

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

AUDIT REPORT

FISCAL YEAR JULY 1, 2010, TO JUNE 30, 2011

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, 2011

BOARD MEMBERS:

Dr. Peter Preheim – President
Nicole Bartscher – Vice-President
Danny Koehn
Larry Langerock
Shannon Luke

SUPERINTENDENT:

Adam Shaw

BUSINESS MANAGER:

Aaron Thompson

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Schedule of Prior Audit Findings.....	3
Schedule of Current Audit Findings.....	4
Independent Auditor's Report	5-6
Management's Discussion and Analysis (MD&A).....	7-15
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	16
Statement of Activities.....	17
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes In Fund Balances.....	20-22
Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund Balances to the Government-Wide Statement of Activities	23
Proprietary Funds:	
Balance Sheet.....	24
Statement of Revenues, Expenses, and Changes In Fund Net Assets.....	25
Statement of Cash Flows.....	26
Fiduciary Funds:	
Statement of Fiduciary Net Assets.....	27
Notes to the Financial Statements.....	28-40
Required Supplementary Information Other than MD&A:	
Budgetary Comparison Schedules – Budgetary Basis:	
General Fund.....	41-42
Capital Outlay Fund.....	43
Special Education Fund.....	44-45
Pension Fund.....	46
Notes to the Required Supplementary Information – Budgetary Comparison Schedules.....	47

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

Schoenfish & Co., Inc.
CERTIFIED PUBLIC ACCOUNTANTS
Phone: 605-928-7241
FAX No.: 605-928-1441
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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, 2011, and for the year then ended which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 5, 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 2011-01 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 18, 2011.

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
December 5, 2011

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDING:

Internal Control Over Revenues:

Finding Number 2010-01:

A 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 2011-01.

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2011-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the fourteenth 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 one Board Member, the Superintendent, and the Business Manager on November 18, 2011.

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

Phone: 605-928-7241

FAX No.: 605-928-1441

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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, 2011, 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, 2011, 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 December 5, 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 15, and 41 through 46 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
December 5, 2011

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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, 2011. 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 \$2,262,543 or \$189,398 more than the \$2,073,145 governmental and business-type program expenditures.
- The total cost of the school's programs reduced by 5.2% in FY2011, due largely to General Fund cuts as a result of declining enrollment and State funding.
- The General Fund State Aid formula was frozen for the 2010/2011 fiscal school year and will actually see a decrease for FY2012, which will cause the Marion School to lower its General Fund budget with a steady or slightly declining enrollment. An increase in gross receipts taxes, however, will help offset some of these General Fund cuts. The Capital Outlay Fund now has more flexibility for expenditures, as all Capital Outlay certificates were paid off during the 2008/2009 fiscal school year.
- The District renewed its General Fund Opt-Out in 2010 for five more years. The School Board decided to take only \$40,000 of the maximum \$150,000 of this opt-out for 2011, which was down from \$80,000 for the 2010 calendar year.
- The Marion School District has seen relatively stable enrollment numbers for the past few years, which has kept more consistency in the budget planning process.

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 this overview section 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 changed as follows for the 2011 fiscal year:

Table A-1
MARION SCHOOL DISTRICT
Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current and Other Assets	2,143,196	2,205,761	11,264	7,840	2,154,460	2,213,601
Capital Assets	2,584,030	2,672,071	6,399	5,586	2,590,429	2,677,657
Total Assets	4,727,226	4,877,832	17,663	13,426	4,744,889	4,891,258
Current and Other Liabilities	738,394	698,339	1,128	1,099	739,522	699,438
Long-Term Debt Outstanding	0	41,445	0	0	0	41,445
Total Liabilities	738,394	739,784	1,128	1,099	739,522	740,884
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	2,584,030	2,672,071	6,399	5,586	2,590,429	2,677,657
Restricted	595,652	656,670	10,137	6,740	605,789	663,410
Unrestricted	809,150	809,307	0	0	809,150	809,307
Total Net Assets	3,988,832	4,138,048	16,535	12,326	4,005,367	4,150,374
Beginning Net Assets	3,776,601	3,988,832	12,424	16,535	3,789,025	4,005,367
Adj. for prior year accr. leave	0	(44,391)	0	0	0	(44,391)
Adjusted Beginning Net Assets	3,776,601	3,944,441	12,424	16,535	3,789,025	3,960,976
Increase (Decrease) in Net Assets	212,231	193,607	4,111	(4,209)	216,342	189,398
Percentage of Increase (Decrease) in Net Assets	5.62%	4.91%	33.09%	(25.46)%	5.71%	4.78%

* Totals may not add due to rounding.

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.

