suppliers for goods or services	(388,756)	(9,796)	(289,003)	(687,555)
Net cash used by operating activities	<u>(375,101)</u>	<u>(936)</u>	<u>(30,843)</u>	<u>(406,880)</u>
Cash flows from non-capital financing activities:				
State grants received	6,402	-	-	6,402
Federal grants received	284,648	-	-	284,648
Local grants received	-	1,500	-	1,500
Operating loan proceeds	-	-	63,000	63,000
Operating loan payments	-	-	(33,000)	(33,000)
Net cash provided by non-capital financing activities	<u>291,050</u>	<u>1,500</u>	<u>30,000</u>	<u>322,550</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	<u>(6,916)</u>	-	-	<u>(6,916)</u>
Cash flows from investing activities:				
Interest on investments	<u>72</u>	<u>3</u>	<u>96</u>	<u>171</u>
Net increase (decrease) in cash and cash equivalents	(90,895)	567	(747)	(91,075)
Cash and cash equivalents beginning of year	<u>145,470</u>	<u>1,821</u>	<u>1,145</u>	<u>148,436</u>
Cash and cash equivalents end of year	<u>\$ 54,575</u>	<u>\$ 2,388</u>	<u>\$ 398</u>	<u>\$ 57,361</u>

MARION INDEPENDENT SCHOOL DISTRICT  
COMBINING SCHEDULE OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
Year Ended June 30, 2013

	<u>School Nutrition</u>	<u>MDE School Store</u>	<u>Student Built House</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash used by operating activities:				
Operating income (loss)	\$ (426,245)	\$ (936)	\$ 7,726	\$ (419,455)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:				
Depreciation	30,686	-	-	30,686
Commodities used	34,264	-	-	34,264
(Increase) decrease in accounts receivable	(53)	-	183	130
(Increase) in inventories	(1,791)	-	(37,384)	(39,175)
(Decrease) in accounts payable	(1,084)	-	(1,368)	(2,452)
(Decrease) in salaries and benefits payable	(605)	-	-	(605)
(Decrease) in interfund payable	(10,138)	-	-	(10,138)
(Decrease) in deferred revenue	(135)	-	-	(135)
Net cash used by operating activities	<u>\$ (375,101)</u>	<u>\$ (936)</u>	<u>\$ (30,843)</u>	<u>\$ (406,880)</u>

During the year ended June 30, 2013, the District received \$34,264 of federal commodities and \$457,130 of equipment contributed from other funds.

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2013

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District-Wide:				
Miscellaneous	\$ 19,775	\$ 607	\$ -	\$ 20,382
Interest	(455)	502	-	47
Total District-Wide	<u>19,320</u>	<u>1,109</u>	<u>-</u>	<u>20,429</u>
Emerson Elementary:				
Library Activities	39	-	-	39
Miscellaneous	5,542	244	-	5,786
Foundation Donations	72	-	-	72
Quill/Yearbook	125	-	-	125
Total Emerson Elementary	<u>5,778</u>	<u>244</u>	<u>-</u>	<u>6,022</u>
Starry Elementary:				
Miscellaneous	5,509	-	-	5,509
Resale	1,501	-	-	1,501
Quill/Yearbook	1,540	-	-	1,540
Wells Fargo	67	-	67	-
Total Starry Elementary	<u>8,617</u>	<u>-</u>	<u>67</u>	<u>8,550</u>
Francis Marion Elementary:				
Miscellaneous	6,969	435	80	7,324
Student Magazines	1,855	-	-	1,855
Total Francis Marion Elementary	<u>8,824</u>	<u>435</u>	<u>80</u>	<u>9,179</u>
Vernon Middle School:				
Show Choir	3,755	18,835	14,915	7,675
Instrumental	7,481	13,466	18,952	1,995
Honor Band	1,746	7,159	2,884	6,021
Cheerleaders	522	-	-	522
General Activities	2,049	-	-	2,049
Library Activities	1,318	-	-	1,318
Miscellaneous	352	-	-	352
Science Club	1,490	-	1,266	224
Washington DC Trip	30	-	-	30
Soda - Students	446	379	400	425
Student Senate	1,479	-	285	1,194
Quill/Yearbook	2,729	7,397	10,101	25
Student Magazines	22,449	13,576	11,799	24,226
Athletics	(4,252)	19,173	14,563	358
Athletic Officials	4,625	-	4,625	-
Total Vernon Middle School	<u>46,219</u>	<u>79,985</u>	<u>79,790</u>	<u>46,414</u>

