

**MARION SCHOOL DISTRICT NO. 60-3
OF TURNER COUNTY**

AUDIT REPORT

FISCAL YEAR JULY 1, 2009, TO JUNE 30, 2010

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MARION SCHOOL DISTRICT NO. 60-3
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2010

BOARD MEMBERS:

Dr. Peter Preheim -- President
Danny Koehn -- Vice-President
Nicole Bartscher
Larry Langerock
Rick Nelson

SUPERINTENDENT:

Denise Fox

BUSINESS MANAGER:

Aaron Thompson

Schoenfish & Co., Inc.

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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

School Board
Marion School District No. 60-3
Turner County, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marion School District No. 60-3, South Dakota (School District), as of June 30, 2010, and for the year then ended which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2010-01 to be a material weakness.

Compliance and Other Matters

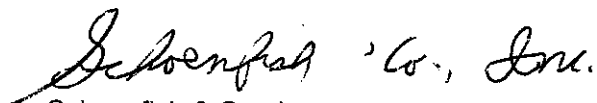
As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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*.

Marion School District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

We also noted certain additional matters that we have reported to the management of the School District in a separate communication dated November 24, 2010.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Marion School District No. 60-3, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
January 28, 2011

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDING:

Internal Control Over Revenues:

Finding Number 2009-01:

A significant deficiency and material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This comment has not been corrected and is restated as current audit finding number 2010-01.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2010-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the thirteenth consecutive audit in which similar deficiencies have occurred.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

A limited number of employees process all revenue transactions from beginning to end. They also receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements, and prepare financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Marion School District No. 60-3 officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Marion School District No. 60-3 Board President, Dr. Peter Preheim, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Marion School District No. 60-3, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CLOSING CONFERENCE

The audit was discussed with the officials during the course of the audit and with two Board Members, the Superintendent, and the Business Manager on November 24, 2010.

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INDEPENDENT AUDITOR'S REPORT

School Board
Marion School District No. 60-3
Turner County, South Dakota

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 School District No. 60-3, Turner County, South Dakota, as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Marion School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion School District No. 60-3 as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2011, on our consideration of Marion School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) and Budgetary Comparison Schedules on pages 7 through 14, and 39 through 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United

States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Schoenfish & Co., Inc.

Schoenfish & Co., Inc.
Certified Public Accountants
January 28, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Marion School District 60-3's annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year ended on June 30, 2010. Please read it in conjunction with the school's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the School's revenues generated from taxes and other revenues of the governmental and business-type programs were \$2,402,559 or \$216,342 more than the \$2,186,217 governmental and business-type program expenditures.
- The total cost of the school's programs grew by 3.2% in FY2010, due largely to an increase in instructional and support service costs.
- Increased State Aid and local tax revenues received from the State Aid Formula, along with an increase in gross receipts taxes, has given the District the ability to reduce the General Fund Opt-Out request to \$80,000 for the 2010 calendar year (of a \$150,000 maximum Opt-Out). The Capital Outlay Fund now has more flexibility for expenditures as well, as all Capital Outlay Certificates were paid off during the 2008/2009 fiscal school year.
- The Marion School District has seen relatively stable enrollment numbers for the past few years, decreasing slightly, which has kept more consistency in budget planning.
- GASB 34 requires school districts to maintain a record of depreciation expense and accumulated depreciation. A net increase in accumulated depreciation expense results in a reduction in net assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual 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 school:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the school's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school government, reporting the school's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the school operates like businesses. The only proprietary fund operated by the school is the Food Service operation.
 - Fiduciary fund statements provide information about the financial relationships, like scholarship plans for graduating students, in which the school acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the school's financial statements, including the portion of the school government covered and the types of information contained. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of Marion School's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire school government (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as elementary and high school education programs.	Activities the school operates similar to private businesses, the food service operation.	Instances in which the school is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows	*Statement of Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets 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; the school's 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 payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

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

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

- Increases or decreases in the school's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the school, you need to consider additional nonfinancial factors such as changes in the school's property tax base and changes in the state aid funding formula from the State of South Dakota.

The government-wide financial statements of the school are reported in two categories:

- Governmental Activities – This category includes the school's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extra-curricular activities (sports, school play, etc.), and capital equipment purchases. Property taxes, state grants, federal grants, and interest earnings finance most of these activities.
- Business-type Activities – The school charges a fee to students to help cover the costs of providing lunch services to all students. The Food Service Fund is the only business-type activity of the school.

Fund Financial Statements

The fund financial statements provide more detailed information about the school's most significant funds, not the school as a whole. Funds are accounting devices that the school uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The school board establishes other funds to control and manage money for particular purposes (such as the Scholarship Trust).

The School has three kinds of funds:

- Governmental Funds – Most of the school's basic services are included in the governmental funds, which 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 the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine if there are enough financial resources in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds – Services for which the school charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund (one type of proprietary fund) is the only proprietary fund maintained by the school.
- Fiduciary Funds – The school is the trustee, or fiduciary, for various external and internal parties. The school is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the school's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the school's government-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE MARION SCHOOL AS A WHOLE

Net Assets

The Marion School's combined net assets increased as follows:

Table A-1
MARION SCHOOL DISTRICT
Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and Other Assets	2,012,021	2,143,196	7,932	11,264	2,019,953	2,154,460
Capital Assets	2,531,281	2,584,030	5,584	6,399	2,536,865	2,590,429
Total Assets	4,543,302	4,727,226	13,516	17,663	4,556,818	4,744,889
Current and Other Liabilities	766,701	738,394	1,092	1,128	767,793	739,522
Long-Term Debt Outstanding	0	0	0	0	0	0
Total Liabilities	766,701	738,394	1,092	1,128	767,793	739,522
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	2,531,281	2,584,030	5,584	6,399	2,536,865	2,590,429
Restricted	532,757	595,652	6,840	10,136	539,597	605,788
Unrestricted	712,563	809,150	0	0	712,563	809,150
Total Net Assets	3,776,601	3,988,832	12,424	16,535	3,789,025	4,005,367
Beginning Net Assets	3,533,168	3,776,601	14,001	12,424	3,547,168	3,789,025
Increase (Decrease) in Net Assets	243,433	212,231	-1,577	4,111	241,857	216,342
Percentage of Increase (Decrease) in Net Assets	6.89%	5.62%	-11.26%	33.09%	6.82%	5.71%