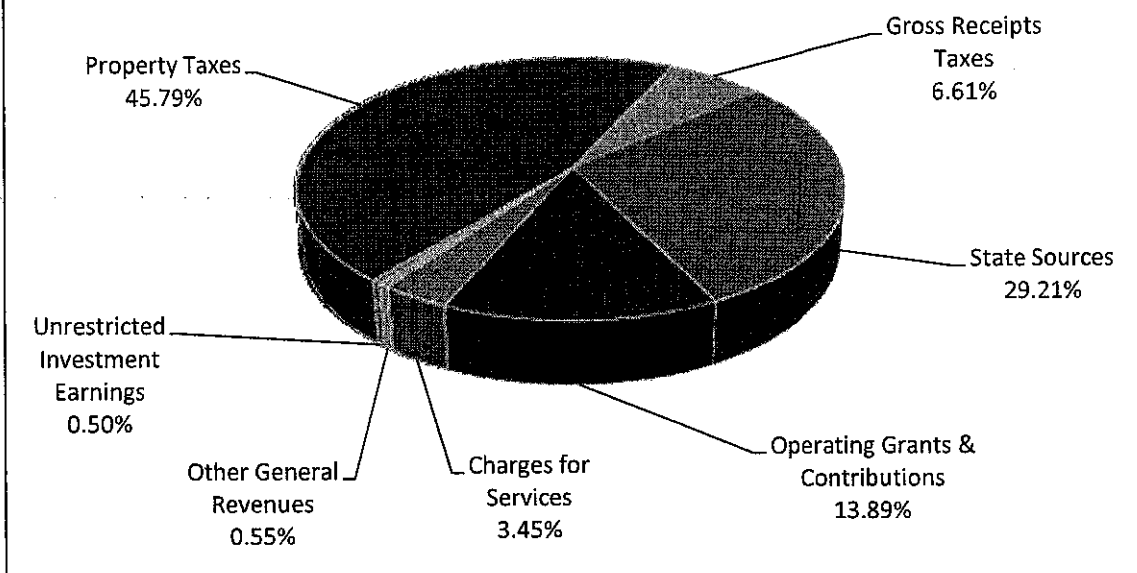
Changes in Net Assets

The Marion School's total revenues totaled \$2,262,543, a decrease of 5.8% from the previous year (see Table A-2). Approximately 52% of the school's revenue comes from local taxes (45.8% from property taxes and 6.6% from gross receipts taxes). State Aid brought in 29% of the revenues, with another 14% coming from Federal grants & reimbursements, and the remaining 4.5% of income comes from all other sources. (See Figure A-2)

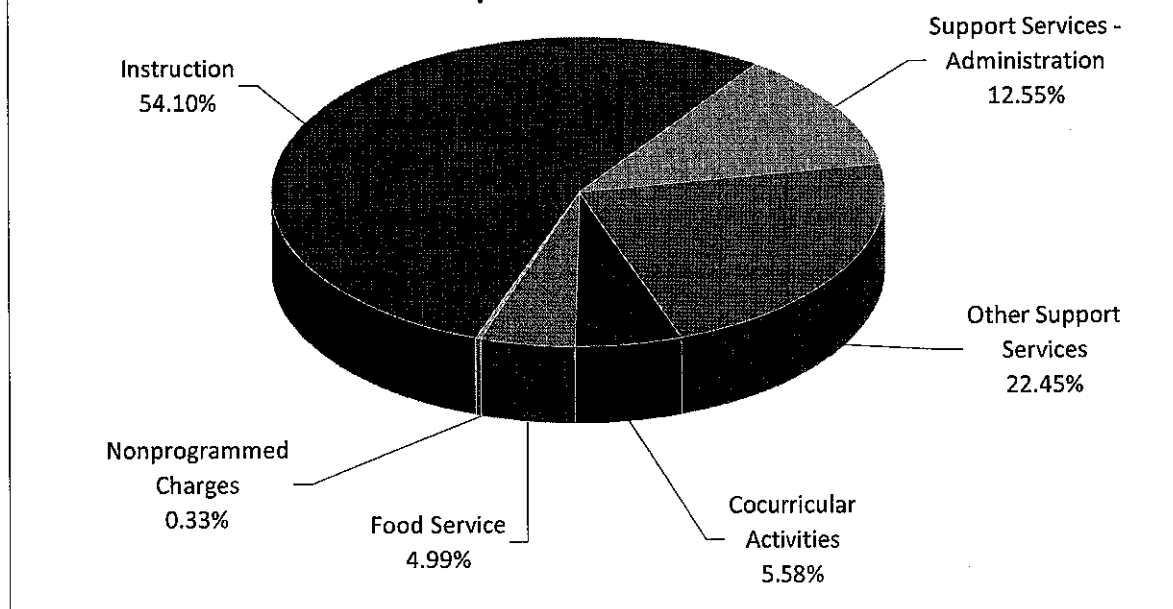
The school's cost of all programs and services totaled \$2,073,145, which was a decrease of 5.2% from the 2009/2010 fiscal school year. The school's expenses cover a range of services encompassing instruction,

support services (including administration), 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 2011**



**Figure A-3 Marion School District 60-3
Breakdown of Expenditures for Fiscal Year 2011**



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	
	2010	2011	2010	2011	2010	2011
Revenues						
Program Revenues						
Charges for Services	\$ 19,710	\$ 19,793	\$ 53,954	\$ 58,158	\$ 73,665	\$ 77,951
Operating Grants and Contributions	\$ 277,423	\$ 273,232	\$ 32,778	\$ 41,019	\$ 310,202	\$ 314,251
General Revenues						
Taxes	\$ 1,222,728	\$ 1,185,548			\$ 1,222,728	\$ 1,185,548
State Sources	\$ 764,078	\$ 660,940			\$ 764,078	\$ 660,940
Unrestricted Investments	\$ 14,826	\$ 11,271	\$ 6	\$ 69	\$ 14,833	\$ 11,339
Other General Revenues	\$ 17,054	\$ 12,513			\$ 17,054	\$ 12,513
Total Revenues	\$ 2,315,820	\$ 2,163,296	\$ 86,739	\$ 99,246	\$ 2,402,559	\$ 2,262,543
Expenses						
Instruction	\$ 1,127,568	\$ 1,121,545			\$ 1,127,568	\$ 1,121,545
Support Services	\$ 848,035	\$ 725,743			\$ 848,035	\$ 725,743
Nonprogrammed Charges	\$ 4,017	\$ 6,889			\$ 4,017	\$ 6,889
Cocurricular Activities	\$ 113,976	\$ 115,582			\$ 113,976	\$ 115,582
Food Service			\$ 92,622	\$ 103,387	\$ 92,622	\$ 103,387
Total Expenses	\$ 2,093,595	\$ 1,969,758	\$ 92,622	\$ 103,387	\$ 2,186,217	\$ 2,073,145
Change in Net Assets before Transfers	\$ 222,225	\$ 193,538	\$ (5,883)	\$ (4,141)	\$ 216,342	\$ 189,398
Transfers	\$ (9,994)	\$ 69	\$ 9,994	\$ (69)	\$ -	\$ -
Change in Net Assets	\$ 212,231	\$ 193,607	\$ 4,111	\$ (4,209)	\$ 216,342	\$ 189,398
Adjustment for prior year accrued leave	\$ -	\$ (44,391)	\$ -	\$ -	\$ -	\$ (44,391)
Net Assets - Ending	\$ 3,988,832	\$ 4,138,048	\$ 16,535	\$ 12,326	\$ 4,005,367	\$ 4,150,374

* Totals may not add due to rounding.