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2013

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School:				
Drama	2,214	1,187	774	2,627
Speech	1,510	131	1,641	-
Vocal	(738)	19,448	15,954	2,756
Instrumental	4,331	12,068	12,733	3,666
Cross-Country	531	2,186	2,694	23
Bowling	1,020	374	1,387	7
Cheerleaders	7,852	32,405	35,998	4,259
Boys' Basketball	4,402	13,791	10,162	8,031
Football	10,079	35,585	48,186	(2,522)
Boys' Soccer	1,007	500	1,233	274
Baseball	(716)	22,760	16,442	5,602
Boys' Track	2,833	7,395	6,801	3,427
Boys' Tennis	1,005	-	222	783
Boys' Golf	599	1,988	2,527	60
Wrestling	11,715	21,881	18,051	15,545
Girls' Basketball	6,333	9,819	11,005	5,147
Volleyball	7,441	11,103	13,958	4,586
Girls' Soccer	7,416	3,028	4,269	6,175
Softball	2,393	9,253	9,922	1,724
Girls' Track	3,057	2,755	2,424	3,388
Girls' Tennis	502	-	272	230
Girls' Golf	403	2,325	2,631	97
Archery	416	465	573	308
Miscellaneous	6,397	1,168	708	6,857
Health	11	-	-	11
Science Club	387	-	-	387
Creative, Inc.	67	-	63	4
Student Newspaper	104	2,167	2,369	(98)
Musical	4,024	1,612	2,990	2,646
National Honor Society	180	663	424	419
Academic Competition	701	2,202	-	2,903
Thespians	3,599	100	2,462	1,237
Tom Begley Memorial	86	-	-	86
French	26	138	164	-
FBLA	33	-	-	33
VTR Technician	7	-	-	7
Soda - Students	70	-	-	70
Spanish	712	-	-	712
Student Senate	2,022	865	710	2,177

MARION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2013

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School (continued):				
Quill/Yearbook	\$ 452	\$ 5,950	\$ 6,402	\$ -
Athletic Facilities	3,015	-	-	3,015
Arts & Crafts	808	2,350	2,878	280
Athletics	42,992	71,529	64,179	50,342
Athletic Officials	6,352	-	6,352	-
Gate Receipts	(28,218)	28,218	-	-
Class of 2012	602	-	-	602
Class of 2013	5,413	-	45	5,368
Class of 2014	5,298	5,872	8,008	3,162
Class of 2015	240	6,047	3,128	3,159
Class of 2016	(50)	1,392	315	1,027
Activity Tickets	(2,560)	3,070	510	-
Wellness	1,059	159	-	1,218
Robotics	(104)	2,677	2,190	383
Total High School	<u>129,330</u>	<u>346,626</u>	<u>323,756</u>	<u>152,200</u>
Home School Activities	<u>17,645</u>	<u>12,591</u>	<u>12,705</u>	<u>17,531</u>
Grand Total	<u>\$ 235,733</u>	<u>\$ 440,990</u>	<u>\$ 416,398</u>	<u>\$ 260,325</u>

See accompanying independent auditor's report.

MARION INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 Year Ended June 30, 2013

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ <u>642</u>	\$ <u>606</u>	\$ <u>373</u>	\$ <u>875</u>
Liabilities				
Other payables	\$ <u>642</u>	\$ <u>606</u>	\$ <u>373</u>	\$ <u>875</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 Years Ended June 30,			
	2013	2012	2011	2010
Revenues:				
Local sources:				
Local tax	\$ 8,548,495	\$ 8,889,612	\$ 8,227,569	\$ 7,816,155
Tuition	4,219,602	4,199,459	3,839,854	3,912,745
Other	984,754	853,061	857,061	796,687
Intermediate sources	-	-	-	-
State sources	11,439,687	11,153,150	10,436,573	9,299,692
Federal sources	571,201	691,651	1,476,384	1,841,651
Total revenues	<u>\$ 25,763,739</u>	<u>\$ 25,786,933</u>	<u>\$ 24,837,441</u>	<u>\$ 23,666,930</u>
Expenditures:				
Instruction	\$ 16,400,761	\$ 15,704,204	\$ 15,755,164	\$ 15,191,450
Support services:				
Student	799,443	747,945	644,226	735,693
Instructional staff	851,844	694,697	661,537	762,839
Administration	2,104,456	2,010,571	1,996,261	2,117,859
Operation and maintenance of plant	1,788,979	1,595,961	1,572,162	1,607,511
Transportation	439,122	414,020	473,574	466,653
Other support services	-	-	-	-
Non-instructional programs	-	-	41,083	260
Other expenditures:				
Facilities acquisition	1,796,570	5,314,417	9,178,260	5,978,106
Long-term debt:				
Principal	1,295,000	1,045,000	875,000	594,343
Interest and fiscal charges	1,037,812	1,275,834	837,044	693,030
AEA flowthrough	715,709	700,723	750,677	744,881
Total expenditures	<u>\$ 27,229,696</u>	<u>\$ 29,503,372</u>	<u>\$ 32,784,988</u>	<u>\$ 28,892,625</u>