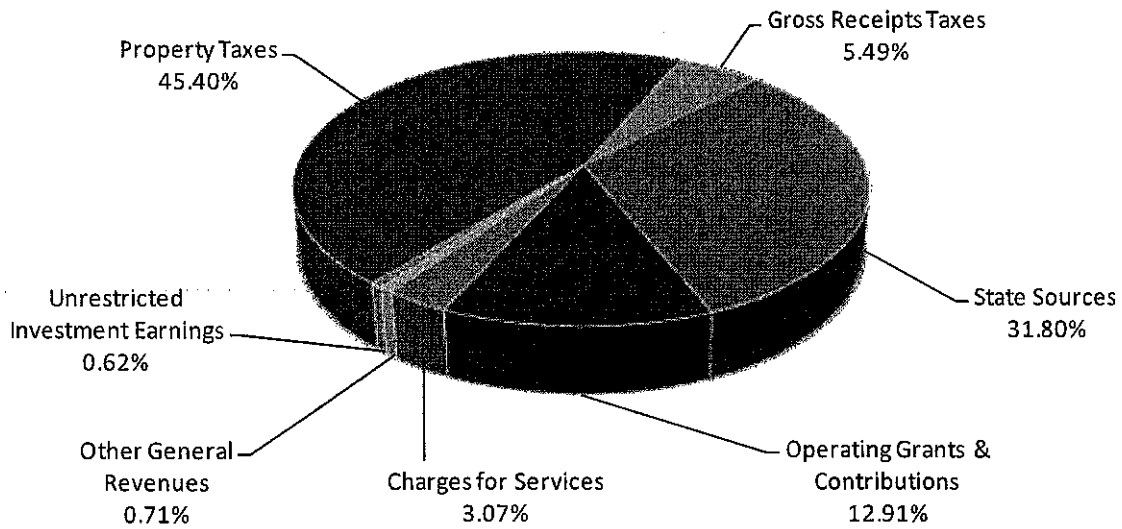
The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. Current assets include cash and other assets to be received within one year, while capital assets include land, buildings, equipment, etc. Current liabilities are those with average maturities within one year, while long-term debts include loans and other liabilities due in more than one year. The difference between the school's assets and liabilities is its net assets.

Changes in Net Assets

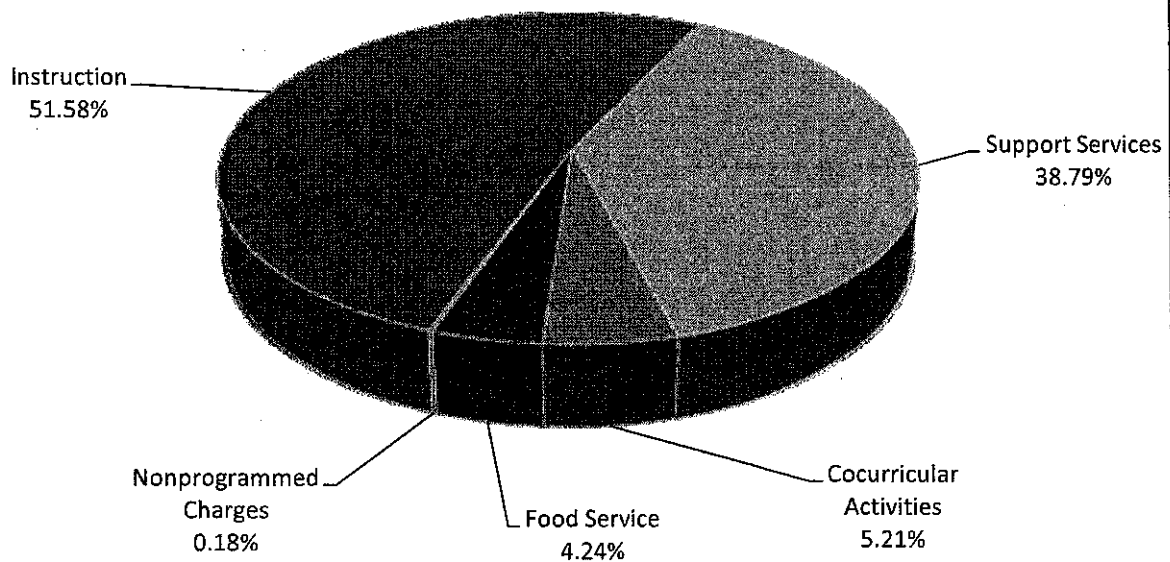
The Marion School's total revenues (excluding special items) totaled \$2,402,559 increasing 1.8% from the previous year (see Table A-2). Approximately 51% of the school's revenue comes from local taxes (45.4% from property taxes and 5.5% from gross receipts taxes); State Aid brought in 32% of the revenues, with another 13% coming from operating grants & reimbursements, and the remaining 4% of income comes from all other sources. (See Figure A-2)

The school's cost of all programs and services totaled \$2,186,217, which was an increase of 3.2% from the 2009 fiscal school year. The school's expenses cover a range of services encompassing instruction, support services, co-curricular activities, food services, and other non-programmed charges. (See Figure A-3)

**Figure A-2 Marion School District 60-3
Sources of Revenue for Fiscal Year 2010**



**Figure A-3 Marion School District 60-3
Breakdown of Expenditures for Fiscal Year 2010**



GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Table A-2 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the school.

