

MARATHON INDEPENDENT SCHOOL DISTRICT
Annual Financial Report
Year Ended August 31, 2013

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CERTIFICATE OF THE BOARD

MARATHON INDEPENDENT SCHOOL DISTRICT
Name of School District

BREWSTER
County

022-902
County -
District
Number

We, the undersigned, certify that the attached annual financial report of the above-named School District was reviewed and

X approved ___ disapproved for the year ended August 31, 2013, at a meeting of the Board of Trustees of such School District
(Check One)

on the _____ day of _____, 20__.

Charles Sansom
Signature of Board Acting Secretary

Donaciano Fuentez
Signature of Board President

If the Board of Trustees disapproved the annual financial report, the reason(s) for disapproving it is (are) (attach list as necessary):

FINANCIAL SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Calvin Featherston, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Marathon Independent School District
P.O. Box 416
Marathon, TX 79842-0416

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marathon Independent School District as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe 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, each major fund, and the aggregate remaining fund information of the Marathon Independent School District as of August 31, 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 31, respectively, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marathon Independent School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013, on our consideration of the Marathon Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Marathon Independent School District's internal control over financial reporting and compliance.

Eckert & Company, LLP

San Angelo, Texas
December 27, 2013

Marathon ISD
"Home of the Mustangs"

P.O. Box 416
109 N. 5th Street
Marathon, Texas 79842

Evelyn Loeffler, Superintendent

Phone 432-386-4431
FAX 432-386-4395

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Marathon Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2013. It should be read in conjunction with the District's basic financial statements and independent auditors' report.

Financial Highlights

The District's assets exceeded its liabilities at the end of the current year by \$1,853,806 (net position). Of this amount, \$1,283,727 (unrestricted) may be used to meet the District's ongoing obligations.

The District's total net position increased by \$485,219 or 35%. This amount consists of a \$347,281 increase attributable to current year operations, an increase of \$90,000 due to an extraordinary item (resource) as explained in Note IV., J. of notes to the financial statements, and a \$47,938 increase attributable to prior period adjustments. The District's statement of activities shows total revenues of \$1,507,832, an extraordinary item (resource) of \$90,000, and total expenses of \$1,160,551.

The total fund balance of the General Fund is \$1,260,040 which is an increase of \$256,043 or 26% compared to the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Overview of the Financial Statements - Continued

The governmental activities of the District include all activities related to public elementary and secondary education within the jurisdiction of the District.

The District has no component units.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the current year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Special Revenue Fund for Title I, Part A - Improving Basic Programs, both of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund and Food Service Special Revenue Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with the budget for each fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis

Net Position - A summary of the District’s net position is presented below:

NET POSITION

	Governmental Activities	
	August 31,	
	2013	2012
Current and Other Assets	\$ 1,341,420	\$ 1,073,435
Capital Assets	586,096	381,279
Total Assets	\$ 1,927,516	\$ 1,454,714
Long-Term Liabilities Outstanding	\$ 17,086	\$ 33,329
Other Liabilities	56,624	52,798
Total Liabilities	\$ 73,710	\$ 86,127
Net Position		
Net Investment in Capital Assets	\$ 568,865	\$ 347,588
Restricted for Federal and State Programs	1,214	0
Unrestricted	1,283,727	1,020,999
Total Net Position	\$ 1,853,806	\$ 1,368,587

A large portion of the District's net position (\$568,865) reflects the District's investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide public elementary and secondary education within the jurisdiction of the District; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District’s net position (\$1,214) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$1,283,727) may be used to meet the District’s ongoing obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis - Continued

Governmental Activities - Governmental activities increased the District's net position by \$347,281 and \$348,293 for the fiscal years ended August 31, 2013 and 2012, respectively. Key elements of these increases are as follows:

CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended August 31,	
	2013	2012
Revenues		
Program Revenues		
Operating Grants and Contributions	\$ 118,475	\$ 138,277
Charges for Services	0	564
General Revenues		
Maintenance and Operations Taxes	768,080	743,716
State Aid - Formula Grants	583,137	531,633
Other	38,140	59,314
Total Revenues	\$ 1,507,832	\$ 1,473,504
Expenses		
Instruction and Instructional-Related Services	\$ 668,922	\$ 655,264
Instructional and School Leadership	81,161	77,635
Support Services - Student (Pupil)	37,750	43,205
Administrative Support Services	236,355	190,690
Support Services - Nonstudent Based	123,809	149,667
Debt Service - Interest on Long Term Debt	1,354	362
Intergovernmental Charges	11,200	8,388
Total Expenses	\$ 1,160,551	\$ 1,125,211
Change in Net Position Before Extraordinary Item	\$ 347,281	\$ 348,293
Extraordinary Item Resource (Use)	90,000	25,000
Net Position - Beginning	1,368,587	972,214
Prior Period Adjustments	47,938	23,080
Net Position - Ending	\$ 1,853,806	\$ 1,368,587

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the current year.

