

MARION SCHOOL DISTRICT NO. 60-3
OF TURNER COUNTY

AUDIT REPORT

FISCAL YEAR JULY 1, 2012, TO JUNE 30, 2013

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, 2013

BOARD MEMBERS:

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

SUPERINTENDENT:

Adam Shaw

BUSINESS MANAGER:

Aaron Thompson

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

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

We have audited, 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, 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, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 9, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control 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 2013-001 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*.

School District's Response to Findings

The School District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Schoenfish & Co., Inc.
Certified Public Accountants

January 9, 2014

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDING:

Internal Control Over Revenues:

Finding Number 2012-01:

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 2013-001.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2013-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the sixteenth 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, Nicole Bartscher, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Marion School District No. 60-3, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CLOSING CONFERENCE

The audit was discussed with the officials during the course of the audit and with two Board Members, the Superintendent, and the Business Manager on November 26, 2013.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marion School District No. 60-3, South Dakota, (School District) as of June 30, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The School District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinions

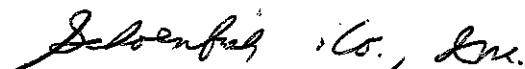
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marion School District No. 60-3 as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other MattersRequired Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and the Budgetary Comparison Schedules on pages 7 through 15, and 42 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2014 on our consideration of the 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* in considering the School District's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants

January 9, 2014

Schoenfish & Co., Inc.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Marion School District 60-3's annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year ended on June 30, 2013. Please read it in conjunction with the school's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the 2013 fiscal year, the School's revenues generated from taxes and other revenues of the governmental and business-type programs were \$2,575,403 or \$346,065 more than the \$2,229,338 governmental and business-type program expenditures.
- The total cost of the school's programs rose by 13.0% in FY2013, due largely to salary and benefit increases, as well as increased services purchased for the School.
- The General Fund State Aid formula saw a 2.6% increase for FY2013, which helped the Marion School's General Fund budget, though the School has been experiencing declining enrollments over the past several years.
- Gross Receipts taxes have steadily increased for the District in the past several years. During the 2012/2013 fiscal school year, Marion recognized two years worth of this tax, because of when the tax was distributed to the counties. This gave the General Fund a large increase in ending fund balance.
- The District renewed its General Fund Opt-Out in 2010 for five more years. The School Board, however, voted not to levy any of the \$150,000 in available opt-out monies for the 2013 calendar year, but rather to rely on other means of funding the General Fund.

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 proprietary funds operated by the school the Food Service and Drivers Education operations.
 - 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 and drivers education	Instances in which the school is the trustee or agent for someone else's resources
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows	*Statement of Fiduciary Net Position
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 Position 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 position and how it has changed. Net position, the difference between the school's assets and liabilities, is one way to measure the school's financial health or position.

- Increases or decreases in the school's net position 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 and other services to all students. The Food Service and Drivers Education funds are the only business-type activities 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) and the Drivers Education funds are the proprietary funds 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 position and a statement of changes in fiduciary net position. 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 Position

The Marion School's combined net position changed as follows for the 2013 fiscal year:

Table A-1
MARION SCHOOL DISTRICT
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
Current and Other Assets	2,423,171	2,861,711	15,187	21,541	2,438,358	2,883,252
Capital Assets	2,758,565	2,702,577	5,141	4,339	2,763,706	2,706,916
Total Assets	5,181,736	5,564,288	20,328	25,880	5,202,064	5,590,168
Current and Other Liabilities	724,954	778,463	3,619	2,739	728,573	781,201
Long-Term Debt Outstanding	67,504	56,915			67,504	56,915
Total Liabilities	792,458	835,378	3,619	2,739	796,078	838,117
Net Position:						
Invested in Capital Assets						
Net of Related Debt	2,721,774	2,674,984	5,141	4,339	2,726,915	2,679,323
Restricted	751,219	824,688			751,219	824,688
Unrestricted	916,285	1,229,238	11,568	18,802	927,852	1,248,040
Total Net Position	4,389,278	4,728,909	16,709	23,142	4,405,986	4,752,051
Beginning Net Position	4,138,048	4,389,278	12,326	16,709	4,150,374	4,405,986
Increase (Decrease) in Net Position	251,230	339,631	4,383	6,433	255,612	346,065
Percentage of Increase (Decrease) in Net Position	6.07%	7.74%	35.56%	38.50%	6.16%	7.85%

*Numbers may not add down due to rounding

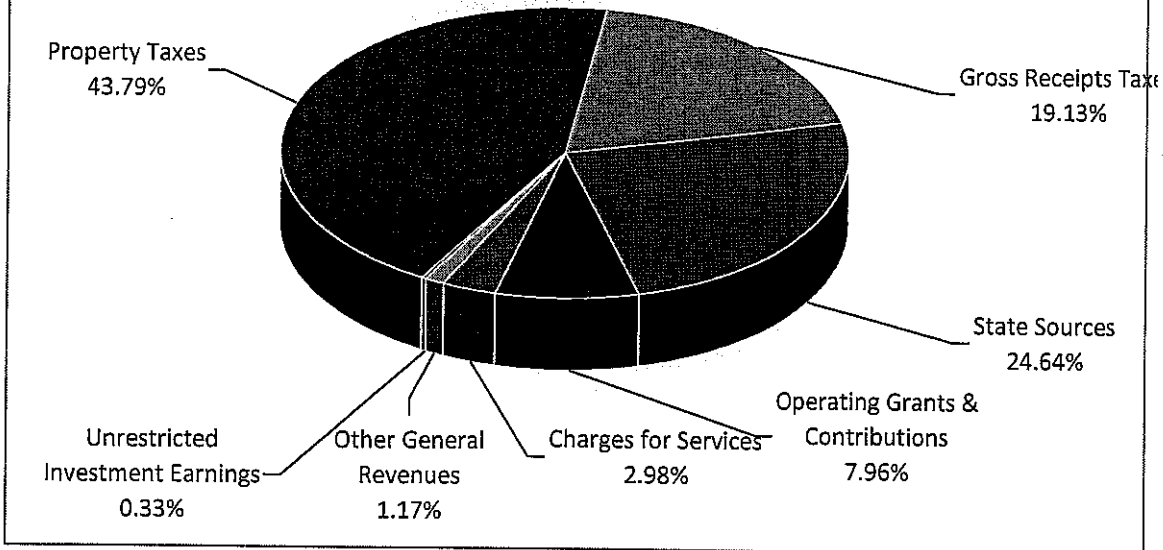
The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. Current assets include cash and other assets to be received within one year, while capital assets include land, buildings, equipment, etc. Current 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 position.