Table A-2
MARION SCHOOL DISTRICT 60-3
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Revenues						
Program Revenues						
Charges for Services	\$ 26,707	19,711	65,203	53,954	91,910	73,665
Operating Grants and Contributions	257,580	277,423	31,172	32,778	288,752	310,201
General Revenues						
Taxes	1,131,688	1,222,728			1,131,688	1,222,728
State Sources	813,397	764,078			813,397	764,078
Unrestricted Investments	16,375	14,826	29	6	16,404	14,833
Other General Revenues	18,231	17,054			18,231	17,054
Total Revenues	2,263,978	2,315,820	96,404	86,739	2,360,382	2,402,559
Expenses						
Instruction	1,107,087	1,127,567			1,107,087	1,127,567
Support Services	783,816	848,035			783,816	848,035
Nonprogrammed Charges	1,593	4,017			1,593	4,017
Interest on LT Debt	2,812	-			2,812	-
Cocurricular Activities	125,266	113,976			125,266	113,976
Food Service			97,951	92,622	97,951	92,622
Total Expenses	2,020,574	2,093,595	97,951	92,622	2,118,525	2,186,217
Change in Net Assets before Transfers and Special Items	243,404	222,225	(1,547)	(5,883)	241,857	216,342
Transfers and Special Items	29	(9,994)	-29	9,994	0	0
Change in Net Assets	243,433	212,232	(1,576)	4,111	241,858	216,342
Net Assets - Ending	3,776,601	3,988,832	12,424	16,535	3,789,025	4,005,367

GOVERNMENTAL ACTIVITIES

As shown in Table A-2, revenues of the governmental activities increased by 2.3% to \$2,315,820, while expenses increased by 3.6% to \$2,093,595. Factors contributing to these changes included:

- The primary reason for the increase in revenue resulted from an increase in local property tax and gross receipts taxes. Other revenues had little effect on the total received.
- Expenses also increased, as larger instruction and support costs accounted for most of the increases.

BUSINESS-TYPE ACTIVITIES

Revenues of the School's business-type activities decreased by approximately 10%, while expenses decreased by 5.4%. Factors contributing to these numbers included:

- Fewer students, combined with no increases in lunch prices, resulted in lower revenues.
- Even with fewer students to fix meals for, inflation of food costs and increased food service salaries resulted in higher expenses in food service than last year.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The General Fund had an increase of about \$97,000 in fund balance, which was due primarily to a decline in Instructional costs and conservative spending on the budget. The Capital Outlay Fund also saw an increase in fund balance of approximately \$52,000, which was due to an increase in taxes received and no long-term debt to pay off. The Special Education Fund balance increased by nearly \$14,000, as Federal grants helped to pay for expenses that would have otherwise been paid for with local or State funds. The Pension Fund balance went down, as there were more resignations than normal last year. Food Service Net Assets increased approximately \$4,000 largely due to a \$10,000 transfer from the General Fund to supplement the food program.

BUDGETARY HIGHLIGHTS

The Marion School Budget for fiscal year 2010 was approved with higher budgets for nearly all funds, as State Aid and local tax revenues were forecasted to increase for the School. The General Fund Opt-Out request was renewed for five more years at a \$150,000 per year maximum for the School to levy. The School Board voted to levy \$80,000 in opt-out monies for the 2010 calendar year, which was down from \$100,000 for 2009. The Marion School was able to reduce these Opt-Out taxes paid by District residents, due primarily to a large increase in gross receipts taxes. The School Board transferred \$10,000 from the General Fund to the Food Service Fund to give Food Service a positive cash balance. Budget line items were closely watched in order to keep the expenditures within the budgeted amounts.

	<u>Budget</u>
Original	\$ 1,651,250
Final	\$ 1,651,250

CAPITAL ASSET ADMINISTRATION

By June of 2010, Marion School had \$2,590,430 invested in capital assets (see Table A-3). This amount represents a net increase of \$53,565 or 2.12%. This year's capital asset purchases included a school bus, a minivan, a fire alarm panel, a new server, Promethean Boards (interactive digital projectors), and classroom tables, desks & chairs.

Table A-3
MARION SCHOOL DISTRICT 60-3 - Capital Assets
(net of depreciation)

	Governmental		Business-Type		Total	Total
	Activities		Activities		Dollar	Percentage
	2009	2010	2009	2010	Change	Change
Land	158,280	158,280			0	0.00%
Buildings	1,932,444	1,903,986			(28,458)	(1.48)%
Maintenance – Buildings	53,731	124,019			70,288	130.82%
Machinery & Equipment	386,826	397,746	5,584	6,399	11,735	2.99%
Total Capital Assets, Net	\$2,531,281	\$2,584,031	\$5,584	\$6,399	\$53,565	2.12%

LONG-TERM DEBT

The Marion School District had paid off all Capital Outlay Certificates and other long-term debt obligations in the 2009 fiscal school year. Freeing up this long-term debt has given District the flexibility to use Capital Outlay funds for other projects, such as building updates, or new vehicle and equipment purchases.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Marion School District did experience a decrease in total property valuation from the prior year. This decrease in property valuation was due primarily to a formula change in Ag land valuations for South Dakota. The total amount which can be taxed locally is also limited by the State, as the maximum levy drops each year due to tax levy cuts made by the State of South Dakota.

One of the primary sources of revenue to the Marion School is based on a per student allocation received from the State of South Dakota. The General Fund State Aid formula increased by 3% for the 2010 fiscal year, ensuring property taxes plus State Aid would equal \$4,804.60 per pupil, according to the fall enrollment count. This formula has been frozen for fiscal year 2011 however, meaning local taxes and State Aid will also equal \$4,804.60 per student for next year.

The Marion School District also experienced a decrease in enrollment for the 2009/2010 school year. This decrease in enrollment and freeze in the State Aid formula will result in the school receiving fewer revenues in the General Fund from State Aid and local taxes for the 2011 fiscal school year. An expected increase in Gross Receipt taxes will help offset some of this loss in State Aid / local tax revenue. The School will keep this and other factors in mind when examining the budget for the upcoming school year. The Marion School's fall enrollment count for the last five years has been as follows:

	<u>2009</u>	<u>2010</u>
Marion School District's Fall Enrollment Count	218	211

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Marion School District's finances, and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Marion School Business Office, PO Box 207, Marion, SD 57043-0207, or contact Aaron Thompson at (605) 648-3615 ext. 14, or email Aaron.Thompson@k12.sd.us.