The District's governmental funds reported combined ending fund balances of \$1,261,254, an increase of \$257,257 or 26% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$1,260,040. Of this balance \$90,000 is committed for future construction.

Special Revenue Funds \$1,214. This balance is restricted for Child Nutrition programs.

General Fund Budget

The original budget for the General Fund was \$1,138,576 and the final amended budget was \$1,198,257, which represents a \$59,681 increase in appropriations. Significant variances between the original budget and the final amended budget were increases of \$36,181 in Instruction, \$18,400 in Extracurricular Activities, and \$11,200 in Payments to Fiscal Agent of SSA.

The District has adopted a budget for the General Fund in the amount of \$1,267,482 for the fiscal year 2014, which is an increase of \$69,225 from the fiscal year 2013.

Capital Assets and Debt

Capital Assets - Financial statement footnote III., D. discloses the District's capital asset activity for the year ended August 31, 2013.

Long-Term Debt - Financial statement footnote III., G. discloses the District's debt activity for the year ended August 31, 2013.

Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Evelyn Loeffler, Superintendent, Marathon Independent School District, P.O. Box 416, Marathon, TX 79842-0416.

Basic Financial Statements

MARATHON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2013

Data Control Codes	Governmental Activities
<hr/>	
ASSETS	
1110 Cash and Temporary Investments	\$ 1,243,829
1220 Property Taxes Receivable (Delinquent)	43,295
1230 Allowance for Uncollectible Taxes	(19,608)
1240 Due from Other Governments	71,903
1250 Accrued Interest	56
1267 Due from Fiduciary Funds	1,945
Capital Assets:	
1510 Land	25,000
1520 Buildings, Net	433,864
1530 Furniture and Equipment, Net	127,232
1000 Total Assets	<u>1,927,516</u>
LIABILITIES	
2110 Accounts Payable	16,674
2140 Interest Payable	145
2160 Accrued Wages Payable	21,700
2300 Unearned Revenue	18,105
Noncurrent Liabilities	
2501 Due Within One Year	17,086
2000 Total Liabilities	<u>73,710</u>
NET POSITION	
3200 Net Investment in Capital Assets	568,865
3820 Restricted for Federal and State Programs	1,214
3900 Unrestricted	1,283,727
3000 Total Net Position	<u>\$ 1,853,806</u>

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

MARATHON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 665,800	\$ -	\$ 98,080	\$ (567,720)
12 Instructional Resources and Media Services	200	-	-	(200)
13 Curriculum and Instructional Staff Development	2,922	-	-	(2,922)
21 Instructional Leadership	2,647	-	2,647	-
23 School Leadership	78,514	-	4,746	(73,768)
31 Guidance, Counseling, and Evaluation Services	1,117	-	-	(1,117)
35 Food Services	7,524	-	8,738	1,214
36 Extracurricular Activities	29,109	-	316	(28,793)
41 General Administration	236,355	-	2,295	(234,060)
51 Facilities Maintenance and Operations	123,809	-	1,653	(122,156)
72 Debt Service - Interest on Long-Term Debt	1,354	-	-	(1,354)
93 Payments Related to Shared Services Arrangements	11,200	-	-	(11,200)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 1,160,551</u>	<u>\$ -</u>	<u>\$ 118,475</u>	<u>\$ (1,042,076)</u>

Data Control Codes	General Revenues:		
Codes	Taxes:		
MT	Property Taxes, Levied for General Purposes		768,080
SF	State Aid - Formula Grants		583,137
IE	Investment Earnings		2,871
MI	Miscellaneous Local and Intermediate Revenue		35,269
E1	Extraordinary Item - Resource		90,000
TR	Total General Revenues & Extraordinary Items		<u>1,479,357</u>
CN	Change in Net Position		437,281
NB	Net Position - Beginning		1,368,587
PA	Prior Period Adjustment		47,938
NE	Net Position--Ending		<u>\$ 1,853,806</u>