Changes in Net Position

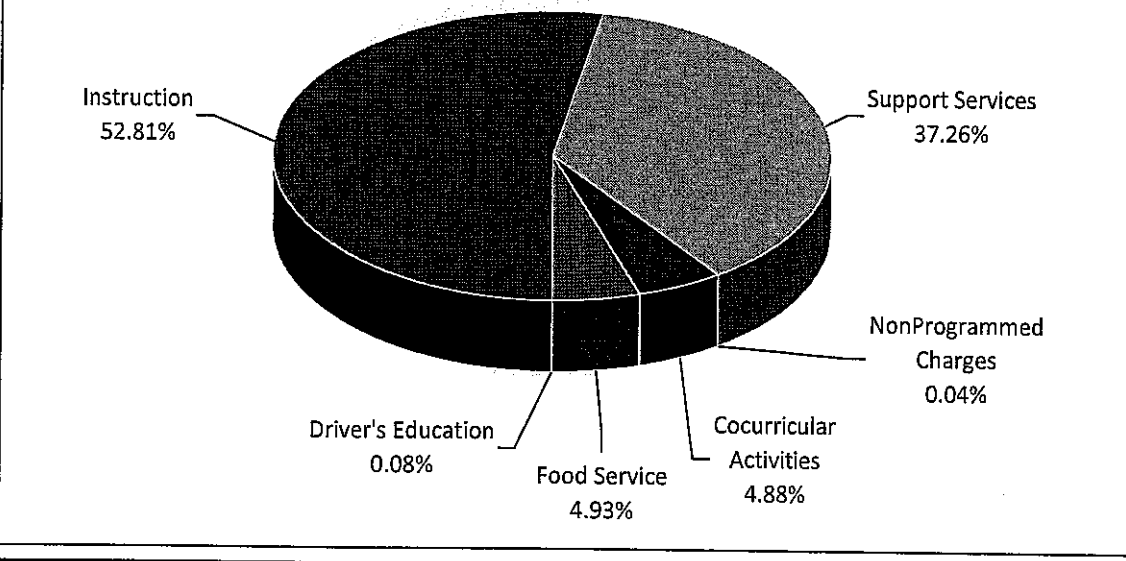
The Marion School District's total assets increased to \$5,590,168, up 7.5% from the previous year (see Table A-1). With a 5.3% increase in total liabilities, the net position saw a total increase of 7.85% to \$4,752,051 for the 2013 fiscal year.

The changes in net position were due to the following revenue and expenditure changes. Marion School's revenues totaled \$2,575,402, which was an increase of 15.5% from the previous year (see Table A-2). Approximately 62.9%, or \$1,620,399, of the school's revenue comes from local taxes (43.8% from property taxes and 19.1% from gross receipts taxes). State Aid brought in 24.6% of the revenues, with another 8.0% coming from Federal grants & reimbursements, and the remaining 4.5% of income comes from all other sources. (See Figure A-2)

**Figure A-2 Marion School District 60-3
Sources of Revenue for Fiscal Year 2013**



**Figure A-3 Marion School District 60-3
Breakdown of Expenditures for Fiscal Year 2013**



The school's cost of all programs and services totaled \$2,229,338 which was an increase of 13.0% from the 2011/2012 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)

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 Marion School District.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
Revenues						
Program Revenues						
Charges for Services	52,855	17,569	60,356	59,064	113,211	76,632
Operating Grants and Contributions	100,040	148,071	52,132	57,001	152,172	205,072
General Revenues						
Taxes	1,238,349	1,620,399			1,238,349	1,620,399
State Sources	696,281	634,477			696,281	634,477
Unrestricted Investments	10,502	8,630	36	54	10,538	8,684
Other General Revenues	18,683	30,138			18,683	30,138
Total Revenues	2,116,711	2,459,284	112,524	116,118	2,229,234	2,575,403
Expenses						
Instruction	1,066,788	1,177,337			1,066,788	1,177,337
Support Services	690,138	830,655			690,138	830,655
Nonprogrammed Charges		960			-	960
Cocurricular Activities	108,234	108,754			108,234	108,754
Food Service			107,520	109,848	107,520	109,848
Driver's Education			942	1,784	942	1,784
Total Expenses	1,865,160	2,117,706	108,462	111,632	1,973,622	2,229,338
Change in Net Position before Transfers	251,551	341,578	4,061	4,487	255,612	346,065
Transfers and Adjustments	(321)	(1,946)	321	1,946	0	0
Change in Net Position	251,230	339,632	4,382	6,433	255,612	346,065
Net Position - Ending	4,389,278	4,728,909	16,709	23,142	4,405,986	4,752,051

* Numbers may not add down due to rounding

GOVERNMENTAL ACTIVITIES

As shown in Table A-2, revenues of the governmental activities increased by 16.2% to \$2,459,284, and expenses also increased by 13.5% to \$2,117,706. Factors contributing to these changes included:

- The primary reason for the increase in revenue resulted because the District recognized two calendar years worth of Gross Receipts (Utility Taxes) during the 2013 fiscal year, as the counties will now be receiving these receipts at the end of the fiscal year, rather than the beginning of the fiscal year. Other revenues had little effect on the total received.
- Expenses also increased, as salaries and benefits went up for both instructional staff and support staff; other program increases or decreases had little effect on the overall budget.

BUSINESS-TYPE ACTIVITIES

Revenues of the School's business-type activities increased by approximately 3.2%, while expenses increased by 2.9%. Factors contributing to these numbers included:

- The District saw a slight increase in Federal meal reimbursements, as Federal reimbursement rates increased, and the government also offered six cent meal reimbursements for certified menus.
- The food service program also experienced slightly higher expenses, as the District's food service contractor raised the cost charged per meal to help cover its food cost increases. The Drivers Education Fund had very little effect on business-type activities, as very little money flows through this fund.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Marion School District's General Fund balance saw an increase of over \$311,000 during the year, of which was \$265,721.72 from an additional recognition of Utility Taxes (Gross Receipts). The Capital Outlay Fund also saw an increase in fund balance of nearly \$100,000, which was due to limited capital projects & purchases, and very little long-term debt to pay off. The Special Education Fund was the only school fund to experience a decrease in its balance, with nearly \$30,000 of reserves being used to make up for the shortfall on revenues needed to fund the expenses. The Pension Fund balance was nearly even, increasing by about \$3,000, as revenues and expenses were relatively close to the budgeted amounts.