GOVERNMENTAL ACTIVITIES

As shown in Table A-2, revenues of the governmental activities decreased by 6.6% to \$2,163,296, while expenses decreased by 5.9% to \$1,969,758. Factors contributing to these changes included:

- The primary reason for the decrease in revenue resulted from a decline in State funding, and less taxes taken on the school's opt-out. Other revenues had little effect on the total received.
- Expenses also decreased, with the largest cuts falling under the area of support services.

BUSINESS-TYPE ACTIVITIES

Revenues of the School's business-type activities increased by approximately 14.4%, while expenses increased by 11.6%. Factors contributing to these numbers included:

- Marion School District hired a food service management company, which raised the cost of the school's food service program.
- Due to the larger cost of the school's food service, the price of school lunches also went up, which accounts for the higher revenues received into the fund.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The General Fund balance saw an increase of over \$41,000 over the year, which was due primarily to cuts & turnover in staff, and conservative spending on the budget. The Capital Outlay Fund also saw an increase in fund balance of approximately \$50,000, which was due to limited capital projects and no long-term debt to pay off. The Special Education Fund balance increased by about \$6,500, as the actual revenues and expenses were very close to the budgeted amounts in this fund. The Pension Fund balance increased by almost \$5,000, as the expenses were well under the budgeted amount.

BUDGETARY HIGHLIGHTS

The Marion School Budget for fiscal year 2011 was approved with relatively stable budgets for nearly all funds, except for the General Fund, as State Aid and enrollment forced the school to lower the budget on its General Fund. The School Board voted to levy \$40,000 (of a \$150,000 maximum) in opt-out monies for the 2011 calendar year, which was down from \$80,000 for 2010. The Marion School was able to reduce these opt-out taxes paid by District residents, due to cuts in several areas and another increase in gross receipts taxes received. Budget line items were closely watched in order to keep the expenditures within the budgeted amounts.

	<u>Budget</u>
Original	\$ 1,590,635
Final	\$ 1,590,635

CAPITAL ASSET ADMINISTRATION

By June of 2011, Marion School had \$2,677,657 invested in capital assets (see Table A-3). This amount represents a net increase of \$87,228 or 3.37%. This year's major capital asset purchase involved a roof replacement project. Other capital purchases included a used school bus, a new sound system for the stage, a digital security camera, and other minor purchases.

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

	Governmental		Business-Type		Total	Total
	Activities		Activities		Dollar	Percentage
	2010	2011	2010	2011	Change	Change
Land	158,280	158,280			0	0.00%
Buildings	2,028,005	2,131,581			103,576	5.11%
Machinery & Equipment	397,746	382,210	6,399	5,586	(16,349)	(4.05)%
Total Capital Assets, Net	\$2,584,030	\$2,672,071	\$6,399	\$5,586	\$87,228	3.37%

* Totals may not add due to rounding.

LONG-TERM DEBT

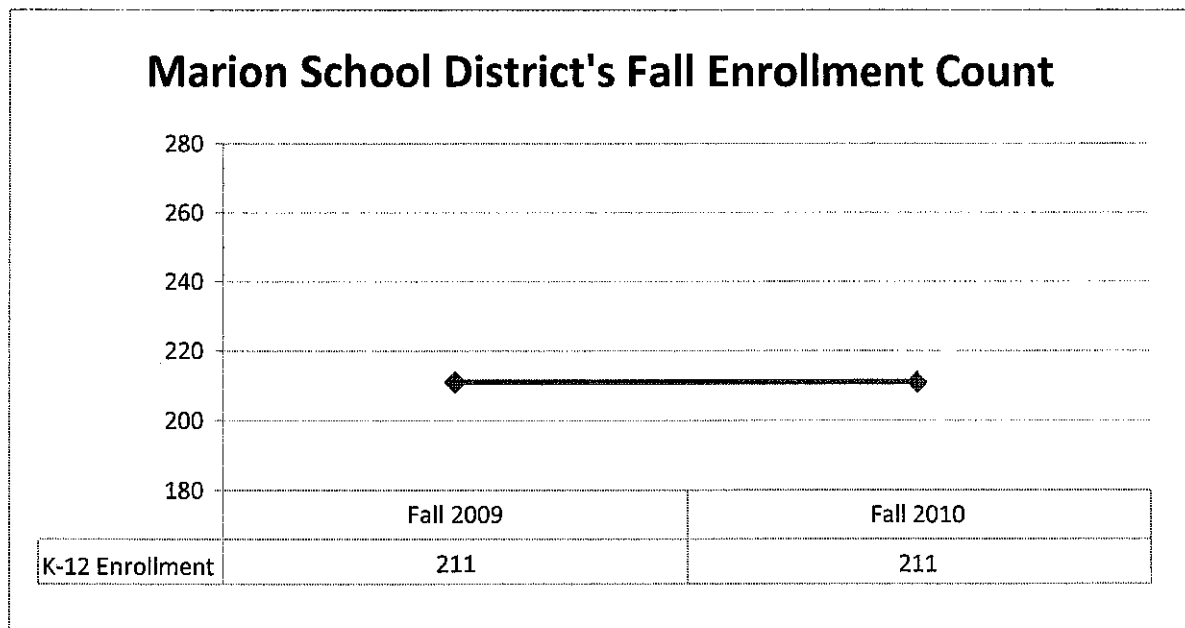
The Marion School District had paid off all Capital Outlay Certificates during the 2009 fiscal school year. Freeing up this long-term debt has given the District the flexibility to use Capital Outlay funds for other projects, such as building updates, or new vehicle and equipment purchases. The only long-term debt the school has at this point is the sick leave payable for tenured staff in the amount of \$41,445.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Marion School District did experience a small decline in total property valuation from the previous year. This decrease was due primarily to a formula change in Ag land valuations for South Dakota, as well as other declines in valuation. The total amount which can be taxed locally is limited by the State, as the maximum levy generally drops each year due to tax levy cuts made by the State of South Dakota. For calendar year 2012, levies will be frozen, except for Ag land, in order to take some of the burden away from State funding.