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

MARATHON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2013

Data Control Codes	10 General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Temporary Investments	\$ 1,243,829	\$ -	\$ -	\$ 1,243,829
1220 Property Taxes - Delinquent	43,295	-	-	43,295
1230 Allowance for Uncollectible Taxes (Credit)	(19,608)	-	-	(19,608)
1240 Due from Other Governments	18,220	46,971	6,712	71,903
1250 Accrued Interest	56	-	-	56
1260 Due from Other Funds	55,628	-	1,693	57,321
1000 Total Assets	<u>\$ 1,341,420</u>	<u>\$ 46,971</u>	<u>\$ 8,405</u>	<u>\$ 1,396,796</u>
LIABILITIES				
2110 Accounts Payable	\$ 16,195	\$ -	\$ 479	\$ 16,674
2160 Accrued Wages Payable	21,700	-	-	21,700
2170 Due to Other Funds	1,693	46,971	6,712	55,376
2300 Unearned Revenue	18,105	-	-	18,105
2000 Total Liabilities	<u>57,693</u>	<u>46,971</u>	<u>7,191</u>	<u>111,855</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	23,687	-	-	23,687
2600 Total Deferred Inflows of Resources	<u>23,687</u>	<u>-</u>	<u>-</u>	<u>23,687</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	1,214	1,214
Committed Fund Balance:				
3510 Construction	90,000	-	-	90,000
3600 Unassigned Fund Balance	1,170,040	-	-	1,170,040
3000 Total Fund Balances	<u>1,260,040</u>	<u>-</u>	<u>1,214</u>	<u>1,261,254</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,341,420</u>	<u>\$ 46,971</u>	<u>\$ 8,405</u>	<u>\$ 1,396,796</u>

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

MARATHON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2013

Total Fund Balances - Governmental Funds	\$	1,261,254
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. In addition, long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund statements. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		347,588
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they are shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including capital outlays and long-term debt payments is to increase net position.		248,104
3 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(27,044)
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		23,904
19 Net Position of Governmental Activities	\$	1,853,806

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

MARATHON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	10 General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 799,535	\$ -	\$ -	\$ 799,535
5800 State Program Revenues	618,337	-	-	618,337
5900 Federal Program Revenues	-	46,971	36,304	83,275
5020 Total Revenues	<u>1,417,872</u>	<u>46,971</u>	<u>36,304</u>	<u>1,501,147</u>
EXPENDITURES:				
Current:				
0011 Instruction	573,528	44,324	27,566	645,418
0012 Instructional Resources and Media Services	200	-	-	200
0013 Curriculum and Instructional Staff Development	2,922	-	-	2,922
0021 Instructional Leadership	-	2,647	-	2,647
0023 School Leadership	75,734	-	-	75,734
0031 Guidance, Counseling, and Evaluation Services	1,117	-	-	1,117
0035 Food Services	-	-	7,524	7,524
0036 Extracurricular Activities	28,904	-	-	28,904
0041 General Administration	233,969	-	-	233,969
0051 Facilities Maintenance and Operations	354,379	-	-	354,379
Debt Service:				
0071 Principal on Long-Term Debt	16,243	-	-	16,243
0072 Interest on Long-Term Debt	1,571	-	-	1,571
Intergovernmental:				
0093 Payments to Fiscal Agent of SSA	11,200	-	-	11,200
6030 Total Expenditures	<u>1,299,767</u>	<u>46,971</u>	<u>35,090</u>	<u>1,381,828</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>118,105</u>	<u>-</u>	<u>1,214</u>	<u>119,319</u>
EXTRAORDINARY ITEMS:				
7919 Extraordinary Item - Resource	90,000	-	-	90,000
1200 Net Change in Fund Balances	208,105	-	1,214	209,319
0100 Fund Balance - September 1 (Beginning)	1,003,997	-	-	1,003,997
1300 Increase (Decrease) in Fund Balance	47,938	-	-	47,938
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,260,040</u>	<u>\$ -</u>	<u>\$ 1,214</u>	<u>\$ 1,261,254</u>

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

MARATHON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	209,319
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they are shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including capital outlays and long-term debt payments is to increase net position.		248,104
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(27,044)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		6,902
Change in Net Position of Governmental Activities	<u>\$</u>	<u>437,281</u>