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF NET ASSETS
As of June 30, 2010

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	1,607,337.33	5,766.51	1,613,103.84
Taxes Receivable	535,858.36		535,858.36
Other Assets		3,532.80	3,532.80
Inventories		1,965.13	1,965.13
Capital Assets:			
Land	158,279.61		158,279.61
Other Capital Assets, Net of Depreciation	2,425,750.52	6,398.71	2,432,149.23
TOTAL ASSETS	4,727,225.82	17,663.15	4,744,888.97
LIABILITIES :			
Accounts Payable	37,344.14		37,344.14
Other Current Liabilities	165,191.24		165,191.24
Deferred Revenue	535,858.36	1,127.88	536,986.24
TOTAL LIABILITIES	738,393.74	1,127.88	739,521.62
NET ASSETS:			
Invested in Capital Assets	2,584,030.13	6,398.71	2,590,428.84
Restricted for:			
Capital Outlay	475,410.81		475,410.81
Special Education	81,083.76		81,083.76
Pension	39,157.64		39,157.64
Food Service		10,136.56	10,136.56
Unrestricted	809,149.74		809,149.74
TOTAL NET ASSETS	3,988,832.08	16,535.27	4,005,367.35
TOTAL LIABILITIES AND NET ASSETS	4,727,225.82	17,663.15	4,744,888.97

The notes to the financial statements are an integral part of this statement.

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Instruction	1,127,567.51	3,200.00	255,336.88		(869,030.63)		(869,030.63)
Support Services	848,034.71		22,086.48		(825,948.23)		(825,948.23)
Nonprogrammed Charges	4,017.19				(4,017.19)		(4,017.19)
Cocurricular Activities	113,975.53	16,510.37			(97,465.16)		(97,465.16)
Total Governmental Activities	2,093,594.94	19,710.37	277,423.36	0.00	(1,796,461.21)		(1,796,461.21)
Business-type Activities:							
Food Service	92,621.82	53,954.33	32,778.36			(5,889.13)	(5,889.13)
Total Primary Government	2,186,216.76	73,664.70	310,201.72	0.00	(1,796,461.21)	(5,889.13)	(1,802,350.34)
General Revenues:							
Taxes:							
Property Taxes					1,090,851.44		1,090,851.44
Gross Receipts Taxes					131,876.11		131,876.11
Revenue from State Sources:							
State Aid					764,078.28		764,078.28
Unrestricted Investment Earnings					14,826.23	6.46	14,832.69
Other General Revenues					17,053.83		17,053.83
Transfers					(9,993.54)	9,993.54	0.00
Total General Revenues & Transfers					2,008,692.35	10,000.00	2,018,692.35
Change in Net Assets					212,231.14	4,110.87	216,342.01
Net Assets - Beginning					3,776,600.94	12,424.40	3,789,025.34
NET ASSETS - ENDING					3,988,832.08	16,535.27	4,005,367.35

The notes to the financial statements are an integral part of this financial statement.

**MARION SCHOOL DISTRICT NO. 60-3
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2010**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	978,136.64	487,284.48	97,758.57	39,157.64	1,602,337.33
Advanced Payments	5,000.00				5,000.00
Taxes Receivable--Current	273,159.87	165,888.90	86,018.93	4,913.55	529,981.25
Taxes Receivable--Delinquent	3,775.36	1,356.20	703.23	42.32	5,877.11
TOTAL ASSETS	1,260,071.87	654,529.58	184,480.73	44,113.51	2,143,195.69
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	19,647.72		5,822.75		37,344.14
Contracts Payable	123,220.35	11,873.67	8,338.05		131,558.40
Payroll Deductions, Withholdings and Employer Matching Payable	31,118.83		2,514.01		33,632.84
Deferred Revenue	276,935.23	167,245.10	86,722.16	4,955.87	535,858.36
Total Liabilities	450,922.13	179,118.77	103,396.97	4,955.87	738,393.74
Fund Balances:					
Unreserved Fund Balances:					
Undesignated	809,149.74	475,410.81	81,083.76	39,157.64	1,404,801.95
Total Fund Balances	809,149.74	475,410.81	81,083.76	39,157.64	1,404,801.95
TOTAL LIABILITIES AND FUND BALANCES	1,260,071.87	654,529.58	184,480.73	44,113.51	2,143,195.69

The notes to the financial statements are an integral part of this statement.

MARION SCHOOL DISTRICT NO. 60-3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

Total Fund Balances - Governmental Funds	<u>1,404,801.95</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	<u>2,584,030.13</u>
Net Assets - Governmental Activities	<u><u>3,988,832.08</u></u>

The notes to the financial statements are an integral part of this statement.

**MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Revenues:					
Revenue from Local Sources:					
Taxes:					
Ad Valorem Taxes	560,733.41	336,597.65	174,530.67	9,975.92	1,081,837.65
Prior Years' Ad Valorem Taxes	4,824.54	1,450.17	751.94	45.85	7,072.50
Gross Receipts Taxes	131,876.11				131,876.11
Penalties and Interest on Taxes	1,079.21	556.40	288.25	17.43	1,941.29
Tuition and Fees:					
Summer School Fees	3,200.00				3,200.00
Earnings on Investments and Deposits	9,327.68	4,324.61	684.16	489.78	14,826.23
Co-curricular Activities:					
Admissions	13,065.37				13,065.37
Other Pupil Activity Income	3,445.00				3,445.00
Other Revenue from Local Sources:					
Rentals	1,990.00				1,990.00
Contributions and Donations	25.00				25.00
Refund of Prior Years' Expenditures	791.92		101.60		893.52
Charges for Services	9,837.00		12,249.48		22,086.48
Other	450.16				450.16
Revenue from Intermediate Sources:					
County Sources:					
County Apportionment	13,695.15				13,695.15
Revenue from State Sources:					
Grants-in-Aid:					
Unrestricted Grants-in-Aid	764,078.28				764,078.28
Restricted Grants-in-Aid			45,953.00		45,953.00
Revenue from Federal Sources:					
Grants-in-Aid:					
Restricted Grants-in-Aid Received from Federal Government Through the State	125,410.88		83,973.00		209,383.88
Total Revenue	1,643,829.71	342,928.83	318,532.10	10,528.98	2,315,819.62

The notes to the financial statements are an integral part of this statement.

**MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Expenditures:					
Instruction:					
Regular Programs:					
Elementary	297,176.38	18,708.83		3,641.04	319,526.25
Middle/Junior High	1,487.87	298.75			1,786.62
High School	458,441.69	36,300.00		7,235.25	501,976.94
Special Programs:					
Programs for Special Education			191,878.21		191,878.21
Educationally Deprived	53,957.62				53,957.62
Other Special Programs	10,442.46				10,442.46
Support Services:					
Pupils:					
Attendance and Social Work	1,460.90				1,460.90
Guidance	14,316.73		295.36		14,612.09
Health	864.58				864.58
Psychological			14,671.97		14,671.97
Speech Pathology			34,819.24		34,819.24
Instructional Staff:					
Improvement of Instruction	11,692.92		10,696.00		22,388.92
Educational Media	82,582.61	8,847.30	349.28		91,779.19
General Administration:					
Board of Education	23,010.92		2,149.04		25,159.96
Executive Administration	43,595.86	154.32		1,890.83	45,641.01
School Administration:					
Office of the Principal	85,232.37	444.24			85,676.61
Other	609.00				609.00
Business:					
Fiscal Services	112,668.03	5,449.64	7,621.64		125,739.31
Facilities Acquisition and Construction		190.52			190.52
Operation and Maintenance of Plant	197,199.68	12,228.44			209,428.12
Pupil Transportation	51,940.55	525.00			52,465.55
Central:					
Staff	86.50				86.50
Special Education:					
Administrative Costs			10,200.48		10,200.48
Transportation Costs			30,034.97		30,034.97
Other Special Education Costs			1,138.20		1,138.20

The notes to the financial statements are an integral part of this statement.

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Expenditures (Cont.):					
Non-programmed Charges:					
Payments to State - Unemployment	2,878.99				2,878.99
Cocurricular Activities:					
Male Activities	21,831.16				21,831.16
Female Activities	19,234.09				19,234.09
Transportation	9,221.93				9,221.93
Combined Activities	42,814.70	4,466.80			47,281.50
Capital Outlay		200,636.09			200,636.09
Total Expenditures	1,542,747.54	288,249.93	303,854.39	12,767.12	2,147,618.98
Excess of Revenue Over (Under) Expenditures	101,082.17	54,678.90	14,677.71	(2,238.14)	168,200.64
Other Financing Sources:					
Transfers In	5,505.01				5,505.01
Transfers Out	(10,000.00)	(4,324.61)	(684.16)	(489.78)	(15,498.55)
Sale of Surplus Property		1,275.00			1,275.00
Total Other Financing Sources	(4,494.99)	(3,049.61)	(684.16)	(489.78)	(8,718.54)
Net Change in Fund Balances	96,587.18	51,629.29	13,993.55	(2,727.92)	159,482.10
Fund Balance - Beginning	712,562.56	423,781.52	67,090.21	41,885.56	1,245,319.85
FUND BALANCE - ENDING	809,149.74	475,410.81	81,083.76	39,157.64	1,404,801.95

The notes to the financial statements are an integral part of this statement.

MARION SCHOOL DISTRICT NO. 60-3
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	<u>159,482.10</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	<u>130,784.67</u>
In the statement of activities, gains and losses on the disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.	<u>(78,035.63)</u>
Change in Net Assets of Governmental Activities	<u><u>212,231.14</u></u>

The notes to the financial statements are an integral part of this statement.

**MARION SCHOOL DISTRICT NO. 60-3
BALANCE SHEET
PROPRIETARY FUNDS
As of June 30, 2010**

	<u>Enterprise Funds</u> <u>Food Service Fund</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	5,766.51
Accounts Receivable, Net	3,532.80
Inventory of Supplies	426.27
Inventory of Stores Purchased for Resale	1,110.27
Inventory of Donated Food	428.59
Total Current Assets	11,264.44
Capital Assets:	
Machinery and Equipment--Local Funds	47,588.28
Less: Accumulated Depreciation	(41,189.57)
Total Noncurrent Assets	6,398.71
TOTAL ASSETS	17,663.15
LIABILITIES:	
Current Liabilities:	
Deferred Revenue	1,127.88
Total Current Liabilities	1,127.88
NET ASSETS:	
Invested in Capital Assets	6,398.71
Unrestricted Net Assets	10,136.56
Total Net Assets	16,535.27
TOTAL LIABILITIES AND NET ASSETS	17,663.15

The notes to the financial statements are an integral part of this statement.

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Enterprise Funds
	Food Service
	Fund
Operating Revenue:	
Food Sales:	
Student	45,775.87
Adult	4,255.86
Ala Carte	3,846.10
Other Charges for Goods and Services	76.50
Total Operating Revenue	53,954.33
Operating Expenses:	
Salaries	26,412.53
Employee Benefits	3,840.95
Purchased Services	2,665.84
Supplies	2,195.01
Cost of Sales - Purchased	50,316.84
Cost of Sales - Donated	6,377.77
Depreciation	812.88
Total Operating Expenses	92,621.82
Operating Income (Loss)	(38,667.49)
Nonoperating Revenue:	
Investment Earnings	6.46
State Grants	572.25
Federal Grants	25,415.85
Donated Food	6,790.26
Total Nonoperating Revenue	32,784.82
Income (Loss) Before Transfers	(5,882.67)
Transfers In	10,000.00
Transfers Out	(6.46)
Change in Net Assets	4,110.87
Net Assets - Beginning	12,424.40
NET ASSETS - ENDING	16,535.27

The notes to the financial statements are an integral part of this statement.

