



**Auditor of State
Betty Montgomery**

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	13
Statement of Activities.....	14
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	19
Statement of Net Assets – Proprietary Funds.....	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds.....	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Assets – Fiduciary Funds.....	23
Notes to the Basic Financial Statements	25
Federal Awards Expenditures Schedule	52
Notes to the Federal Awards Expenditures Schedule	53
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and other Matters Required by <i>Government Auditing Standards</i>	54
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	56
Schedule of Findings.....	58

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Salem City School District
Columbiana County
1226 East State Street
Salem, OH 44460

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio (the Government), as of and for the year ended June 30, 2005, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the basic financial statements, during the year ended June 30, 2005, the District implemented revisions to the recognition of pension and other postemployment benefit expenditures/expenses and liabilities by cost sharing employers as provided for in Governmental Accounting Standards Board Technical Bulletin 2004-2.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2006, on our consideration of the Government'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Government's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 13, 2006

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The management's discussion and analysis of the Salem City School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$591,511 represents a 15.03% decrease from 2004.
- General revenues accounted for \$18,303,921 in revenue or 84.07% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$3,467,167 or 15.93% of total revenues of \$21,771,088.
- The District had \$22,362,599 in expenses related to governmental activities; only \$3,467,167 of these expenses was offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$18,303,921 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$18,289,061 in revenues and other financing sources and \$18,523,469 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$234,408 from a restated deficit of \$2,133,475 to \$2,367,883.
- The permanent improvement fund had \$728,808 in revenues and other financing sources and \$1,509,959 in expenditures. During fiscal 2005, the permanent improvement fund's fund balance decreased \$781,151 from \$2,123,233 to \$1,342,082, due in part to a transfer to the general fund.

Using the Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general and permanent improvement funds are by far the most significant funds, and the only governmental funds reported as major funds.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, operation of non-instructional services, extracurricular activities, food service operations, and interest and fiscal charges.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and permanent improvement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The District as a Whole

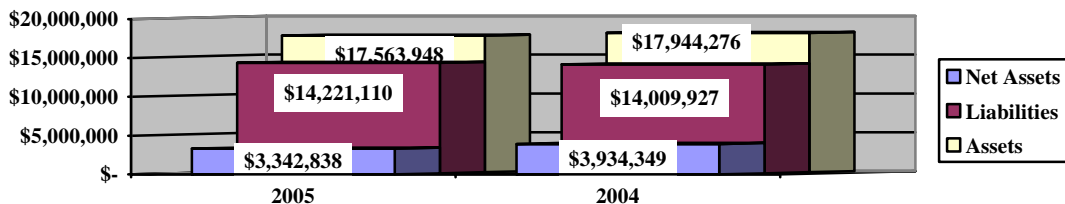
Recall that the Statement of Net Assets provides the perspective of the District as a whole. A comparative analysis for government-wide financial statements using the full accrual basis of accounting is presented below.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 12,462,622	\$ 12,961,974
Capital assets	<u>5,101,326</u>	<u>4,982,302</u>
Total assets	<u>17,563,948</u>	<u>17,944,276</u>
<u>Liabilities</u>		
Current liabilities	12,015,037	12,049,362
Long-term liabilities	<u>2,206,073</u>	<u>1,960,565</u>
Total liabilities	<u>14,221,110</u>	<u>14,009,927</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,079,484	4,956,108
Restricted	1,657,823	2,462,232
Unrestricted	<u>(3,394,469)</u>	<u>(3,483,991)</u>
Total net assets	<u>\$ 3,342,838</u>	<u>\$ 3,934,349</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$3,342,838. A portion of the District's net assets, \$1,657,823, represents resources that are subject to external restriction on how they may be used.

At fiscal year-end, capital assets represented 29.04% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$5,079,484. These capital assets are used to provide services to the students and are not available for future spending.

Governmental Activities



**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The table below shows the change in net assets for fiscal years 2005 and 2004.