The School's business-type funds saw little change in fund balance. The Food Service Fund gained just over \$6,000 in fund balance, as the budgeted amounts were relatively accurate to the actual amounts. The Marion School District also used the Enterprise Fund exclusively for Drivers Education activities. The revenues and expenses were basically equal, leaving the fund balance just above zero.

BUDGETARY HIGHLIGHTS

The Marion School Budget for fiscal year 2013 was approved with relatively stable budgets for most of its funds. The General Fund, however, was expected to receive less State funding, as a decline in the funding formula forced the school to lower the budget on its General Fund. The School Board voted not to levy any of the \$150,000 in available opt-out monies for the 2013 calendar year, but to rely on other means of funding the General Fund. The Marion School budgeted for an increase in Utility Taxes (Gross Receipts), in addition to recognizing two years worth of these revenues in the 2013 fiscal year, which helped soften the blow of State funding cuts. Shifting certain General Fund expenses to other funds (electricity and natural gas to Capital Outlay and SDRS to Pension Fund) also helped the District lower its General Fund expenditure budget. The Pension Fund saw an increase in its budget, as the District opted to tax the maximum levy of \$0.30/\$1000 for the 2012 calendar year and \$0.25 for the 2013 calendar year. This allowed the District to spend more of its retirement benefit expenses out of this fund, rather than out of the General and Special Education funds. Budget line items were closely watched throughout the year, in order to keep the expenditures within the budgeted amounts.

CAPITAL ASSET ADMINISTRATION

By June of 2013, Marion School had \$2,706,916 invested in capital assets (see Table A-3). This amount represents a net decrease of \$56,790 or (2.05%). This year's major capital asset purchases included a Chevy Equinox and a used minibus. Other capital purchases included classroom remodeling, door handles & locks, computer equipment, and an outdoor basketball court.

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

	Governmental Activities		Business-Type Activities		Total Dollar Change	Total Percentage Change
	2012	2013	2012	2013	2012-2013	2012-2013
Land	158,280	154,680			(3,600)	(2.27)%
Buildings	2,193,721	2,143,603			(50,118)	(2.28)%
Machinery & Equipment	406,564	404,295	5,141	4,339	(3,071)	(0.75)%
Total Capital Assets, Net	\$2,758,565	\$2,702,577	\$5,141	\$4,339	\$(56,790)	(2.05)%

LONG-TERM DEBT

The only long-term debt the school has at this point is a copier lease and sick leave payable for tenured staff.

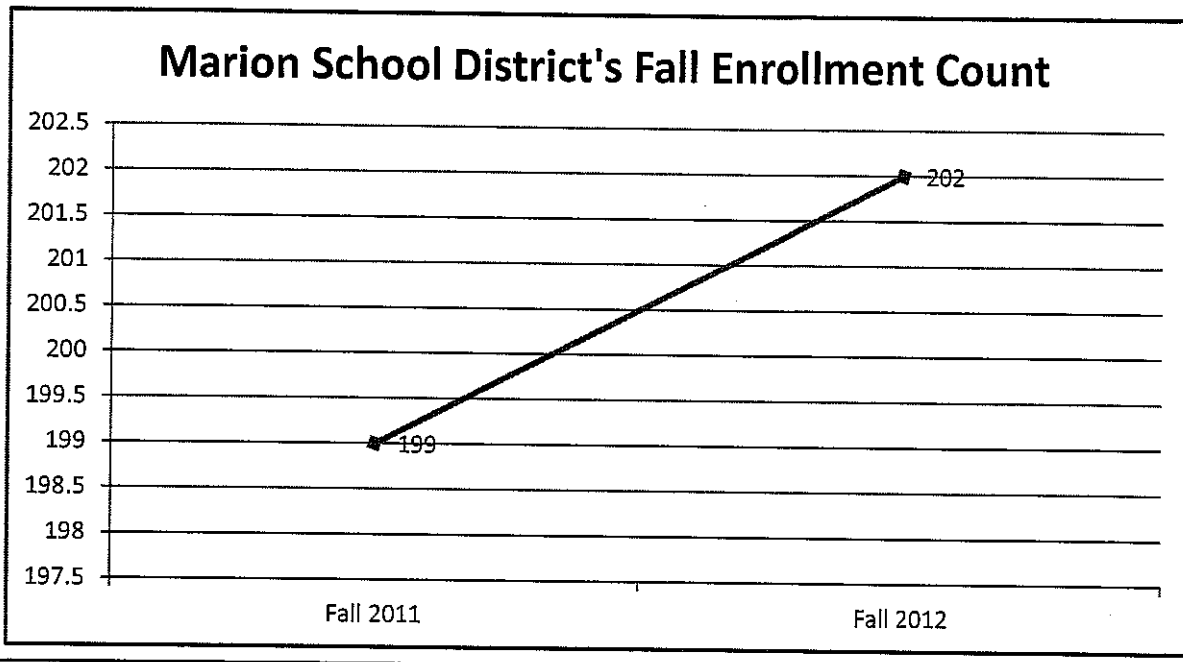
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Marion School District did experience an increase in total property valuation from the previous year. The total amount which can be taxed locally is limited by the State, as the maximum General Fund levy generally drops each year due to rate cuts made by the State legislature. For calendar year 2014, however, the levies for Owner Occupied and Non-Ag/Other (commercial) will increase, while Ag land will see its normal decrease. The Special Education levy will also increase for 2014, from \$1.40/1000 to \$1.552/1000, which will be the fund's first maximum levy increase in quite some time.

One of the primary sources of revenue to the Marion School District is based on a per student allocation, a combination of State Aid and local property taxes, which is set by the State of South Dakota. The General Fund State Aid formula actually saw a decline for the 2012 fiscal year, but increased 2.6% for the 2013 fiscal year. This put the figure at \$4,490.92 per student for FY13, which is still less than the State's highest per student allocation of \$4,804.60 from the 2010 and 2011 fiscal years. Next year's allocation will increase again, this time up 3.0%, putting the State Aid formula at \$4,625.65 per student, or \$178.95 from reaching the high mark in 2010 and 2011.

Though Gross Receipts are expected to remain steady in the District, Marion recognized two years worth of this tax during FY13, because of when the tax was distributed to the counties. Therefore, Gross Receipts revenues will be substantially lower for the 2013/2014 fiscal school year. Marion School District 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. Capital Outlay flexibility will also afford the District the option of paying certain General Fund expenses from the Capital Outlay Fund. Marion will keep this and other factors, such as fund balance reserves, in mind when examining the budget for the upcoming school year.