One of the primary sources of revenue to the Marion School District is based on a per student allocation received from the State of South Dakota. The General Fund State Aid formula was frozen for the 2010/2011 fiscal school year, ensuring property taxes plus State Aid would remain at \$4,804.60 per pupil, according to the fall enrollment count. This funding formula will actually see a decline of 6.6% (8.6% cut plus approximately \$97 per student in one-time funding) for the 2011/2012 fiscal year. This decline will guarantee the schools \$4,389.95 per student, between local taxes and State Aid, plus the \$97 per student in one-time monies.

Marion's enrollment remained steady at 211 for the 2010 Fall Count. With the decline in the State Aid funding formula, however, the Marion School will receive less revenue from State Aid in the General Fund for the 2011/2012 fiscal school year. An expected increase in Gross Receipt Taxes will help offset some of this loss in State Aid funding. Marion also renewed its General Fund Opt-Out in 2010 for five more years, which will give the District the flexibility of collecting extra taxes, if needed. The District will keep this and other factors in mind when examining the budget for the upcoming school year. Marion School's fall enrollment count for the last two years has been as follows:



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 send emails to Aaron.Thompson@k12.sd.us.

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF NET ASSETS
As of June 30, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	1,143,112.57	1,654.28	1,144,766.85
Investments	571,922.45		571,922.45
Taxes Receivable	490,726.47		490,726.47
Other Assets		5,404.14	5,404.14
Inventories		781.30	781.30
Capital Assets:			
Land	158,279.61		158,279.61
Other Capital Assets, Net of Depreciation	2,513,791.36	5,585.82	2,519,377.18
TOTAL ASSETS	4,877,832.46	13,425.54	4,891,258.00
LIABILITIES :			
Accounts Payable	40,365.64		40,365.64
Other Current Liabilities	167,246.93		167,246.93
Deferred Revenue	490,726.47	1,099.40	491,825.87
Noncurrent Liabilities:			
Due Within One Year	10,000.00		10,000.00
Due in More than One Year	31,445.25		31,445.25
TOTAL LIABILITIES	739,784.29	1,099.40	740,883.69
NET ASSETS:			
Invested in Capital Assets	2,672,070.97	5,585.82	2,677,656.79
Restricted for:			
Capital Outlay Purposes	525,185.65		525,185.65
Special Education Purposes	87,583.65		87,583.65
Pension Purposes	43,900.71		43,900.71
Food Service Purposes		6,740.32	6,740.32
Unrestricted	809,307.19		809,307.19
TOTAL NET ASSETS	4,138,048.17	12,326.14	4,150,374.31
TOTAL LIABILITIES AND NET ASSETS	4,877,832.46	13,425.54	4,891,258.00

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, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
Instruction	1,121,544.66		237,703.99		(883,840.67)		(883,840.67)
Support Services	725,742.64		35,527.79		(690,214.85)		(690,214.85)
Nonprogrammed Charges	6,889.00				(6,889.00)		(6,889.00)
Cocurricular Activities	115,581.73	19,792.53			(95,789.20)		(95,789.20)
Total Governmental Activities	1,969,758.03	19,792.53	273,231.78	0.00	(1,676,733.72)		(1,676,733.72)
Business-type Activities:							
Food Service	103,386.71	58,158.45	41,019.13		(4,209.13)		(4,209.13)
Total Primary Government	2,073,144.74	77,950.98	314,250.91	0.00	(1,680,942.85)		(1,680,942.85)
General Revenues:							
Taxes:							
Property Taxes					1,036,044.02		1,036,044.02
Gross Receipts Taxes					149,504.37		149,504.37
Revenue from State Sources:							
State Aid					660,939.91		660,939.91
Unrestricted Investment Earnings					11,270.68	68.55	11,339.23
Other General Revenues					12,513.11	(68.55)	12,513.11
Transfers					68.55		68.55
Total General Revenues & Transfers					1,870,340.64	0.00	1,870,340.64
Change in Net Assets					193,606.92	(4,209.13)	189,397.79
Net Assets - Beginning					3,988,832.08	16,535.27	4,005,367.35
Adjustments:							
Prior year accrued leave not recorded					(44,390.83)		(44,390.83)
Adjusted Net Assets - Beginning					3,944,441.25	16,535.27	3,960,976.52
NET ASSETS - ENDING					4,138,048.17	12,326.14	4,150,374.31