See accompanying independent auditor's report.

	2009	2008	2007	2006	2005	2004
\$	7,383,182	\$ 7,518,496	\$ 5,813,388	\$ 5,265,851	\$ 5,259,733	\$ 5,452,049
	3,723,146	4,717,347	4,245,422	3,673,297	3,158,067	3,078,582
	873,374	820,513	966,980	854,494	634,143	544,676
	-	-	-	-	-	3,623
	10,021,182	9,469,509	8,390,311	8,706,248	7,789,648	7,405,475
	975,253	466,853	435,553	398,266	310,228	385,529
\$	<u>22,976,137</u>	<u>22,992,718</u>	<u>19,851,654</u>	<u>18,898,156</u>	<u>17,151,819</u>	<u>16,869,934</u>
\$	14,660,244	\$ 13,487,534	\$ 12,340,648	\$ 11,563,732	\$ 10,943,342	\$ 10,742,516
	748,079	691,993	652,306	648,527	637,042	647,126
	878,369	986,728	844,966	720,864	607,026	716,121
	2,123,467	2,133,151	1,913,007	1,798,324	1,737,393	1,594,679
	1,750,650	1,752,569	1,681,926	1,728,086	1,670,449	1,573,423
	368,713	337,961	462,305	343,540	381,364	383,700
	-	-	-	-	-	20,332
	220	450	9,974	-	-	6,252
	1,473,679	793,613	105,682	471,857	377,251	457,804
	540,621	1,033,717	714,583	546,719	574,965	514,905
	363,790	217,193	241,024	265,558	281,517	296,247
	667,084	616,027	577,950	562,508	508,720	498,185
\$	<u>23,574,916</u>	<u>22,050,936</u>	<u>19,544,371</u>	<u>18,649,715</u>	<u>17,719,069</u>	<u>17,451,290</u>

MARION INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended June 30, 2013

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Child Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 13	\$ 33,837
National School Lunch Program	10.555	FY 13	290,395 *
			<u>324,232</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	4086-CG	234
Title I Grants to Local Educational Agencies	84.010	4086-G	210,204
			<u>210,438</u>
Improving Teacher Quality State Grants	84.367	FY 12	1,377
Improving Teacher Quality State Grants	84.367	FY 13	54,384
			<u>55,761</u>
Grants for State Assessments and Related Activities	84.369	FY 13	13,059
			<u>13,059</u>
Grant Wood Area Education Agency:			
Special Education - Grants to States	84.027	FY 13	97,094
			<u>97,094</u>
Career and Technical Education - Basic Grants to States	84.048	FY 13	12,406
			<u>12,406</u>
U. S. Department of Health and Human Services:			
Iowa Department of Education:			
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	FY 13	575
			<u>575</u>
Total			<u>\$ 713,565</u>

\* = Includes \$34,264 of non-cash awards.

Basis of Presentation –

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

See accompanying independent auditor's report.

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

To the Board of Education of  
Marion Independent School District:

We have audited 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marion Independent School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Marion Independent School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marion Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marion Independent School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses and 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 their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the 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 accompanying Schedule of Findings and Questioned Costs as items II-B-13 and II-C-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-D-13, II-E-13 and II-F-13 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted a material instance of noncompliance described as item II-A-13 in the accompanying Schedule of Findings and Questioned Costs and certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 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

Marion Independent School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Marion Independent School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Marion Independent School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa  
March 4, 2014

*Hunt + Associates, P.C.*

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,  
ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Education of  
Marion Independent School District:

Report on Compliance for Each Major Federal Program

We have audited Marion Independent School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. Marion Independent School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Marion Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Marion Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Marion Independent School District complied, in all material respects, with the types of compliance 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, 2013.