Marion's K-12 enrollment slightly increased to 202 for the 2012 Fall Count, up from the 2011 Fall Count of 199. 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 District's accountability for the money it receives. If you have any 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 Aaron.Thompson@k12.sd.us.

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF NET POSITION
As of June 30, 2013

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	2,036,477.14	13,451.88	2,049,929.02
Taxes Receivable	550,797.85		550,797.85
Other Assets	274,435.72	4,402.04	278,837.76
Inventories		3,687.10	3,687.10
Capital Assets:			
Land	154,679.61		154,679.61
Other Capital Assets, Net of Depreciation	2,547,897.19	4,339.17	2,552,236.36
TOTAL ASSETS	5,564,287.51	25,880.19	5,590,167.70
LIABILITIES :			
Accounts Payable	58,999.03	50.00	59,049.03
Other Current Liabilities	168,665.82		168,665.82
Deferred Revenue	550,797.85	2,688.65	553,486.50
Noncurrent Liabilities:			
Due Within One Year	19,197.64		19,197.64
Due in More than One Year	37,717.79		37,717.79
TOTAL LIABILITIES	835,378.13	2,738.65	838,116.78
NET POSITION:			
Net Investment in Capital Assets	2,674,983.88	4,339.17	2,679,323.05
Restricted for:			
Capital Outlay Purposes	758,410.74		758,410.74
Special Education Purposes	11,765.14		11,765.14
Pension Purposes	54,511.94		54,511.94
Unrestricted	1,229,237.68	18,802.37	1,248,040.05
TOTAL NET POSITION	4,728,909.38	23,141.54	4,752,050.92
TOTAL LIABILITIES AND NET POSITION	5,564,287.51	25,880.19	5,590,167.70

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, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Instruction	1,177,336.79		110,296.82		(1,067,039.97)		(1,067,039.97)
Support Services	830,655.28		37,774.00		(792,881.28)		(792,881.28)
Community Services	960.48				(960.48)		(960.48)
Cocurricular Activities	108,753.77	17,568.64			(91,185.13)		(91,185.13)
Total Governmental Activities	2,117,706.32	17,568.64	148,070.82	0.00	(1,952,066.86)		(1,952,066.86)
Business-type Activities:							
Food Service	109,847.60	57,275.70	57,000.92			4,429.02	4,429.02
Driver's Education	1,784.10	1,788.00				3.90	3.90
Total Primary Government	2,229,338.02	76,632.34	205,071.74	0.00	(1,952,066.86)	4,432.92	(1,947,633.94)
General Revenues:							
Taxes:							
Property Taxes					1,127,725.36		1,127,725.36
Gross Receipts Taxes					492,673.76		492,673.76
Revenue from State Sources:							
State Aid					634,477.43		634,477.43
Unrestricted Investment Earnings					8,630.32	53.64	8,683.96
Other General Revenues					30,137.96		30,137.96
Transfers					(1,946.36)	1,946.36	0.00
Total General Revenues & Transfers					2,291,698.47	2,000.00	2,293,698.47
Change in Net Position					339,631.61	6,432.92	346,064.53
Net Position - Beginning					4,389,277.77	16,708.62	4,405,986.39
NET POSITION - ENDING					4,728,909.38	23,141.54	4,752,050.92

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, 2013

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	1,139,247.21	801,842.95	29,904.67	60,482.31	2,031,477.14
Advanced Payments	5,000.00				5,000.00
Taxes Receivable--Current	251,657.55	182,334.00	94,543.82	16,881.40	545,416.77
Taxes Receivable--Delinquent	2,971.55	1,505.69	782.57	121.27	5,381.08
Due from State Government	273,283.72				273,283.72
Prepaid Expenses	1,152.00				1,152.00
TOTAL ASSETS	1,673,312.03	985,682.64	125,231.06	77,484.98	2,861,710.71
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	10,587.32	43,432.21	4,979.50		58,999.03
Contracts Payable	122,901.72		9,898.40		132,800.12
Payroll Deductions, Withholdings and Employer Matching Payable	26,633.70		3,261.63	5,970.37	35,865.70
Deferred Revenue	254,629.10	183,839.69	95,326.39	17,002.67	550,797.85
Total Liabilities	414,751.84	227,271.90	113,465.92	22,973.04	778,462.70
Fund Balances:					
Nonspendable					
Prepaid Expense	1,152.00				1,152.00
Restricted:					
Capital Outlay		758,410.74			758,410.74
Special Education			11,765.14		11,765.14
Pension				54,511.94	54,511.94
Assigned for Next Year's Budget	85,000.00				85,000.00
Unassigned	1,172,408.19				1,172,408.19
Total Fund Balances	1,258,560.19	758,410.74	11,765.14	54,511.94	2,083,248.01
TOTAL LIABILITIES AND FUND BALANCES	1,673,312.03	985,682.64	125,231.06	77,484.98	2,861,710.71

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 Position
June 30, 2013

Total Fund Balances - Governmental Funds	<u>2,083,248.01</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	<u>2,702,576.80</u>
Long-term liabilities, including financing (capital acquisition) leases and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(56,915.43)</u>
Net Position - Governmental Activities	<u><u>4,728,909.38</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, 2013

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Revenues:					
Revenue from Local Sources:					
Taxes:					
Ad Valorem Taxes	517,861.64	370,328.53	192,021.43	37,408.13	1,117,619.73
Prior Years' Ad Valorem Taxes	4,131.08	1,827.05	947.58	79.95	6,985.66
Gross Receipts Taxes	492,673.76				492,673.76
Penalties and Interest on Taxes	1,599.76	949.60	492.50	78.11	3,119.97
Earnings on Investments and Deposits	5,061.45	3,195.41	100.03	273.43	8,630.32
Cocurricular Activities:					
Admissions	14,778.64				14,778.64
Other Pupil Activity Income	2,790.00				2,790.00
Other Revenue from Local Sources:					
Rentals	837.56				837.56
Contributions and Donations	559.19	2,918.62			3,477.81
Refund of Prior Years' Expenditures	7,304.08				7,304.08
Charges for Services	14,324.00		23,450.00		37,774.00
Other	2,564.14				2,564.14
Revenue from Intermediate Sources:					
County Sources:					
County Apportionment	11,977.37				11,977.37
Other	3,830.00				3,830.00
Revenue from State Sources:					
Grants-in-Aid:					
Unrestricted Grants-in-Aid	634,477.43				634,477.43
Restricted Grants-in-Aid	7,775.00		30,272.00		38,047.00
Revenue from Federal Sources:					
Grants-in-Aid:					
Restricted Grants-in-Aid Received from Federal Government Through the State	72,249.82				72,249.82
Total Revenue	1,794,794.92	379,219.21	247,283.54	37,839.62	2,459,137.29