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, 2011**

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	444,110.24	542,665.84	107,435.78	43,900.71	1,138,112.57
Advanced Payments	5,000.00				5,000.00
Investments	571,922.45				571,922.45
Taxes Receivable--Current	238,431.66	156,988.27	81,460.45	4,882.06	481,762.44
Taxes Receivable--Delinquent	5,408.25	2,296.31	1,190.66	68.81	8,964.03
TOTAL ASSETS	1,264,872.60	701,950.42	190,086.89	48,851.58	2,205,761.49
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	15,012.71	17,480.19	7,872.74		40,365.64
Contracts Payable	125,385.79		9,165.85		134,551.64
Payroll Deductions, Withholdings and Employer Matching Payable	29,881.75		2,813.54		32,695.29
Deferred Revenue	243,839.91	159,284.58	82,651.11	4,950.87	490,726.47
Total Liabilities	414,120.16	176,764.77	102,503.24	4,950.87	698,339.04
Fund Balances:					
Restricted:					
Capital Outlay		525,185.65			525,185.65
Special Education			87,583.65		87,583.65
Pension				43,900.71	43,900.71
Unassigned	850,752.44				850,752.44
Total Fund Balances	850,752.44	525,185.65	87,583.65	43,900.71	1,507,422.45
TOTAL LIABILITIES AND FUND BALANCES	1,264,872.60	701,950.42	190,086.89	48,851.58	2,205,761.49

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, 2011

Total Fund Balances - Governmental Funds	<u>1,507,422.45</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>2,672,070.97</u>
Long-term liabilities, including accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(41,445.25)</u>
Net Assets - Governmental Activities	<u><u>4,138,048.17</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, 2011

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Revenues:					
Revenue from Local Sources:					
Taxes:					
Ad Valorem Taxes	518,276.72	329,552.47	170,938.82	10,013.50	1,028,781.51
Prior Years' Ad Valorem Taxes	3,270.32	1,291.11	669.46	39.53	5,270.42
Gross Receipts Taxes	149,504.37				149,504.37
Penalties and Interest on Taxes	1,076.30	591.19	306.26	18.34	1,992.09
Earnings on Investments and Deposits	7,189.10	3,178.13	589.78	313.67	11,270.68
Curricular Activities:					
Admissions	16,507.53				16,507.53
Other Pupil Activity Income	3,285.00				3,285.00
Other Revenue from Local Sources:					
Rentals	35.00				35.00
Contributions and Donations	639.17				639.17
Refund of Prior Years' Expenditures	67.73				67.73
Charges for Services	12,947.00		23,480.79		35,527.79
Other	379.85				379.85
Revenue from Intermediate Sources:					
County Sources:	10,111.36				10,111.36
County Apportionment					
Revenue from State Sources:					
Grants-in-Aid:					
Unrestricted Grants-in-Aid	660,939.91				660,939.91
Restricted Grants-in-Aid			49,521.00		49,521.00
Revenue from Federal Sources:					
Grants-in-Aid:					
Restricted Grants-in-Aid Received from Federal Government Through the State	162,542.99		25,640.00		188,182.99
Total Revenue	1,545,872.35	334,612.90	271,146.11	10,385.04	2,162,016.40

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, 2011

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Expenditures:					
Instruction:					
Regular Programs:					
Elementary	299,195.02	24,686.29		2,000.00	325,881.31
Middle/Junior High	105,635.35	14,080.78			119,716.13
High School	345,241.59	35,250.28		3,328.30	383,820.17
Special Programs:					
Programs for Special Education			194,570.87		194,570.87
Educationally Deprived	48,160.95				48,160.95
Other Special Programs	9,026.68				9,026.68
Support Services:					
Pupils:					
Attendance and Social Work	998.00				998.00
Guidance	14,375.51		331.40		14,706.91
Health	995.83				995.83
Psychological					
Speech Pathology			3,753.20		3,753.20
Instructional Staff:			10,217.00		10,217.00
Improvement of Instruction	8,946.87				8,946.87
Educational Media	57,604.16	1,925.63	465.92		59,995.71
General Administration:					
Board of Education	18,755.58		2,380.00		21,135.58
Executive Administration	43,500.41	2,547.32			46,047.73
School Administration:					
Office of the Principal	94,721.68	222.12			94,943.80
Other	757.00				757.00
Business:					
Fiscal Services	113,924.86	5,308.00	9,277.80		128,510.66
Operation and Maintenance of Plant	197,284.39	13,275.16			210,559.55
Pupil Transportation	53,982.01	606.80			54,588.81
Central:					
Staff	159.75				159.75
Special Education:					
Administrative Costs			11,550.88		11,550.88
Transportation Costs			30,609.37		30,609.37

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, 2011

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Expenditures (Cont.):					
Non-programmed Charges:					
Payments to State - Unemployment	5,989.00		900.00		5,989.00
Early Retirement Payments					900.00
Cocurricular Activities:					
Male Activities	22,376.92				22,376.92
Female Activities	17,834.30				17,834.30
Transportation	8,082.30				8,082.30
Combined Activities	40,871.62	9,305.96			50,177.58
Capital Outlay		176,231.59			176,231.59
Total Expenditures	1,508,419.78	283,439.93	264,056.44	5,328.30	2,061,244.45
Excess of Revenue Over (Under) Expenditures	37,452.57	51,172.97	7,089.67	5,056.74	100,771.95
Other Financing Sources:					
Transfers In	4,150.13				4,150.13
Transfers Out	(3,178.13)		(589.78)	(313.67)	(4,081.58)
Sale of Surplus Property		1,780.00			1,780.00
Total Other Financing Sources	4,150.13	(1,398.13)	(589.78)	(313.67)	1,848.55
Net Change in Fund Balances	41,602.70	49,774.84	6,499.89	4,743.07	102,620.50
Fund Balance - Beginning	809,149.74	475,410.81	81,083.76	39,157.64	1,404,801.95
FUND BALANCE - ENDING	850,752.44	525,185.65	87,583.65	43,900.71	1,507,422.45

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, 2011

Net Change in Fund Balances - Total Governmental Funds	<u>102,620.50</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>88,540.84</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>(500.00)</u>
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	<u>2,945.58</u>
Change in Net Assets of Governmental Activities	<u><u>193,606.92</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, 2011