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

MARATHON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2013

EXHIBIT D-1

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash	\$ -	\$ 2,475
Restricted Assets	32,513	-
Total Assets	32,513	\$ 2,475
LIABILITIES		
Due to Other Funds	-	\$ 1,945
Due to Student Groups	-	530
Total Liabilities	-	\$ 2,475
NET POSITION		
Restricted for Scholarships	32,513	
Total Net Position	\$ 32,513	

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

MARATHON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 2,071
Total Additions	<u>2,071</u>
Change in Net Position	2,071
Total Net Position - September 1 (Beginning)	<u>30,442</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 32,513</u></u>

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

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
August 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Marathon Independent School District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally the District complies with the requirements of the Texas Education Agency's *Financial Accountability System Resource Guide* (the *Resource Guide*) and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The District is governed by the Board of Trustees, a seven-member group, which is elected by the public and has governance responsibilities, including fiscal accountability, over all activities related to public elementary and secondary education within the jurisdiction of the Marathon Independent School District (the primary government). There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services - payments from parties that purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the District and (2) grants and contributions - payments from organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function or segment of the District. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

All interfund transactions between governmental funds are eliminated in the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide statement of net position.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included in the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, revenues received from the state, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as unearned revenue until related and authorized expenditures have been made.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund accounts for Title I, Part A - Improving Basic Programs grant funds.

Additionally, the government reports the following fund types:

The Private Purpose Trust Fund accounts for resources used to provide scholarships for former students.

Agency Funds account for the activities of funds which are the property of student groups.

D. Interfund Receivables and Payables

Activity between individual funds may result in amounts owed between funds which are classified as Due To and From Other Funds. Other than amounts due to or from fiduciary funds these balances are eliminated in the statement of net position.

E. Receivables and Payables

Receivables are stated at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year.

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	30-50
Vehicles	10
Furniture and Equipment	7-10

G. Restricted Assets

Restricted assets consist of cash held to provide scholarships for former students.

H. Long-Term Obligations

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

In the fund financial statements, principal and interest payments are reported as debt service expenditures.

I. Compensated Absences

The District's policy does not permit employees to accumulate unused vacation and sick leave to be paid to the employees upon separation from service.

J. Net Position on the Statement of Net Position

Net position on the statement of net position includes the following:

Net Investment in Capital Assets - This component of net position represents the difference between capital assets net of accumulated depreciation and the outstanding balance of debt, excluding any unspent debt proceeds, that is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Federal and State Programs - This component of net position represents the balance of the Child Nutrition Program.

Unrestricted - This is the difference between assets and liabilities that is not reported as Net Investment in Capital Assets or Restricted for Federal and State Programs.

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K. Fund Balances

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees, the District's highest level of decision-making authority. Commitments may be modified or rescinded only through formal action by the Board of Trustees.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

L. Property Tax Revenues

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The District recognizes as tax revenues those taxes that are measurable and available. Measurable means the amount can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within the current period.

Allowances for uncollectibles are based upon historical experience. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

M. Interfund Transfers

Permanent relocations of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget

Formal budgetary accounting is employed for all required governmental fund types and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles.

The official school budget is prepared for adoption for required governmental fund types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Food Service Special Revenue Fund. The remaining Special Revenue Funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget was amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

B. Excess Expenditures Over Appropriations

Expenditures exceeded appropriations in the following functions:

General Fund	
Function 13 - Curriculum and Instructional Staff Development	\$ 1,422
Function 23 - School Leadership	6,434
Function 41 - General Administration	55,419
Function 51 - Facilities Maintenance and Operations	221,079
Function 71 - Debt Service	17,814

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

A. Deposits and Investments - Continued

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk - Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits and investments in certificates of deposit may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits and investments in certificates of deposit since they are covered by depository insurance and pledged securities held by a third party in the District's name.

Concentration of Credit Risk: The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At August 31, 2013, all of the District's investments are in external investment pools or certificates of deposit with its depository bank. The District is not exposed to this risk as described in the preceding paragraph.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At August 31, 2013, the District was not significantly exposed to credit risk.