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, 2013

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Expenditures:					
Instruction:					
Regular Programs:					
Elementary	309,825.87	57,770.40		12,497.02	380,093.29
Middle/Junior High	119,464.32	11,623.86		3,458.28	134,546.46
High School	324,130.30	56,280.60		11,862.37	392,273.27
Special Programs:					
Programs for Special Education		951.88	173,276.33	3,600.11	177,828.32
Educationally Deprived	56,950.56				56,950.56
Other Special Programs	1,500.00				1,500.00
Support Services:					
Pupils:					
Guidance			368.23		368.23
Health	1,041.41				1,041.41
Psychological					
Speech Pathology			3,769.68		3,769.68
Student Therapy Services			10,680.79		10,680.79
Instructional Staff:			33,421.75		33,421.75
Improvement of Instruction	18,141.27		1,276.68		19,417.95
Educational Media	60,243.83	2,234.90	580.88		63,059.61
General Administration:					
Board of Education	21,717.28		2,277.78		23,995.06
Executive Administration	51,970.56	1,705.17			53,675.73
School Administration:					
Office of the Principal	117,427.46	525.94			117,953.40
Other	568.00				568.00
Business:					
Fiscal Services	111,821.32	1,516.50	9,270.76	3,086.12	125,694.70
Facilities Acquisition and Construction		966.99			966.99
Operation and Maintenance of Plant	151,223.35	66,515.88			217,739.23
Pupil Transportation	51,647.44	181.95			51,829.39
Central:					
Staff	256.25				256.25

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, 2013

	General Fund	Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
Expenditures (Cont.):					
Support Services:					
Special Education:					
Administrative Costs			17,631.67		17,631.67
Transportation Costs			23,063.68		23,063.68
Non-programmed Charges:					
Early Retirement Payments			960.48		960.48
Debt Services		9,197.64			9,197.64
Cocurricular Activities:					
Male Activities	23,283.43				23,283.43
Female Activities	18,788.76				18,788.76
Transportation	6,749.69				6,749.69
Combined Activities	38,104.58	5,278.18			43,382.76
Capital Outlay		66,814.26			66,814.26
Total Expenditures	1,484,855.68	281,564.15	276,578.71	34,503.90	2,077,502.44
Excess of Revenue Over (Under) Expenditures	309,939.24	97,655.06	(29,295.17)	3,335.72	381,634.85
Other Financing Sources:					
Transfers In	3,622.51				3,622.51
Transfers Out	(2,000.00)	(3,195.41)	(100.03)	(273.43)	(5,568.87)
Sale of Surplus Property		5,342.00			5,342.00
Total Other Financing Sources	1,622.51	2,146.59	(100.03)	(273.43)	3,395.64
Net Change in Fund Balances	311,561.75	99,801.65	(29,395.20)	3,062.29	385,030.49
Fund Balance - Beginning	946,998.44	658,609.09	41,160.34	51,449.65	1,698,217.52
FUND BALANCE - ENDING	<u>1,258,560.19</u>	<u>758,410.74</u>	<u>11,765.14</u>	<u>54,511.94</u>	<u>2,083,248.01</u>

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, 2013

Net Change in Fund Balances - Total Governmental Funds	<u>385,030.49</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 depreciation exceeded capital outlays in the current period.	<u>(50,792.90)</u>
Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.	<u>9,197.64</u>
In the statement of activities, gains and losses on 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>(5,195.00)</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>1,391.38</u>
Change in Net Position of Governmental Activities	<u><u>339,631.61</u></u>

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

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2013

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Food Service Fund</u>	<u>Drivers Education Fund</u>	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	11,767.98	1,683.90	13,451.88
Accounts Receivable, Net	4,402.04		4,402.04
Inventory of Supplies	556.58		556.58
Inventory of Stores Purchased for Resale	1,002.51		1,002.51
Inventory of Donated Food	2,128.01		2,128.01
Total Current Assets	<u>19,857.12</u>	<u>1,683.90</u>	<u>21,541.02</u>
Noncurrent Assets:			
Capital Assets:			
Machinery and Equipment--Local Funds	47,945.41		47,945.41
Less: Accumulated Depreciation	(43,606.24)		(43,606.24)
Total Noncurrent Assets	<u>4,339.17</u>	<u>0.00</u>	<u>4,339.17</u>
TOTAL ASSETS	<u>24,196.29</u>	<u>1,683.90</u>	<u>25,880.19</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	50.00		50.00
Deferred Revenue	1,008.65	1,680.00	2,688.65
Total Current Liabilities	<u>1,058.65</u>	<u>1,680.00</u>	<u>2,738.65</u>
NET POSITION:			
Net Investment in Capital Assets	4,339.17		4,339.17
Unrestricted Net Position	18,798.47	3.90	18,802.37
Total Net Position	<u>23,137.64</u>	<u>3.90</u>	<u>23,141.54</u>
TOTAL LIABILITIES AND NET POSITION	<u>24,196.29</u>	<u>1,683.90</u>	<u>25,880.19</u>

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 POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Enterprise Fund		Totals
	Food Service Fund	Drivers Education Fund	
Operating Revenue:			
Food Sales:			
Students	52,165.65		52,165.65
Adults	4,525.30		4,525.30
Ala Carte	584.75		584.75
Other Charges for Goods and Services		1,788.00	1,788.00
Total Operating Revenue	57,275.70	1,788.00	59,063.70
Operating Expenses:			
Salaries		1,360.00	1,360.00
Employee Benefits		103.98	103.98
Purchased Services	101,050.20	28.00	101,078.20
Supplies	651.52	292.12	943.64
Cost of Sales - Purchased	306.03		306.03
Cost of Sales - Donated	7,037.96		7,037.96
Depreciation	801.89		801.89
Total Operating Expenses	109,847.60	1,784.10	111,631.70
Operating Income (Loss)	(52,571.90)	3.90	(52,568.00)
Nonoperating Revenue:			
Investment Earnings	52.20	1.44	53.64
State Grants	895.38		895.38
Federal Grants	48,888.52		48,888.52
Donated Food	7,217.02		7,217.02
Total Nonoperating Revenue (Expense)	57,053.12	1.44	57,054.56
Income (Loss) Before Contributions and Transfers	4,481.22	5.34	4,486.56
Transfers In	2,000.00		2,000.00
Transfers Out	(52.20)	(1.44)	(53.64)
Change in Net Position	6,429.02	3.90	6,432.92
Net Position - Beginning	16,708.62	0.00	16,708.62
NET POSITION - ENDING	23,137.64	3.90	23,141.54