	Enterprise Funds
	Food Service Fund
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	1,654.28
Accounts Receivable, Net	5,404.14
Inventory of Supplies	361.96
Inventory of Stores Purchased for Resale	415.85
Inventory of Donated Food	3.49
Total Current Assets	7,839.72
Capital Assets:	
Machinery and Equipment--Local Funds	47,588.28
Less: Accumulated Depreciation	(42,002.46)
Total Noncurrent Assets	5,585.82
TOTAL ASSETS	13,425.54
LIABILITIES:	
Current Liabilities:	
Deferred Revenue	1,099.40
Total Current Liabilities	1,099.40
NET ASSETS:	
Invested in Capital Assets	5,585.82
Unrestricted Net Assets	6,740.32
Total Net Assets	12,326.14
TOTAL LIABILITIES AND NET ASSETS	13,425.54

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, 2011

	Enterprise Funds
	Food Service
	Fund
Operating Revenue:	
Food Sales:	
Student	52,211.60
Adult	5,393.80
Ala Carte	553.05
Total Operating Revenue	58,158.45
Operating Expenses:	
Purchased Services	98,416.51
Supplies	128.07
Cost of Sales - Purchased	725.35
Cost of Sales - Donated	3,303.89
Depreciation	812.89
Total Operating Expenses	103,386.71
Operating Income (Loss)	(45,228.26)
Nonoperating Revenue:	
Investment Earnings	68.55
State Grants	521.98
Federal Grants	37,618.36
Donated Food	2,878.79
Total Nonoperating Revenue	41,087.68
Income (Loss) Before Transfers	(4,140.58)
Transfers Out	(68.55)
Change in Net Assets	(4,209.13)
Net Assets - Beginning	16,535.27
NET ASSETS - ENDING	12,326.14

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, 2011

	Enterprise Fund
	Food Service
	Fund
Cash Flows from Operating Activities:	
Cash Receipts from Customers	56,258.63
Cash Payments to Suppliers for Goods or Services	(98,511.20)
Net Cash Provided (Used) by Operating Activities	(42,252.57)
Cash Flows from Noncapital Financing Activities:	
Transfers to General Fund	(68.55)
Operating Grants	38,140.34
Net Cash Provided (Used) from Noncapital Financing Activities:	38,071.79
Cash Flows from Investing Activities:	
Cash Received for Interest	68.55
Net Cash Provided (Used) from Investing Activities:	68.55
Net Increase (Decrease) in Cash and Cash Equivalents	(4,112.23)
Cash and Cash Equivalents at Beginning of Year	5,766.51
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,654.28
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	(45,228.26)
Adjustments to Reconcile Operating Income to	
Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	812.89
Value of Donated Commodities Used	3,303.89
Change in Assets and Liabilities:	
Receivables	(1,871.34)
Inventories	758.73
Deferred Revenue	(28.48)
Net Cash Provided (Used) by Operating Activities	(42,252.57)
Noncash Investing, Capital and Financing Activities:	
Value of Commodities Received	2,878.79

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, 2011

	Agency Funds
ASSETS:	
Cash and Cash Equivalents	18,293.00
TOTAL ASSETS	18,293.00
LIABILITIES:	
Amounts Held for Others	18,293.00
Total Liabilities	18,293.00
NET ASSETS	0.00
TOTAL LIABILITIES AND NET ASSETS	18,293.00

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

See Independent Auditor's Report.

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).

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, 2011.

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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.
Food Service Equipment	\$ 2,000.00	Straight-line	12 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 is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned 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.

j. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the School District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The School District does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund:</u>	<u>Revenue Source:</u>
Capital Outlay Fund	Real Estate Taxes
Special Education Fund	Real Estate Taxes and State Aid
Pension Fund	Real Estate Taxes

2. 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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.

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.

3. 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.

4. 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, 2011, the supplies inventory on hand was not material in the General Fund and special revenue funds.

5. 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."

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2011, is as follows:

Primary Government

	Balance 07/01/10	Increases	Decreases	Balance 06/30/11
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	158,279.61	0.00	0.00	158,279.61
Capital Assets, being depreciated:				
Buildings	2,466,090.64	129,528.98		2,595,619.62
Machinery & Equipment	636,962.44	46,702.61	(28,800.00)	654,865.05
Total, being depreciated	3,103,053.08	176,231.59	(28,800.00)	3,250,484.67
Less Accumulated Depreciation for:				
Buildings	(438,085.78)	(25,952.87)		(464,038.65)
Machinery & Equipment	(239,216.78)	(61,737.88)	28,300.00	(272,654.66)
Total Accumulated Depreciation	(677,302.56)	(87,690.75)	28,300.00	(736,693.31)
Total Capital Assets, being depreciated, net	2,425,750.52	88,540.84	(500.00)	2,513,791.36
Governmental Activity Capital Assets, Net	2,584,030.13	88,540.84	(500.00)	2,672,070.97

Depreciation expense was charged to functions as follows:

Governmental Activities:

Instruction	43,314.13
Support Services	27,265.99
Co-curricular Activities	17,110.63
Total Depreciation Expense - Governmental Activities	87,690.75

	Balance 07/01/10	Increases	Decreases	Balance 06/30/11
Business-Type Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	47,588.28			47,588.28
Less Accumulated Depreciation for:				
Machinery & Equipment	(41,189.57)	(812.89)		(42,002.46)
Total Capital Assets, being depreciated, net	6,398.71	(812.89)	0.00	5,585.82
Business-Type Activity Capital Assets, Net	6,398.71	(812.89)	0.00	5,585.82

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Food Services	812.89
Total Depreciation Expense - Business-Type Activities	812.89

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
Governmental Activities:					
Early Retirement Payable	0.00	53,286.75	11,841.50	41,445.25	10,000.00
Total Governmental Activities	<u>0.00</u>	<u>53,286.75</u>	<u>11,841.50</u>	<u>41,445.25</u>	<u>10,000.00</u>
TOTAL PRIMARY GOVERNMENT	<u><u>0.00</u></u>	<u><u>53,286.75</u></u>	<u><u>11,841.50</u></u>	<u><u>41,445.25</u></u>	<u><u>10,000.00</u></u>