Interest Rate Risk: Not applicable

Foreign Currency Risk: Not applicable

The carrying amount of the District's cash and temporary investments at August 31, 2013, approximates fair value and consisted of the following:

Cash in Bank	\$ 1,056,516
Certificates of Deposit	71,076
Lone Star Investment Pool	<u>151,225</u>
Total Cash and Temporary Investments	<u><u>\$ 1,278,817</u></u>

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments are summarized as follows:

	State Entitlements	Federal Grants	Total
General Fund	\$ 18,220	\$ 0	\$ 18,220
Special Revenue Funds	0	53,683	53,683
Totals	\$ 18,220	\$ 53,683	\$ 71,903

C. Interfund Balances

The following is a summary of amounts due from and due to other funds:

	Due From	Due To	Purpose
General Fund			
Major Special Revenue Fund	\$ 46,971	\$ 0	Operating Advance
Nonmajor Governmental Funds	6,712	1,693	Operating Advance
Fiduciary Funds	1,945	0	Operating Advance
	\$ 55,628	\$ 1,693	
Major Special Revenue Fund			
General Fund	0	46,971	Operating Advance
Nonmajor Governmental Funds			
General Fund	1,693	6,712	Operating Advance
Fiduciary Funds			
General Fund	0	1,945	Operating Advance
Totals	\$ 57,321	\$ 57,321	

All amounts due are expected to be repaid within one year.

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

D. Capital Assets

Capital asset activity for the year ended August 31, 2013, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets				
Land	\$ 25,000	\$ 0	\$ 0	\$ 25,000
Buildings and Improvements	1,091,293	231,861	0	1,323,154
Furniture and Equipment	<u>397,568</u>	<u>0</u>	<u>0</u>	<u>397,568</u>
Total Capital Assets	<u>\$ 1,513,861</u>	<u>\$ 231,861</u>	<u>\$ 0</u>	<u>\$ 1,745,722</u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ (882,126)	\$ (7,164)	\$ 0	\$ (889,290)
Furniture and Equipment	<u>(250,456)</u>	<u>(19,880)</u>	<u>0</u>	<u>(270,336)</u>
Total Accumulated Depreciation	<u>\$ (1,132,582)</u>	<u>\$ (27,044)</u>	<u>\$ 0</u>	<u>\$ (1,159,626)</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 381,279</u></u>	<u><u>\$ 204,817</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 586,096</u></u>

The beginning balance of Buildings and Improvements and the related accumulated depreciation account are increased by \$15,000 to reflect a prior period adjustment.

Depreciation expense was charged to governmental activities functions as follows:

Instruction	\$ 20,382
School Leadership	2,780
Extracurricular Activities	205
General Administration	2,386
Facilities Maintenance and Operations	<u>1,291</u>
Total	<u><u>\$ 27,044</u></u>

E. Deferred Inflows of Resources

The balance sheet reports a separate section for deferred inflows of resources. This financial statement element represents an acquisition of fund balance that applies to a future period and so will not be recognized as inflows of resources (revenue) until that time. The District has one type of item that qualifies for reporting in this category, the difference between property taxes receivable and the allowance for uncollectible taxes of \$23,687 which is unavailable for expenditure.

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

F. Unearned Revenue

Unearned revenue at year end consisted of the following:

	General Fund
Foundation School Program Act Entitlements	\$ 1,105
Other Grants	17,000
Total	\$ 18,105

G. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended August 31, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loan	\$ 33,329	\$ 0	\$ 16,243	\$ 17,086	\$ 17,086

The District's outstanding loan payable is as follows:

Loan payable of \$33,329 issued on June 19, 2012. Issued for the purchase of an activity bus as authorized by Texas Education Code, Section 34.005, as amended. Due to be liquidated on June 19, 2014, payable from the General Fund with an interest rate of 4.5%.

\$ 17,086

The annual debt service requirements are as follows:

Year Ending August 31,	Loan		Total
	Principal	Interest	
2014	\$ 17,086	\$ 727	\$ 17,813

H. Outstanding Encumbrances

There were no outstanding encumbrances that were provided for in the subsequent year's budget.

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

I. Revenues from Local and Intermediate Sources

Local and intermediate source revenues consists of the following:

	General Fund
Property Taxes	\$ 772,008
Other Local Sources	27,527
Total	\$ 799,535

IV. OTHER INFORMATION

A. Pension Plan

Plan Description - The Marathon Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Funding Policy - Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; and (2) A state statute prohibits benefit improvements if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Contribution rates and contribution amounts for fiscal years 2013-2011 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and/or member's contribution and on the portion of the employees' salaries that exceeded the statutory minimum and on salaries paid from federal grants.