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

MARION SCHOOL DISTRICT 60-3
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Enterprise Fund		Totals
	Food Service Fund	Drivers Education Fund	
Cash Flows from Operating Activities:			
Cash Receipts from Customers	57,290.50	1,890.00	59,180.50
Cash Payments to Employees for Services		(2,405.98)	(2,405.98)
Cash Payments to Suppliers for Goods or Services	(101,319.58)	(320.12)	(101,639.70)
Net Cash Provided (Used) by Operating Activities	<u>(44,029.08)</u>	<u>(836.10)</u>	<u>(44,865.18)</u>
Cash Flows from Noncapital Financing Activities:			
Transfers from General Fund	2,000.00		2,000.00
Transfers to General Fund	(52.20)	(1.44)	(53.64)
Operating Grants	49,783.90		49,783.90
Net Cash Provided (Used) from Noncapital Financing Activities	<u>51,731.70</u>	<u>(1.44)</u>	<u>51,730.26</u>
Cash Flows from Investing Activities:			
Cash Received for Interest	52.20	1.44	53.64
Net Cash Provided (Used) from Investing Activities	<u>52.20</u>	<u>1.44</u>	<u>53.64</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>7,754.82</u>	<u>(836.10)</u>	<u>6,918.72</u>
Cash and Cash Equivalents at Beginning of Year	4,013.16	2,520.00	6,533.16
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>11,767.98</u>	<u>1,683.90</u>	<u>13,451.88</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(52,571.90)	3.90	(52,568.00)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	801.89		801.89
Value of Donated Commodities Used	7,037.96		7,037.96
Change in Assets and Liabilities:			
Receivables	105.55		105.55
Inventories	638.17		638.17
Accounts and Other Payables	50.00		50.00
Accrued Wages Payable		(942.00)	(942.00)
Deferred Revenue	(90.75)	102.00	11.25
Net Cash Provided (Used) by Operating Activities	<u>(44,029.08)</u>	<u>(836.10)</u>	<u>(44,865.18)</u>
Noncash Investing, Capital and Financing Activities:			
Value of Commodities Received	7,217.02		7,217.02

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

MARION SCHOOL DISTRICT NO. 60-3
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
As of June 30, 2013

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	<u>24,457.21</u>
TOTAL ASSETS	<u><u>24,457.21</u></u>
LIABILITIES:	
Amounts Held for Others	<u>24,457.21</u>
Total Liabilities	<u>24,457.21</u>
NET POSITION	<u>0.00</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>24,457.21</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

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

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

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position 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 Position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position are displayed in three components, as applicable, net investment in capital assets, 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 may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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.

Drivers Education Fund – A fund used to record financial transactions related to the driver's education operations. This fund is financed by user charges. 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 Position 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position 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).

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. The revenues that were accrued at June 30, 2013, were grants from the State of South Dakota and gross receipts taxes.

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.

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 Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 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 position and is displayed in three components.

1. Net investment in capital assets – 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 position – Consists of net position 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 position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

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 position held in trust for other purposes.

i. Application of Net Position:

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

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

- 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.
- 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 Nonspendable Fund Balance is comprised of the following:

- Amount reported in non-spendable form such as prepaid items.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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.

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 held for consumption is stated at cost. Inventory for resale 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, 2013, 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.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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."

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2013, is as follows:

Primary Government

	Balance 07/01/12	Increases	Decreases	Balance 06/30/13
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	158,279.61	0.00	(3,600.00)	154,679.61
Capital Assets, being depreciated:				
Buildings	2,683,712.32	6,048.53		2,689,760.85
Machinery & Equipment	731,489.17	60,765.73	(7,975.00)	784,279.90
Total, being depreciated	<u>3,415,201.49</u>	<u>66,814.26</u>	<u>(7,975.00)</u>	<u>3,474,040.75</u>
Less Accumulated Depreciation for:				
Buildings	(489,991.51)	(56,166.74)		(546,158.25)
Machinery & Equipment	(324,924.89)	(61,440.42)	6,380.00	(379,985.31)
Total Accumulated Depreciation	<u>(814,916.40)</u>	<u>(117,607.16)</u>	<u>6,380.00</u>	<u>(926,143.56)</u>
Total Capital Assets, being depreciated, net	<u>2,600,285.09</u>	<u>(50,792.90)</u>	<u>(1,595.00)</u>	<u>2,547,897.19</u>
Governmental Activity Capital Assets, Net	<u><u>2,758,564.70</u></u>	<u><u>(50,792.90)</u></u>	<u><u>(5,195.00)</u></u>	<u><u>2,702,576.80</u></u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	35,536.27
Support Services	65,521.76
Co-curricular Activities	16,549.13
Total Depreciation Expense - Governmental Activities	<u><u>117,607.16</u></u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	Balance 07/01/12	Increases	Decreases	Balance 06/30/13
Business-Type Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	47,945.41			47,945.41
Less Accumulated Depreciation for:				
Machinery & Equipment	(42,804.35)	(801.89)		(43,606.24)
Total Capital Assets, being depreciated, net	5,141.06	(801.89)	0.00	4,339.17
Business-Type Activity Capital Assets, Net	5,141.06	(801.89)	0.00	4,339.17

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Food Services	801.89
Total Depreciation Expense - Business-Type Activities	801.89

7. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Financing (Capital Acquisition)					
Leases	36,790.56		9,197.64	27,592.92	9,197.64
Accrued Compensated Absences	30,713.89	10,697.15	12,088.53	29,322.51	10,000.00
Total Governmental Activities	67,504.45	10,697.15	21,286.17	56,915.43	19,197.64
TOTAL PRIMARY GOVERNMENT	67,504.45	10,697.15	21,286.17	56,915.43	19,197.64

Liabilities payable at June 30, 2013, is comprised of the following:

PRIMARY GOVERNMENT
Governmental Activities:

<u>Financing (Capital Acquisition) Leases:</u>	
Copier Financing (Capital Acquisition) Lease	\$ 27,592.92
Matures 6-30-2016, Interest Rate 0.0%, Paid by Capital Outlay Fund	

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The purchase price at the commencement of the financing (capital acquisition) lease was:

Principal	\$ 45,988.20
Interest	0.00
TOTAL	\$ 45,988.20

Compensated Absences:

Accrued Sick Leave	\$ 29,322.51
Payable from General Fund	

The annual debt service requirements to maturity, except for compensated absences, for all debt outstanding as of June 30, 2013, are as follows:

Annual Requirements to Maturity for Long-Term Debt
June 30, 2013

Year Ending June 30,	Financing (Capital Acquisition) Leases - Copiers	
	Principal	Interest
2014	9,197.64	
2015	9,197.64	
2016	9,197.64	
Totals	<u>27,592.92</u>	<u>0.00</u>

8. RESTRICTED NET POSITION

Restricted net position for the fiscal year ended June 30, 2013 was as follows:

<u>FUND:</u>	<u>Restricted By:</u>	<u>Amount</u>
Capital Outlay	Law	\$ 758,410.74
Special Education	Law	11,765.14
Pension	Law	54,511.94
Total Restricted Net Assets		<u>\$ 824,687.82</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2013 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>		<u>Totals</u>
	<u>General Fund</u>	<u>Food Service Fund</u>	
Major Funds:			
General	\$ -	\$ 2,000.00	\$ 2,000.00
Capital Outlay	3,195.41		3,195.41
Special Education	100.03		100.03
Pension	273.43		273.43
Food Service	52.20		52.20
Driver's Education	1.44		1.44
Totals	\$ 3,622.51	\$ 2,000.00	\$ 5,622.51

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. A transfer was also made from the General Fund to the Food Service Fund to conduct indispensable functions of the School District.

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, 2013, 2012 and 2011, were \$59,441.40, \$58,204.19, and \$58,486.88, 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.

See Independent Auditor's Report.

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	7.71%
Canistota School District No. 43-1	5.50%
Freeman School District No. 33-1	10.21%
Hanson School District No. 30-1	10.35%
Marion School District No. 60-3	5.24%
McCook School District No. 43-7	11.19%
Montrose School District No. 43-2	5.45%
Parker School District No. 60-4	8.84%
Tea Area School District No. 41-5	35.51%

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 position 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, 2013, this joint venture had total assets of \$714,908.33, total liabilities of \$221,039.82 and net position of \$493,868.51.

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, 2013, 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, 2013, no claims were filed for unemployment benefits. At June 30, 2013, no claims for unemployment benefits had been filed and none are anticipated in the next fiscal year.

13. SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2013, 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, 2013

	<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	513,000.00	513,000.00	517,861.64	4,861.64
Prior Years' Ad Valorem Taxes	2,500.00	2,500.00	4,131.08	1,631.08
Utility Taxes	225,000.00	225,000.00	492,673.76	267,673.76
Penalties and Interest on Taxes	1,000.00	1,000.00	1,599.76	599.76
Earnings on Investments and Deposits	6,000.00	6,000.00	5,061.45	(938.55)
Cocurricular Activities:				
Admissions	16,300.00	16,300.00	14,778.64	(1,521.36)
Other Pupil Activity Income	3,500.00	3,500.00	2,790.00	(710.00)
Other Revenue from Local Sources:				
Rentals	600.00	600.00	837.56	237.56
Contributions and Donations	500.00	500.00	559.19	59.19
Refund of Prior Year's Expenditures	250.00	7,250.00	7,304.08	54.08
Charges for Services	11,500.00	11,500.00	14,324.00	2,824.00
Other	250.00	250.00	2,564.14	2,314.14
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	11,000.00	11,000.00	11,977.37	977.37
Other	0.00	0.00	3,830.00	3,830.00
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	621,500.00	621,500.00	634,477.43	12,977.43
Restricted Grants-in-Aid	5,000.00	5,000.00	7,775.00	2,775.00
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	66,000.00	72,000.00	72,249.82	249.82
Total Revenue	1,483,900.00	1,496,900.00	1,794,794.92	297,894.92
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	318,400.00	318,400.00	309,825.87	8,574.13
Middle/Junior High	119,200.00	122,200.00	119,464.32	2,735.68
High School	315,100.00	318,100.00	324,130.30	(6,030.30)
Special Programs:				
Educationally Deprived	52,000.00	52,000.00	56,950.56	(4,950.56)
Other Special Programs	5,000.00	5,000.00	1,500.00	3,500.00

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2013

	<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>		
Expenditures (Cont.):				
Support Services:				
Pupils:				
Health	1,350.00	1,350.00	1,041.41	308.59
Instructional Staff:				
Improvement of Instruction	10,000.00	10,000.00	18,141.27	(8,141.27)
Educational Media	61,720.00	61,720.00	60,243.83	1,476.17
General Administration:				
Board of Education	25,350.00	25,350.00	21,717.28	3,632.72
Executive Administration	47,850.00	47,850.00	51,970.56	(4,120.56)
School Administration:				
Office of the Principal	119,650.00	119,650.00	117,427.46	2,222.54
Other	750.00	750.00	568.00	182.00
Business:				
Fiscal Services	113,100.00	113,100.00	111,821.32	1,278.68
Operation and Maintenance of Plant	159,550.00	159,550.00	151,223.35	8,326.65
Pupil Transportation	61,300.00	61,300.00	51,647.44	9,652.56
Central:				
Staff	700.00	700.00	256.25	443.75
Non-Programmed Charges:				
Payments to State - Unemployment	3,000.00	3,000.00	0.00	3,000.00
Cocurricular Activities:				
Male Activities	24,377.00	24,377.00	23,283.43	1,093.57
Female Activities	20,503.00	20,503.00	18,788.76	1,714.24
Transportation	10,960.00	10,960.00	6,749.69	4,210.31
Combined Activities	45,400.00	45,400.00	38,104.58	7,295.42
Total Expenditures	<u>1,515,260.00</u>	<u>1,521,260.00</u>	<u>1,484,855.68</u>	<u>36,404.32</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(31,360.00)</u>	<u>(24,360.00)</u>	<u>309,939.24</u>	<u>334,299.24</u>
Other Financing Sources (Uses):				
Transfers In	3,660.00	3,660.00	3,622.51	(37.49)
Transfers Out	(2,300.00)	(2,300.00)	(2,000.00)	300.00
Total Other Financing Sources (Uses)	<u>1,360.00</u>	<u>1,360.00</u>	<u>1,622.51</u>	<u>262.51</u>
Net Change in Fund Balances	<u>(30,000.00)</u>	<u>(23,000.00)</u>	<u>311,561.75</u>	<u>334,561.75</u>
Fund Balance - Beginning	946,998.44	946,998.44	946,998.44	0.00
FUND BALANCE - ENDING	<u>916,998.44</u>	<u>923,998.44</u>	<u>1,258,560.19</u>	<u>334,561.75</u>