Report on Internal Control Over Compliance

The management of Marion Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Marion Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal

program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in 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 and correct 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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify deficiencies in internal control over compliance, described in Part III of the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

#### Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Marion Independent School District as of and for the year ended June 30, 2013, and have issued our report dated March 4, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 the audit of the 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Oskaloosa, Iowa  
March 4, 2014

*Hunt & Associates, P.C.*

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit disclosed an instance of non-compliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered programs:
    - CFDA Number 10.553 – School Breakfast Program
    - CFDA Number 10.555 – National School Lunch Program
  - CFDA Number 84.367 – Improving Teacher Quality State Grants
- (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, 2013

Part II: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

- II-A-13 Financial Condition – At June 30, 2013, the governmental activities had a deficit unrestricted net position of \$1,059,456 and the General Fund had a deficit unassigned fund balance of \$474,368. These represent decreases of \$941,357 and \$829,106, respectively, from the prior year.

Recommendation – The District should investigate alternatives to eliminate these deficits and return the governmental activities and the General Fund to a sound financial condition.

Response – We will continue to work on eliminating these deficits.

Conclusion – Response accepted.

Internal Control Deficiencies:

- II-B-13 Financial Reporting – During the audit, we identified material amounts of receivables not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all receivables are identified and included in the District's financial statements.

Response – We will double check these in the future to avoid missing any receivables.

Conclusion – Response accepted.

- II-C-13 Restatement of Beginning Balance – The District restated the July 1, 2012 beginning net position for the business-type activities and the Enterprise, Student Built House Fund by \$234,425 due to inventory not recorded in the prior year.

Recommendation – The District should develop controls over financial reporting to ensure that all items are properly reported in the District's financial statements.

Response – We will take the necessary steps to ensure the accuracy of all financial reporting in the future.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

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

Internal Control Deficiencies (continued):

- II-D-13 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 disbursements are recorded and checks are prepared and distributed by the same person. We also noted that one individual inputs contracts, processes the payroll and generates payroll checks and direct deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District could improve its controls by having an individual independent of payroll review the original contracts entries or review the monthly direct deposit listing.

Response – We will review our procedures and make changes as we deem necessary to improve internal control. We will be implementing a total electronic payroll system next year in which an individual separate from payroll will be entering contracts.

Conclusion – Response accepted.

- II-E-13 Purchase Orders – We noted during our audit that 3 out of 8 disbursements tested and 11 out of 31 payables 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, prenumbered 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.

- II-F-13 Disbursement Approval – Out of forty disbursements tested, the Board had not approved one disbursement.

Recommendation – This weakens the control that the Board has over disbursements. All disbursements should be approved by the Board.

Chapter 279.29 of the Code of Iowa provides that “the Board shall audit and allow all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.” In accordance with an Attorney General’s opinion dated July 12, 1979, “no claim can be paid until the Board has taken final action on the claim. Logically, no final action can be taken on the claim until all of the specifics of the claim have been examined and verified.”

Response – We will make sure that all disbursements are properly approved by the Board in the future.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiencies:

CFDA Number 10.553: School Breakfast Program and  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2013  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA Number 84.367: Improving Teacher Quality State Grants  
Federal Award Year: 2013  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-13 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 disbursements are recorded and checks are prepared and distributed by the same person. We also noted that one individual inputs contracts, processes the payroll and generates payroll checks and direct deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District could improve its controls by having an individual independent of payroll review the original contracts entries or review the monthly direct deposit listing.

Response – We will review our procedures and make changes as we deem necessary to improve internal control. We will be implementing a total electronic payroll system next year in which an individual separate from payroll will be entering contracts.

Conclusion – Response accepted.

CFDA Number 10.553: School Breakfast Program and  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2013  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

III-B-13 Disbursement Approval – Out of five School Nutrition Fund disbursements tested, the Board had not approved one disbursement.