Liabilities payable at June 30, 2011, is comprised of the following:

PRIMARY GOVERNMENT
Governmental Activities:

 Compensated Absences:

 Accrued Sick Leave

 Payable from General Fund

\$ 41,445.25

8. RESTRICTED NET ASSETS

Restricted net assets for the fiscal year ended June 30, 2011 were as follows:

<u>FUND:</u>	<u>Restricted By:</u>	<u>Amount</u>
Capital Outlay	Law	\$ 525,185.65
Special Education	Law	87,583.65
Pension	Law	43,900.71
Food Service	Federal Program Regulations	6,740.32
Total Restricted Net Assets		<u><u>\$ 663,410.33</u></u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2011 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>
	<u>General Fund</u>
Major Funds:	
Capital Outlay	\$ 3,178.13
Special Education	589.78
Pension	313.67
Food Service	68.55
Totals	<u>\$ 4,150.13</u>

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.

10. 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, 2011, 2010 and 2009, were \$58,486.88, \$61,826.83, and \$60,210.48, respectively, equal to the required contributions each year.

11. 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Bridgewater/Emery School District No. 30-3	7.34%
Canistota School District No. 43-1	6.30%
Freeman School District No. 33-1	11.19%
Hanson School District No. 30-1	9.56%
Hurley School District No. 60-2	3.72%
Marion School District No. 60-3	5.25%
McCook School District No. 43-7	10.99%
Montrose School District No. 43-2	5.51%
Parker School District No. 60-4	8.85%
Tea Area School District No. 41-5	31.29%

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, 2011, this joint venture had total fund equity of \$325,282.64 and long-term debt of \$43,221.50.

12. 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, 2011, 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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, 2011, two claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$5,989.00. At June 30, 2011, no claims for unemployment benefits had been filed and none are anticipated in the next fiscal year.

13. SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2011, 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, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive (Negative)</u>
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	546,000.00	546,000.00	518,276.72	(27,723.28)
Prior Years' Ad Valorem Taxes	2,000.00	2,000.00	3,270.32	1,270.32
Gross Receipts Taxes	145,000.00	145,000.00	149,504.37	4,504.37
Penalties and Interest on Taxes	1,500.00	1,500.00	1,076.30	(423.70)
Tuition and Fees:				
Summer School Fees	2,000.00	2,000.00	0.00	(2,000.00)
Earnings on Investments and Deposits	16,000.00	16,000.00	7,189.10	(8,810.90)
Cocurricular Activities:				
Admissions	18,500.00	18,500.00	16,507.53	(1,992.47)
Other Pupil Activity Income	4,000.00	4,000.00	3,285.00	(715.00)
Other Revenue from Local Sources:				
Rentals	500.00	500.00	35.00	(465.00)
Contributions and Donations	100.00	100.00	639.17	539.17
Refund of Prior Year's Expenditures	1,000.00	1,000.00	67.73	(932.27)
Charges for Services	10,000.00	10,000.00	12,047.00	2,047.00
Other	1,000.00	1,000.00	379.85	(620.15)
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	13,000.00	13,000.00	10,111.36	(2,888.64)
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	709,000.00	709,000.00	660,939.91	(48,060.09)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	121,035.00	121,035.00	162,542.99	41,507.99
Total Revenue	1,590,635.00	1,590,635.00	1,545,872.35	(44,762.65)
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	318,490.00	318,490.00	299,195.02	19,294.98
Middle/Junior High	103,800.00	103,800.00	105,635.35	(1,835.35)
High School	369,035.00	369,035.00	345,241.59	23,793.41
Special Programs:				
Educationally Deprived	45,135.00	45,135.00	48,160.95	(3,025.95)
Other Special Programs	4,500.00	4,500.00	9,026.68	(4,526.68)

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2011

	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	998.00	(998.00)
Guidance	14,975.00	14,975.00	14,375.51	599.49
Health	1,500.00	1,500.00	995.83	504.17
Instructional Staff:				
Improvement of Instruction	20,900.00	20,900.00	8,946.87	11,953.13
Educational Media	58,835.00	58,835.00	57,604.16	1,230.84
General Administration:				
Board of Education	26,720.00	26,720.00	18,755.58	7,964.42
Executive Administration	40,955.00	40,955.00	43,500.41	(2,545.41)
School Administration:				
Office of the Principal	94,002.00	94,002.00	94,721.68	(719.68)
Other	700.00	700.00	757.00	(57.00)
Business:				
Fiscal Services	112,414.00	112,414.00	113,924.86	(1,510.86)
Operation and Maintenance of Plant	211,795.00	211,795.00	197,284.39	14,510.61
Pupil Transportation	61,640.00	61,640.00	53,982.01	7,657.99
Central:				
Staff	600.00	600.00	159.75	440.25
Non-Programmed Charges:				
Payments to State - Unemployment	2,000.00	2,000.00	5,989.00	(3,989.00)
Cocurricular Activities:				
Male Activities	23,541.00	23,541.00	22,376.92	1,164.08
Female Activities	19,203.00	19,203.00	17,834.30	1,368.70
Transportation	13,285.00	13,285.00	8,082.30	5,202.70
Combined Activities	46,610.00	46,610.00	40,871.62	5,738.38
Total Expenditures	1,590,635.00	1,590,635.00	1,508,419.78	82,215.22
Excess of Revenue Over (Under)				
Expenditures	0.00	0.00	37,452.57	37,452.57
Other Financing Sources (Uses):				
Transfers In	0.00	0.00	4,150.13	4,150.13
Total Other Financing Sources (Uses)	0.00	0.00	4,150.13	4,150.13
Net Change in Fund Balances	0.00	0.00	41,602.70	41,602.70
Fund Balance - Beginning	809,149.74	809,149.74	809,149.74	0.00
FUND BALANCE - ENDING	809,149.74	809,149.74	850,752.44	41,602.70