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	355,000.00	355,000.00	370,328.53	15,328.53
Prior Years' Ad Valorem Taxes	1,000.00	1,000.00	1,827.05	827.05
Penalties and Interest on Taxes	700.00	700.00	949.60	249.60
Earnings on Investments and Deposits	3,000.00	3,000.00	3,195.41	195.41
Other Revenue from Local Sources:				
Contributions and Donations	5,000.00	5,000.00	2,918.62	(2,081.38)
Total Revenue	364,700.00	364,700.00	379,219.21	14,519.21
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	20,000.00	67,000.00	61,656.40	5,343.60
Middle/Junior High	22,000.00	22,000.00	13,989.86	8,010.14
High School	45,000.00	57,000.00	56,280.60	719.40
Special Programs:				
Programs for Special Education	0.00	1,000.00	951.88	48.12
Support Services:				
Instructional Staff:				
Educational Media	17,000.00	17,000.00	2,234.90	14,765.10
General Administration:				
Executive Administration	2,500.00	2,500.00	1,705.17	794.83
School Administration:				
Office of the Principal	1,000.00	1,000.00	525.94	474.06
Business:				
Fiscal Services	3,000.00	3,000.00	1,516.50	1,483.50
Facilities Acquisition and Construction	45,000.00	45,000.00	13,948.02	31,051.98
Operation and Maintenance of Plant	150,000.00	150,000.00	101,597.11	48,402.89
Pupil Transportation	37,200.00	37,200.00	12,681.95	24,518.05
Debt Services	10,000.00	10,000.00	9,197.64	802.36
Cocurricular Activities:				
Combined Activities	10,000.00	10,000.00	5,278.18	4,721.82
Total Expenditures	362,700.00	422,700.00	281,564.15	141,135.85
Excess of Revenue Over (Under)				
Expenditures	2,000.00	(58,000.00)	97,655.06	155,655.06
Other Financing Sources (Uses):				
Transfers Out	(3,000.00)	(3,000.00)	(3,195.41)	(195.41)
Sale of Surplus Property	1,000.00	6,000.00	5,342.00	(658.00)
Total Other Financing Sources(Uses)	(2,000.00)	3,000.00	2,146.59	(853.41)
Net Change in Fund Balances	0.00	(55,000.00)	99,801.65	154,801.65
Fund Balance - Beginning	658,609.09	658,609.09	658,609.09	0.00
FUND BALANCE - ENDING	658,609.09	603,609.09	758,410.74	154,801.65

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2013

	<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	188,500.00	188,500.00	192,021.43	3,521.43
Prior Years' Ad Valorem Taxes	1,000.00	1,000.00	947.58	(52.42)
Penalties and Interest on Taxes	400.00	400.00	492.50	92.50
Earnings on Investments and Deposits	400.00	400.00	100.03	(299.97)
Other Revenue from Local Sources:				
Charges for Services	21,700.00	21,700.00	23,450.00	1,750.00
Revenue from State Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid	31,000.00	31,000.00	30,272.00	(728.00)
Total Revenue	243,000.00	243,000.00	247,283.54	4,283.54
Expenditures:				
Instruction:				
Special Programs:				
Programs for Special Education	219,506.25	219,506.25	173,276.33	46,229.92
Support Services:				
Pupils:				
Guidance	368.22	368.22	368.23	(0.01)
Psychological	3,769.69	3,769.69	3,769.68	0.01
Speech Pathology	10,680.79	10,680.79	10,680.79	0.00
Student Therapy Services	0.00	34,450.00	33,421.75	1,028.25
Instructional Staff:				
Improvement of Instruction	1,276.68	1,276.68	1,276.68	0.00
Educational Media	580.86	580.86	580.88	(0.02)
General Administration				
Board of Education	2,277.78	2,277.78	2,277.78	0.00
Business:				
Fiscal Services	9,270.77	9,270.77	9,270.76	0.01
Special Education:				
Administrative Costs	14,108.48	17,658.48	17,631.67	26.81
Transportation Costs	29,800.00	29,800.00	23,063.68	6,736.32
Nonprogrammed Charges:				
Early Retirement Payments	960.48	960.48	960.48	0.00
Total Expenditures	292,600.00	330,600.00	276,578.71	54,021.29
Excess of Revenue Over (Under) Expenditures	(49,600.00)	(87,600.00)	(29,295.17)	58,304.83
Other Financing Sources (Uses):				
Transfers Out	(400.00)	(400.00)	(100.03)	299.97
Total Other Financing Sources (Uses)	(400.00)	(400.00)	(100.03)	299.97
Net Change in Fund Balances	(50,000.00)	(88,000.00)	(29,395.20)	58,604.80
Fund Balance - Beginning	41,160.34	41,160.34	41,160.34	0.00
FUND BALANCE - ENDING	(8,839.66)	(46,839.66)	11,765.14	58,604.80

REQUIRED SUPPLEMENTARY INFORMATION
MARION SCHOOL DISTRICT NO. 60-3
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	36,000.00	36,000.00	37,408.13	1,408.13
Prior Years' Ad Valorem Taxes	50.00	50.00	79.95	29.95
Penalties and Interest on Taxes	50.00	50.00	78.11	28.11
Earnings on Investments and Deposits	200.00	200.00	273.43	73.43
Total Revenue	36,300.00	36,300.00	37,839.62	1,539.62
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	13,500.00	13,500.00	12,497.02	1,002.98
Middle/Junior High	3,600.00	3,600.00	3,458.28	141.72
High School	12,000.00	12,000.00	11,862.37	137.63
Special Programs:				
Programs for Special Education	4,000.00	4,000.00	3,600.11	399.89
Support Services:				
Business:				
Fiscal Services	3,000.00	3,000.00	3,086.12	(86.12)
Total Expenditures	36,100.00	36,100.00	34,503.90	1,596.10
Excess of Revenue Over (Under) Expenditures	200.00	200.00	3,335.72	3,135.72
Other Financing Sources (Uses):				
Transfers Out	(200.00)	(200.00)	(273.43)	(73.43)
Total Other Financing Sources (Uses)	(200.00)	(200.00)	(273.43)	(73.43)
Net Change in Fund Balances	0.00	0.00	3,062.29	3,062.29
Fund Balance - Beginning	51,449.65	51,449.65	51,449.65	0.00
FUND BALANCE - ENDING	51,449.65	51,449.65	54,511.94	3,062.29

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013

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.