Recommendation – This weakens the control that the Board has over disbursements. All disbursements should be approved by the Board.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

Part III: Findings and Questioned Costs for Federal Awards (continued)

III-B-13 Disbursement Approval (continued)

Chapter 279.29 of the Code of Iowa provided that “the Board shall audit and allow all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.” In accordance with an Attorney General’s opinion dated July 12, 1979, “no claim can be paid until the Board has taken final action on the claim. Logically, no final action can be taken on the claim until all of the specifics of the claim have been examined and verified.”

Response – We will make sure that all disbursements are properly approved by the Board in the future.

Conclusion – Response accepted.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-13 Certified Budget – Expenditures for the year ended June 30, 2013, did not exceed the amounts budgeted.
- IV-B-13 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-C-13 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-13 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
David Law, Board Vice President	Band announcer	\$75 (a)
Alan Tribble, Board Member	Athletic official	\$50 (a)
Elizabeth Tribble, Spouse of Board Member	Teacher associate	\$15,804 (b)
Vivian Quinn, Teacher Spouse is owner of Quinn Storage Garages	Storage garage rental	\$960 (c)

In accordance with Chapter 279.7A of the Code of Iowa, the transactions designated with an (a) do not appear to represent any conflict of interest since the cumulative amount for each Board Member does not exceed \$2,500 for the fiscal year.

In accordance with an Attorney General’s opinion dated November 9, 1976, the transaction designated with a (b) does not appear to represent any conflict of interest.

In accordance with Chapter 279.7A of the Code of Iowa, the transaction designated with a (c) does not appear to represent any conflict of interest.

- IV-E-13 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 ensure that the coverage is adequate for current operations.
- IV-F-13 Board Minutes – Except as noted in item II-F-13, 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 Chapter 279.35 of the Code of Iowa.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

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

IV-F-13 Board Minutes (continued)

Response – In the future, Board minutes will be published within two weeks as required by Chapter 279.35 of the Code of Iowa. They are usually submitted timely but the newspaper does not always publish them timely.

Conclusion – Response accepted.

IV-G-13 Certified Enrollment – We noted a variance in the basic enrollment data certified to the Iowa Department of Education for October 2011. The number of resident students reported was overstated by 3 students. This was due to the District counting 3 students that were not enrolled as of the official count date.

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

Response – We will contact the Iowa Department of Education and Department of Management to resolve this matter.

Conclusion – Response accepted.

IV-H-13 Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-13 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-13 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-13 Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

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

- IV-L-13 Statewide Sales and Services Tax – No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in 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 revenue. 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, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District’s CAR:

Beginning balance		\$ 3,866,632
Revenues:		
Sales tax revenues	\$ 1,551,558	
Interest	<u>17,053</u>	1,568,611
Expenditures/transfers out:		
School infrastructure construction	244,792	
Other	30,587	
Transfers to other funds:		
Debt Service Fund	<u>1,220,515</u>	<u>1,495,894</u>
Ending balance		<u><u>\$ 3,939,349</u></u>

For the year ended June 30, 2013, 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-13 Eligibility Approvals – In our testing of the National School Lunch and School Breakfast programs, we noted that 34 out of the 40 applications for free and reduced price school meals tested were not signed but were properly dated as of the date reviewed. This signature serves as documentation that the application has been properly reviewed and approved. Upon further inquiry, the authorizing official did review the applications but forgot to go back and sign them.

Recommendation – All free and reduced price applications should be signed and dated by the appropriate authorizing official to document the required review and approval.

Response – We will make sure that all applications are properly signed and dated at the time of their review and approval.

Conclusion – Response accepted.

- IV-N-13 Student Activity Fund – In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Special Revenue, 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.

MARION INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

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

IV-N-13 Student Activity Fund (continued)

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, Tom Begley Memorial, District Wide Miscellaneous and the various miscellaneous accounts at each building.

Recommendation – The District should review the propriety of revenues 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-O-13 Financial Condition – The District had two accounts in the Special Revenue, Student Activity Fund that had deficit balances at the end of the year totaling \$2,620.

Recommendation – The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits. The District should consider additional approval of bills from the Student Activity Fund and purchase orders should be authorized prior to purchase. A workout plan for the deficit accounts should also be considered for the Student Activity Fund.

Response – We are working on a budgeting plan for the deficit accounts.

Conclusion – Response accepted.

IV-P-13 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 1<sup>st</sup> as required by Chapters 556.1(10) and 556.11 of the Code of Iowa.

Response – We will research these outstanding checks and determine the appropriate course of action to be taken.

Conclusion – Response accepted.