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
For the Year Ended June 30, 2011

	<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	330,000.00	330,000.00	329,552.47	(447.53)
Prior Years' Ad Valorem Taxes	750.00	750.00	1,291.11	541.11
Penalties and Interest on Taxes	750.00	750.00	591.19	(158.81)
Earnings on Investments and Deposits	0.00	0.00	3,178.13	3,178.13
Total Revenue	331,500.00	331,500.00	334,612.90	3,112.90
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	27,000.00	27,000.00	24,686.29	2,313.71
Middle/Junior High	13,500.00	13,500.00	14,080.78	(580.78)
High School	39,500.00	39,500.00	38,649.28	850.72
Support Services:				
Instructional Staff:				
Educational Media	12,000.00	12,000.00	1,925.63	10,074.37
General Administration:				
Executive Administration	2,000.00	2,000.00	2,547.32	(547.32)
School Administration:				
Office of the Principal	1,000.00	1,000.00	222.12	777.88
Business:				
Fiscal Services	9,000.00	9,000.00	5,308.00	3,692.00
Facilities Acquisition and Construction	141,000.00	141,000.00	122,976.68	18,023.32
Operation and Maintenance of Plant	55,000.00	55,000.00	34,921.67	20,078.33
Pupil Transportation	22,000.00	22,000.00	25,506.80	(3,506.80)
Cocurricular Activities:				
Combined Activities	10,000.00	10,000.00	12,615.36	(2,615.36)
Total Expenditures	332,000.00	332,000.00	283,439.93	48,560.07
Excess of Revenue Over (Under) Expenditures	(500.00)	(500.00)	51,172.97	51,672.97
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(3,178.13)	(3,178.13)
Sale of Surplus Property	500.00	500.00	1,780.00	1,280.00
Total Other Financing Sources(Uses)	500.00	500.00	(1,398.13)	(1,898.13)
Net Change in Fund Balances	0.00	0.00	49,774.84	49,774.84
Fund Balance - Beginning	475,410.81	475,410.81	475,410.81	0.00
FUND BALANCE - ENDING	475,410.81	475,410.81	525,185.65	49,774.84

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	176,000.00	176,000.00	170,938.82	(5,061.18)
Prior Years' Ad Valorem Taxes	500.00	500.00	669.46	169.46
Penalties and Interest on Taxes	400.00	400.00	306.26	(93.74)
Earnings on Investments and Deposits	0.00	0.00	589.78	589.78
Other Revenue from Local Sources:				
Charges for Services	11,500.00	20,500.00	23,480.79	2,980.79
Revenue from State Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid	45,000.00	45,000.00	49,521.00	4,521.00
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	25,640.00	25,640.00	25,640.00	0.00
Total Revenue	259,040.00	268,040.00	271,146.11	3,106.11
Expenditures:				
Instruction:				
Special Programs:				
Programs for Special Education	186,713.83	195,713.83	194,570.87	1,142.96
Support Services:				
Pupils:				
Guidance	331.40	331.40	331.40	0.00
Psychological	3,753.18	3,753.18	3,753.20	(0.02)
Speech Pathology	10,216.99	10,216.99	10,217.00	(0.01)
Instructional Staff:				
Improvement of Instruction	900.00	900.00	0.00	900.00
Educational Media	465.95	465.95	465.92	0.03
General Administration				
Board of Education	2,380.00	2,380.00	2,380.00	0.00
Business:				
Fiscal Services	9,277.80	9,277.80	9,277.80	0.00
Special Education:				
Administrative Costs	11,550.85	11,550.85	11,550.88	(0.03)
Transportation Costs	33,450.00	33,450.00	30,609.37	2,840.63
Nonprogrammed Charges:				
Early Retirement Payments	0.00	0.00	900.00	(900.00)
Total Expenditures	259,040.00	268,040.00	264,056.44	3,983.56
Excess of Revenue Over (Under) Expenditures	0.00	0.00	7,089.67	7,089.67

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2011

	<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	(589.78)	(589.78)
Total Other Financing Sources (Uses)	0.00	0.00	(589.78)	(589.78)
Net Change in Fund Balances	0.00	0.00	6,499.89	6,499.89
Fund Balance - Beginning	81,083.76	81,083.76	81,083.76	0.00
FUND BALANCE - ENDING	<u>81,083.76</u>	<u>81,083.76</u>	<u>87,583.65</u>	<u>6,499.89</u>

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
For the Year Ended June 30, 2011

	<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	10,000.00	10,000.00	10,013.50	13.50
Prior Years' Ad Valorem Taxes	50.00	50.00	39.53	(10.47)
Penalties and Interest on Taxes	50.00	50.00	18.34	(31.66)
Earnings on Investments and Deposits	0.00	0.00	313.67	313.67
Total Revenue	10,100.00	10,100.00	10,385.04	285.04
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	5,050.00	5,050.00	2,000.00	3,050.00
High School	5,050.00	5,050.00	3,328.30	1,721.70
Total Expenditures	10,100.00	10,100.00	5,328.30	4,771.70
Excess of Revenue Over (Under) Expenditures	0.00	0.00	5,056.74	5,056.74
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(313.67)	(313.67)
Total Other Financing Sources (Uses)	0.00	0.00	(313.67)	(313.67)
Net Change in Fund Balances	0.00	0.00	4,743.07	4,743.07
Fund Balance - Beginning	39,157.64	39,157.64	39,157.64	0.00
FUND BALANCE - ENDING	39,157.64	39,157.64	43,900.71	4,743.07

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATIONJune 30, 2011

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.