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Enterprise Fund
	Food Service
	Fund
Cash Flows from Operating Activities:	
Cash Receipts from Customers	55,781.06
Cash Payments to Employees for Services	(30,253.48)
Cash Payments to Suppliers for Goods or Services	(55,268.62)
Net Cash Provided (Used) by Operating Activities	(29,741.04)
Cash Flows from Noncapital Financing Activities:	
Transfers from General Fund	10,000.00
Transfers to General Fund	(6.46)
Operating Grants	25,988.10
Net Cash Provided (Used) from Noncapital Financing Activities:	35,981.64
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	(1,627.59)
Net Cash Provided (Used) from Capital and Related Financing Activities	(1,627.59)
Cash Flows from Investing Activities:	
Cash Received for Interest	6.46
Net Cash Provided (Used) from Investing Activities:	6.46
Net Increase (Decrease) in Cash and Cash Equivalents	4,619.47
Cash and Cash Equivalents at Beginning of Year	1,147.04
CASH AND CASH EQUIVALENTS AT END OF YEAR	5,766.51
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	(38,667.49)
Adjustments to Reconcile Operating Income to	
Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	812.88
Value of Donated Commodities Used	6,377.77
Change in Assets and Liabilities:	
Receivables	1,791.13
Inventories	(90.93)
Deferred Revenue	35.60
Net Cash Provided (Used) by Operating Activities	(29,741.04)
Noncash Investing, Capital and Financing Activities:	
Value of Commodities Received	6,790.26

The notes to the financial statements are an integral part of this statement.

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
As of June 30, 2010

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	<u>15,814.71</u>
TOTAL ASSETS	<u><u>15,814.71</u></u>
LIABILITIES:	
Amounts Held for Others	<u>15,814.71</u>
Total Liabilities	<u>15,814.71</u>
NET ASSETS	<u>0.00</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>15,814.71</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Marion School District No. 60-3 (School District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds, may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types – special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund – A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the district's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.

Proprietary Funds:

Enterprise Fund Types – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues, earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund – A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Agency Fund Types – agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds for the following purposes:

Custodial funds for student classes and activities.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay all the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Marion School District No. 60-3, the length of that cycle is 60 days. No revenues were accrued at June 30, 2010.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during the construction of general capital assets are not capitalized along with other capital asset costs.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 1.00	----N/A----	----N/A----
Improvements	\$ 2,000.00	Straight-line	25-100 yrs.
Buildings	\$ 2,000.00	Straight-line	100-150 yrs.
Machinery & Equipment	\$ 2,000.00	Straight-line	5-25 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

e. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applications, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

f. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

g. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

h. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components.

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

i. Application of Net Assets:

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The School District is prohibited by statute from spending in excess of appropriated amounts at the fund level. The following represents the significant overdrafts of the expenditures compared to appropriations:

Fund	Year Ended
Pension Fund	6/30/2010
	\$2,667.12

The Governing Board plans to take the following actions to address these violations: use supplemental budgets when legal authority allows.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as follows:

Deposits – The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

As of June 30, 2010, the School District had the following investments. Except for the investment in SDFIT, all investments are in an internal deposit and investment pool.

<u>Investment</u>	<u>Credit Rating</u>	<u>Fair Value</u>
External Investment Pools:		
SDFIT	Unrated	<u>\$ 201,784.14</u>
TOTAL INVESTMENTS		<u><u>\$ 201,784.14</u></u>

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

4. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

5. INVENTORY

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories in the General Fund, special revenue funds, and proprietary funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed in the General Fund, special revenue funds, and the proprietary funds. At June 30, 2010, the supplies inventory on hand was not material in the General Fund and special revenue funds.

6. PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property as of the following January 1 and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010, is as follows:

Primary Government

	Balance 07/01/09	Increases	Decreases	Balance 06/30/10
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	158,279.61	0.00	0.00	158,279.61
Capital Assets, being depreciated:				
Buildings	2,400,968.31	125,271.26	(60,148.93)	2,466,090.64
Machinery & Equipment	579,571.61	87,380.83	(29,990.00)	636,962.44
Total, being depreciated	<u>2,980,539.92</u>	<u>212,652.09</u>	<u>(90,138.93)</u>	<u>3,103,053.08</u>
Less Accumulated Depreciation for:				
Buildings	(414,793.30)	(24,657.58)	1,365.10	(438,085.78)
Machinery & Equipment	(192,745.14)	(57,209.84)	10,738.20	(239,216.78)
Total Accumulated Depreciation	<u>(607,538.44)</u>	<u>(81,867.42)</u>	<u>12,103.30</u>	<u>(677,302.56)</u>
Total Capital Assets, being depreciated, net	<u>2,373,001.48</u>	<u>130,784.67</u>	<u>(78,035.63)</u>	<u>2,425,750.52</u>
Governmental Activity Capital Assets, Net	<u><u>2,531,281.09</u></u>	<u><u>130,784.67</u></u>	<u><u>(78,035.63)</u></u>	<u><u>2,584,030.13</u></u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	47,999.41
Support Services	17,461.16
Co-curricular Activities	<u>16,406.85</u>
Total Depreciation Expense - Governmental Activities	<u><u>81,867.42</u></u>

	Balance 07/01/09	Increases	Decreases	Balance 06/30/10
Business-Type Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	46,178.48	1,627.59	(217.79)	47,588.28
Less Accumulated Depreciation for:				
Machinery & Equipment	(40,594.48)	(812.88)	217.79	(41,189.57)
Total Capital Assets, being depreciated, net	<u>5,584.00</u>	<u>814.71</u>	<u>0.00</u>	<u>6,398.71</u>
Business-Type Activity Capital Assets, Net	<u><u>5,584.00</u></u>	<u><u>814.71</u></u>	<u><u>0.00</u></u>	<u><u>6,398.71</u></u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Food Services	812.88
Total Depreciation Expense - Business-Type Activities	<u>812.88</u>

8. OPERATING LEASES

Operating lease for Copiers is paid by the Capital Outlay Fund.