Fiscal Year	Member		State On-Behalf		District Amount
	Rate	Amount	Rate	Amount	
2013	6.4%	\$ 31,957	6.400%	\$ 31,913	\$ 44
2012	6.4%	32,537	6.000%	30,504	0
2011	6.4%	33,366	6.644%	39,404	447

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

IV. OTHER INFORMATION - Continued

B. Retiree Health Plan

Plan Description - The Marathon Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Funding Policy - Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and contribution amounts for fiscal years 2013-2011 are shown in the table below:

Fiscal Year	Active Member		State On-Behalf		District	
	Rate	Amount	Rate	Amount	Rate	Amount
2013	0.65%	\$ 3,246	0.5%	\$ 2,497	0.55%	\$ 2,746
2012	0.65%	3,305	1.0%	5,084	0.55%	2,796
2011	0.65%	3,389	1.0%	5,213	0.55%	2,867

The Medicare Modernization Act of 2003 which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for Texas Public School Retired Employee Group Insurance Program (TRS-Care), administered by TRS, to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Medicare Part D payments made on behalf of the District for fiscal years 2013-2011 are shown in the table below:

Fiscal Year	Medicare Part D
2013	\$ 1,436
2012	1,388
2011	1,147

C. Health Care Coverage

During the year ended August 31, 2013, employees of the District were covered by a health insurance plan (the Plan) through the TRS - Active Care Program administered by the Teacher Retirement System. The District contributed \$460 of the employee-only premium per month, and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Under the Plan, the District is not liable for costs incurred beyond the premiums paid.

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

IV. OTHER INFORMATION - Continued

D. Risk Management

The 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, for which the District participated in a public entity risk pool. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding coverage for each of the past three fiscal years.

E. Property and Liability Programs

During the year ended August 31, 2013, the District participated in the TASB Risk Management Fund's (the Fund's) Property and Liability Programs.

The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property and Liability Programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2013, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2012, are available on the TASB Risk Management Fund website.

F. Unemployment Compensation Coverage

During the year ended August 31, 2013, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the Unemployment Compensation pool.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2012, are available on the TASB Risk Management Fund website.

G. Workers' Compensation Insurance

During the year ended August 31, 2013, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

IV. OTHER INFORMATION - Continued

G. Workers' Compensation Insurance - Continued

is authorized by Chapter 504, of the Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2012, the Fund carries a discounted reserve of \$68,883,628 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2013, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2012, are available on the TASB Risk Management Fund website.

H. Contingencies

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

I. Shared Services Arrangement

The District participates in a shared services arrangement for a cooperative education program with several other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Alpine Independent School District is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement.

J. Extraordinary Item

The District determined that unauthorized withdrawals of the District's funds occurred in the 2010-2011 year as well as in previous years. The District received restitution of \$90,000 in the current year. The District continues to seek recovery of funds; the final resolution of this matter, as well as the potential for recovery of additional funds, is not determinable at this time.

K. Adjustments to Fund Balance/Net Position

A prior period adjustment to the fund balance of the General Fund and to net position is as follows:

Adjustments to Fund Balance	
Prior Year's Foundation Funds Settle Up	<u>\$ 47,938</u>

MARATHON INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2013

IV. OTHER INFORMATION - Continued

L. Subsequent Events

The District's management has evaluated subsequent events through December 27, 2013, the date which the financial statements were available for issue.

Required Supplementary Information

MARATHON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 760,403	\$ 760,403	\$ 799,535	\$ 39,132
5800 State Program Revenues	1,977,679	1,977,679	618,337	(1,359,342)
5020 Total Revenues	<u>2,738,082</u>	<u>2,738,082</u>	<u>1,417,872</u>	<u>(1,320,210)</u>
EXPENDITURES:				
Current:				
0011 Instruction	702,976	739,157	573,528	165,629
0012 Instructional Resources and Media Services	2,500	3,500	200	3,300
0013 Curriculum and Instructional Staff Development	1,500	1,500	2,922	(1,422)
0023 School Leadership	70,650	69,300	75,734	(6,434)
0031 Guidance, Counseling, and Evaluation Services	6,000	6,000	1,117	4,883
0036 Extracurricular Activities	37,350	55,750	28,904	26,846
0041 General Administration	182,800	178,550	233,969	(55,419)
0051 Facilities Maintenance and Operations	134,800	133,300	354,379	(221,079)
Debt Service:				
0071 Principal on Long-Term Debt	-	-	16,243	(16,243)
0072 Interest on Long-Term Debt	-	-	1,571	(1,571)
Intergovernmental:				
0093 Payments to Fiscal Agent of SSA	-	11,200	11,200	-
6030 Total Expenditures	<u>1,138,576</u>	<u>1,198,257</u>	<u>1,299,767</u>	<u>(101,510)</u>
EXTRAORDINARY ITEMS:				
7919 Extraordinary Item - Resource	-	-	90,000	90,000
1200 Net Change in Fund Balances	1,599,506	1,539,825	208,105	(1,331,720)
0100 Fund Balance - September 1 (Beginning)	1,003,997	1,003,997	1,003,997	-
1300 Increase (Decrease) in Fund Balance	-	-	47,938	47,938
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,603,503</u>	<u>\$ 2,543,822</u>	<u>\$ 1,260,040</u>	<u>\$ (1,283,782)</u>

Other Supplementary Information

MARATHON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2013

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2004 and prior years	Various	Various	\$ Various
2005	1.500000	0.000000	47,593,634
2006	1.500000	0.000000	48,022,933
2007	1.370000	0.000000	50,027,475
2008	1.040000	0.000000	52,177,416
2009	1.040000	0.000000	62,365,481
2010	1.040000	0.000000	68,568,321
2011	1.170000	0.000000	59,685,509
2012	1.170000	0.000000	63,549,400
2013 (School year under audit)	1.170000	0.000000	65,240,400
1000 TOTALS			

(10) Beginning Balance 9/1/2012	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2013
\$ 14,902	\$ -	\$ 3,017	\$ -	\$ 2,202	\$ 14,087
1,396	-	184	-	(9)	1,203
1,680	-	184	-	(8)	1,488
1,709	-	211	-	(6)	1,492
1,512	-	189	-	-	1,323
-	-	395	-	1,789	1,394
3,158	-	545	-	270	2,883
4,768	-	556	-	(173)	4,039
7,865	-	1,655	-	(300)	5,910
-	763,935	754,459	-	-	9,476
<u>\$ 36,990</u>	<u>\$ 763,935</u>	<u>\$ 761,395</u>	<u>\$ -</u>	<u>\$ 3,765</u>	<u>\$ 43,295</u>

MARATHON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2014-2015
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2013

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 41,853	\$ 22,340	\$ -	\$ -	\$ 64,193
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	51,542	-	-	-	-	-	51,542
6212	Audit Services	-	-	-	16,359	-	-	16,359
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	48,826	-	-	-	-	48,826
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	645	-	-	15,000	-	-	15,645
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	14,500	-	-	-	14,500
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	-	3,180	-	-	3,180
6410	Travel, Subsistence, Stipends	800	-	1,879	490	-	-	3,169
6420	Ins. and Bonding Costs	-	-	-	1,748	-	-	1,748
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	13,822	-	985	-	-	-	14,807
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 66,809	\$ 48,826	\$ 59,217	\$ 59,117	\$ -	\$ -	\$ 233,969

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 1,381,828

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 231,861
Total Debt & Lease(6500)	(11) 17,814
Plant Maintenance (Function 51, 6100-6400)	(12) 122,518
Food (Function 35, 6341 and 6499)	(13) 6,108
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	59,117

SubTotal: 437,418

Net Allowed Direct Cost \$ 944,410

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 1,323,154
Historical Cost of Building over 50 years old	(16) \$ 865,000
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 397,568
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ 71,236
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.
 No Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

MARATHON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5900 Federal Program Revenues	\$ 9,000	\$ 9,000	\$ 8,738	\$ (262)
5020 Total Revenues	9,000	9,000	8,738	(262)
EXPENDITURES:				
0035 Food Services	9,000	9,000	7,524	1,476
6030 Total Expenditures	9,000	9,000	7,524	1,476
1200 Net Change in Fund Balances	-	-	1,214	1,214
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 1,214	\$ 1,214

COMPLIANCE AND INTERNAL CONTROLS SECTION



A Limited Liability Partnership

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INDEPENDENT AUDITORS' 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*

Board of Trustees
Marathon Independent School District
P.O. Box 416
Marathon, TX 79842-0416

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the Marathon Independent School District as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marathon Independent 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 Marathon Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marathon Independent 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 findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. The reference number of the finding is: 2013-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marathon Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item: 2013-002.