The following are the minimum payments required for existing operating leases:

<u>Year</u>	<u>Capital Outlay Fund</u>
2011	\$ 21,550.68
2012	\$ 10,591.78

9. RESTRICTED NET ASSETS

Restricted net assets for the fiscal year ended June 30, 2010 were as follows:

<u>FUND:</u>	<u>Restricted By:</u>	<u>Amount</u>
Special Education	Law	\$ 81,083.76
Capital Outlay	Law	475,410.81
Pension	Law	39,157.64
Food Service	Federal Program Regulations	10,136.56
Total Restricted Net Assets		<u>\$ 605,788.77</u>

10. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2010 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>		<u>Totals</u>
	<u>General Fund</u>	<u>Food Service Fund</u>	
Major Funds:			
General Fund	\$ -	\$ 10,000.00	\$ 10,000.00
Capital Outlay	4,324.61		4,324.61
Special Education	684.16		684.16
Pension	489.78		489.78
Food Service	6.46		6.46
Totals	<u>\$ 5,505.01</u>	<u>\$ 10,000.00</u>	<u>\$ 15,505.01</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The School District transfers from the General Fund to the Food Service Fund to conduct the indispensable functions of the School District.

Transfers of investment and deposit earnings to the General Fund are reported. SDCL 4-5-9 and 13-16-18 give the school board the authority to designate whether all such earnings should be retained by any individual funds or credited to the General Fund. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

11. RETIREMENT PLAN

All employees, working more than 20 hours per week, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2010, 2009 and 2008, were \$61,826.83, \$60,210.48, and \$57,006.46, respectively, equal to the required contributions each year.

12. JOINT VENTURES

The School District participates in the Cornbelt Education Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts.

The members of the co-op and their relative percentage participation in the co-op are as follows:

Bridgewater School District No. 43-6	3.69%
Canistota School District No. 43-1	5.59%
Emery School District No. 30-2	4.49%
Freeman School District No. 33-1	11.46%
Hanson School District No. 30-1	9.70%
Hurley School District No. 60-2	3.86%
Marion School District No. 60-3	5.47%
McCook School District No. 43-7	11.99%
Montrose School District No. 43-2	5.29%
Parker School District No. 60-4	8.85%
Tea Area School District No. 41-5	29.61%

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The co-op's governing board is composed of two representatives from each member school district, who are one school board member who serves on the Board of Directors and the Superintendent who serves on the advisory board. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Cornbelt Education Cooperative.

At June 30, 2010, this joint venture had total fund equity of \$352,920.30 and no long-term debt.

13. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2010, the School District managed its risks as follows:

Employee Health Insurance:

The School District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The School District purchases liability insurance for risks related to torts; theft of or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The School District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2010, two claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$2,878.99. At June 30, 2010, two claims had been filed and were outstanding. It is estimated, based upon historical trends, that these claims will result in the future payment of unemployment benefits in the amount of approximately \$5,646.89. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

14. SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2010, the School District was not involved in any significant litigation.

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	572,000.00	572,000.00	560,733.41	(11,266.59)
Prior Years' Ad Valorem Taxes	2,000.00	2,000.00	4,824.54	2,824.54
Gross Receipts Taxes	122,000.00	122,000.00	131,876.11	9,876.11
Penalties and Interest on Taxes	1,500.00	1,500.00	1,079.21	(420.79)
Tuition and Fees:				
Summer School Fees	2,000.00	2,000.00	3,200.00	1,200.00
Earnings on Investments and Deposits	17,000.00	17,000.00	9,327.68	(7,672.32)
Cocurricular Activities:				
Admissions	16,000.00	16,000.00	13,065.37	(2,934.63)
Other Pupil Activity Income	4,000.00	4,000.00	3,445.00	(555.00)
Other Revenue from Local Sources:				
Rentals	500.00	500.00	1,990.00	1,490.00
Contributions and Donations	100.00	100.00	25.00	(75.00)
Refund of Prior Year's Expenditures	1,000.00	1,000.00	791.92	(208.08)
Charges for Services	10,000.00	10,000.00	9,837.00	(163.00)
Other	1,000.00	1,000.00	450.16	(549.84)
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	12,000.00	12,000.00	13,695.15	1,695.15
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	817,000.00	817,000.00	764,078.28	(52,921.72)
Restricted Grants-in-Aid	1,000.00	1,000.00	0.00	(1,000.00)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	77,150.00	77,150.00	125,410.88	48,260.88
Total Revenue	1,656,250.00	1,656,250.00	1,643,829.71	(12,420.29)
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	318,730.00	318,730.00	297,176.38	21,553.62
Middle/Junior High	750.00	750.00	1,487.87	(737.87)
High School	481,235.00	481,235.00	458,441.69	22,793.31
Special Programs:				
Educationally Deprived	53,550.00	53,550.00	53,957.62	(407.62)
Other Special Programs	10,000.00	10,000.00	10,442.46	(442.46)

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures (Cont.):				
Support Services:				
Pupils:				
Attendance and Social Work	0.00	0.00	1,460.90	(1,460.90)
Guidance	15,050.00	15,050.00	14,316.73	733.27
Health	1,500.00	1,500.00	864.58	635.42
Instructional Staff:				
Improvement of Instruction	21,600.00	21,600.00	11,692.92	9,907.08
Educational Media	83,053.00	83,053.00	82,582.61	470.39
General Administration:				
Board of Education	26,200.00	26,200.00	23,010.92	3,189.08
Executive Administration	44,614.00	44,614.00	43,595.86	1,018.14
School Administration:				
Office of the Principal	85,733.00	85,733.00	85,232.37	500.63
Other	700.00	700.00	609.00	91.00
Business:				
Fiscal Services	114,240.00	114,240.00	112,668.03	1,571.97
Operation and Maintenance of Plant	226,100.00	226,100.00	197,199.68	28,900.32
Pupil Transportation	62,140.00	62,140.00	51,940.55	10,199.45
Central:				
Staff	1,250.00	1,250.00	86.50	1,163.50
Non-Programmed Charges:				
Payments to State - Unemployment	0.00	0.00	2,878.99	(2,878.99)
Cocurricular Activities:				
Male Activities	24,488.00	24,488.00	21,831.16	2,656.84
Female Activities	18,778.00	18,778.00	19,234.09	(456.09)
Transportation	14,220.00	14,220.00	9,221.93	4,998.07
Combined Activities	47,319.00	47,319.00	42,814.70	4,504.30
Total Expenditures	1,651,250.00	1,651,250.00	1,542,747.54	108,502.46
Excess of Revenue Over (Under)				
Expenditures	5,000.00	5,000.00	101,082.17	96,082.17
Other Financing Sources (Uses):				
Transfers In	0.00	0.00	5,505.01	5,505.01
Transfers Out	(5,000.00)	(5,000.00)	(10,000.00)	(5,000.00)
Total Other Financing Sources (Uses)	(5,000.00)	(5,000.00)	(4,494.99)	505.01
Net Change in Fund Balances	0.00	0.00	96,587.18	96,587.18
Fund Balance - Beginning	712,562.56	712,562.56	712,562.56	0.00
FUND BALANCE - ENDING	712,562.56	712,562.56	809,149.74	96,587.18