District's Response to Findings

The Marathon Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The 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 the response.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eckert & Company, LLP

San Angelo, Texas
December 27, 2013

MARATHON INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended August 31, 2013

A. Summary of Audit Results

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the Marathon Independent School District.
2. One significant deficiency relating to the audit of the basic financial statements is reported in the 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*. The deficiency is reported as a material weakness.
3. One instance of noncompliance material to the basic financial statements of the Marathon Independent School District, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.

B. Findings - Financial Statements Audit

Reference Number: 2013-001

Criteria:

Timely review of general ledgers and preparation of bank reconciliations are common procedures which help identify errors and irregularities and adjustments which are needed to ensure accuracy and completeness of the District's financial records.

Condition:

The general ledger was not reviewed for accuracy and bank reconciliations were not prepared.

Cause:

The District's personnel were not performing their duties of maintaining the District's financial records to ensure accuracy and completeness.

Effect:

The general ledger contained numerous errors and did not accurately reflect the District's finances. Internal control over cash was not effective which resulted in overpayments being made to the Teacher Retirement System. Employers Quarterly Federal Tax Return Forms 941 were not prepared.

Auditors' Recommendation:

Bank reconciliations should be prepared promptly and agreed to the general ledger cash balances. The general ledger should be reviewed for accuracy, and necessary corrections should be made in a timely manner. All reports to the Teacher Retirement System and all employment tax reports should be filed timely and accurately.

Management's Response:

The District will implement procedures to ensure that bank accounts are reconciled promptly and that the general ledger is reviewed for accuracy and corrected in a timely manner and that all required reports are filed correctly and timely.

MARATHON INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs - Continued
Year Ended August 31, 2013

C. Findings - State Compliance

Reference Number: 2013-002

Criteria:

Section 44.006 of the Texas Education Code states that public funds of the District may not be spent in any manner other than as provided for in the budget, as amended by the Board of Trustees.

Condition:

Expenditures exceeded appropriations in the following functions:

General Fund	
Function 13 - Curriculum and Instructional Staff Development	\$ 1,422
Function 23 - School Leadership	6,434
Function 41 - General Administration	55,419
Function 51 - Facilities Maintenance and Operations	221,079
Function 71 - Debt Service	17,814

Cause:

Amendments to the budget were not adequate to ensure that expenditures did not exceed appropriations during the year.

Effect:

Public funds of the District were spent that were not provided for in the budget.

Auditors' Recommendation:

The budget should be monitored closely to see that amendments are made as necessary.

Management's Response:

The District will place more emphasis on the budget and see that the amounts appropriated are adequate to cover all expenditures.

MARATHON INDEPENDENT SCHOOL DISTRICT
Schedule of Status of Prior Findings
Year Ended August 31, 2013

(Prepared by the District's Management)

Prior Year Finding:

12-1 The purchase of a school bus with a cost in excess of \$20,000 was not competitively bid.

Status of Prior Year Finding:

The District complied with the competitive procurement procedures in the current year.

MARATHON INDEPENDENT SCHOOL DISTRICT
Corrective Action Plan
Year Ended August 31, 2013

(Prepared by the District's Management)

The Marathon Independent School District submits the following corrective action plan for the year ended August 31, 2013:

Findings - Financial Statements Audit

2013-001 General Ledger and Bank Reconciliations

Recommendation:

Bank reconciliations should be prepared promptly and agreed to the general ledger cash balances. The general ledger should be reviewed for accuracy, and necessary corrections should be made in a timely manner. All reports to the Teacher Retirement System and all employment tax reports should be filed timely and accurately.

Action Taken:

The District will implement procedures to ensure that bank accounts are reconciled promptly and that the general ledger is reviewed for accuracy and corrected in a timely manner and that all required reports are filed correctly and timely.

Anticipated Completion Date: Throughout Fiscal Year Ending August 31, 2014

Findings - State Compliance

2013-002 Budget Overexpenditure

Recommendation:

The budget should be monitored closely to see that amendments are made as necessary.

Action Taken:

The District will place more emphasis on the budget and see that the amounts appropriated are adequate to cover all expenditures.

Anticipated Completion Date: Throughout Fiscal Year Ending August 31, 2014

Contact Person

Evelyn Loeffler, Superintendent
432/386-4431