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	325,000.00	325,000.00	336,597.65	11,597.65
Prior Years' Ad Valorem Taxes	750.00	750.00	1,450.17	700.17
Penalties and Interest on Taxes	750.00	750.00	556.40	(193.60)
Earnings on Investments and Deposits	0.00	0.00	4,324.61	4,324.61
Total Revenue	326,500.00	326,500.00	342,928.83	16,428.83
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	35,000.00	35,000.00	18,708.83	16,291.17
Middle/Junior High	0.00	0.00	298.75	(298.75)
High School	59,000.00	59,000.00	61,814.87	(2,814.87)
Support Services:				
Instructional Staff:				
Educational Media	30,500.00	30,500.00	12,337.00	18,163.00
General Administration:				
Executive Administration	2,000.00	2,000.00	154.32	1,845.68
School Administration:				
Office of the Principal	1,000.00	1,000.00	444.24	555.76
Business:				
Fiscal Services	11,500.00	11,500.00	5,449.64	6,050.36
Facilities Acquisition and Construction	40,000.00	40,000.00	28,850.27	11,149.73
Operation and Maintenance of Plant	133,000.00	133,000.00	149,743.71	(16,743.71)
Pupil Transportation	0.00	0.00	525.00	(525.00)
Cocurricular Activities:				
Combined Activities	15,000.00	15,000.00	9,923.30	5,076.70
Total Expenditures	327,000.00	327,000.00	288,249.93	38,750.07
Excess of Revenue Over (Under)				
Expenditures	(500.00)	(500.00)	54,678.90	55,178.90
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(4,324.61)	(4,324.61)
Sale of Surplus Property	500.00	500.00	1,275.00	775.00
Total Other Financing Sources(Uses)	500.00	500.00	(3,049.61)	(3,549.61)
Net Change in Fund Balances	0.00	0.00	51,629.29	51,629.29
Fund Balance - Beginning	423,781.52	423,781.52	423,781.52	0.00
FUND BALANCE - ENDING	423,781.52	423,781.52	475,410.81	51,629.29

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	175,500.00	175,500.00	174,530.67	(969.33)
Prior Years' Ad Valorem Taxes	300.00	300.00	751.94	451.94
Penalties and Interest on Taxes	400.00	400.00	288.25	(111.75)
Earnings on Investments and Deposits	0.00	0.00	684.16	684.16
Other Revenue from Local Sources:				
Refund of Prior Years' Expenditures	0.00	0.00	101.60	101.60
Charges for Services	11,500.00	11,500.00	12,249.48	749.48
Revenue from State Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid	45,000.00	45,000.00	45,953.00	953.00
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	78,906.00	78,906.00	83,973.00	5,067.00
Total Revenue	311,606.00	311,606.00	318,532.10	6,926.10
Expenditures:				
Instruction:				
Special Programs:				
Programs for Special Education	197,505.51	197,505.51	191,878.21	5,627.30
Support Services:				
Pupils:				
Guidance	295.37	295.37	295.36	0.01
Psychological	14,621.03	14,621.03	14,671.97	(50.94)
Speech Pathology	34,699.46	34,699.46	34,819.24	(119.78)
Instructional Staff:				
Improvement of Instruction	10,696.00	10,696.00	10,696.00	0.00
Educational Media	349.28	349.28	349.28	0.00
General Administration				
Board of Education	2,149.01	2,149.01	2,149.04	(0.03)
Business:				
Fiscal Services	7,621.70	7,621.70	7,621.64	0.06
Special Education:				
Administrative Costs	10,200.46	10,200.46	10,200.48	(0.02)
Transportation Costs	32,330.00	32,330.00	30,034.97	2,295.03
Other Special Education Costs	1,138.18	1,138.18	1,138.20	(0.02)
Total Expenditures	311,606.00	311,606.00	303,854.39	7,751.61
Excess of Revenue Over (Under) Expenditures	0.00	0.00	14,677.71	14,677.71

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(684.16)	(684.16)
Net Change in Fund Balances	0.00	0.00	13,993.55	13,993.55
Fund Balance - Beginning	67,090.21	67,090.21	67,090.21	0.00
FUND BALANCE - ENDING	67,090.21	67,090.21	81,083.76	13,993.55

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	10,000.00	10,000.00	9,975.92	(24.08)
Prior Years' Ad Valorem Taxes	50.00	50.00	45.85	(4.15)
Penalties and Interest on Taxes	50.00	50.00	17.43	(32.57)
Earnings on Investments and Deposits	0.00	0.00	489.78	489.78
Total Revenue	10,100.00	10,100.00	10,528.98	428.98
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	5,050.00	5,050.00	3,641.04	1,408.96
High School	5,050.00	5,050.00	7,235.25	(2,185.25)
Support Services:				
General Administration:				
Executive Administration	0.00	0.00	1,890.83	(1,890.83)
Total Expenditures	10,100.00	10,100.00	12,767.12	(2,667.12)
Excess of Revenue Over (Under) Expenditures	0.00	0.00	(2,238.14)	(2,238.14)
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(489.78)	(489.78)
Total Other Financing Sources(Uses)	0.00	0.00	(489.78)	(489.78)
Net Change in Fund Balances	0.00	0.00	(2,727.92)	(2,727.92)
Fund Balance - Beginning	41,885.56	41,885.56	41,885.56	0.00
FUND BALANCE - ENDING	41,885.56	41,885.56	39,157.64	(2,727.92)

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2010

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting

The School District followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated by number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
11. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 2. GAAP/Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