	Change in Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,314,875	\$ 1,262,445
Operating grants and contributions	2,131,817	2,184,454
Capital grants and contributions	20,475	-
General revenues:		
Property taxes	10,279,971	9,036,835
Grants and entitlements	7,697,973	7,683,945
Investment earnings	67,719	55,731
Other	<u>258,258</u>	<u>270,560</u>
Total revenues	<u>21,771,088</u>	<u>20,493,970</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	9,551,069	9,607,639
Special	2,444,101	2,273,726
Vocational	564,211	469,149
Adult/Continuing	438,315	456,890
Other	958,447	706,598
Support services:		
Pupil	927,554	982,455
Instructional staff	887,840	961,653
Board of education	42,281	35,746
Administration	1,726,193	2,011,095
Fiscal	633,074	667,989
Business	10,150	10,374
Operations and maintenance	1,956,501	2,209,203
Pupil transportation	588,909	759,348
Central	225,578	460,375
Operations of non-instructional services	82,265	233,485
Extracurricular activities	674,144	748,927
Food service operations	651,967	666,131
Interest and fiscal charges	<u>-</u>	<u>2,234</u>
Total expenses	<u>22,362,599</u>	<u>23,263,017</u>
Change in net assets	(591,511)	(2,769,047)
Net assets at beginning of year	<u>3,934,349</u>	<u>6,703,396</u>
Net assets at end of year	<u>\$ 3,342,838</u>	<u>\$ 3,934,349</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

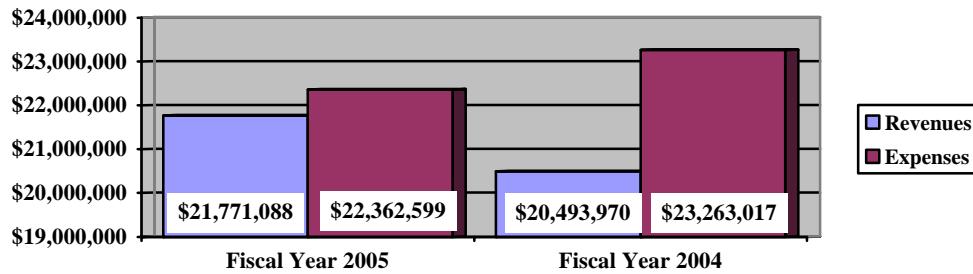
Governmental Activities

Net assets of the District's governmental activities decreased \$591,511. Total governmental expenses of \$22,362,599 were more than program revenues of \$3,467,167 and general revenues of \$18,303,921. Program revenues supported 15.50% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.58% of total governmental revenue.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and operating grants and contributions offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

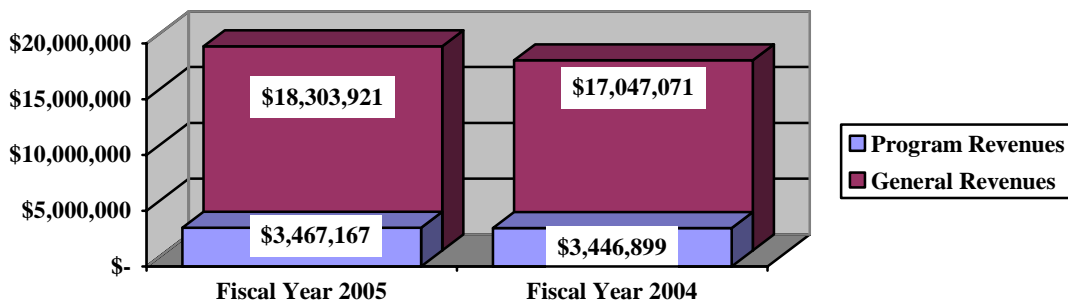
Governmental Activities

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 9,551,069	\$ 8,813,547	\$ 9,607,639	\$ 8,846,429
Special	2,444,101	1,413,395	2,273,726	1,275,934
Vocational	564,211	564,211	469,149	469,149
Adult/Continuing	438,315	278,373	456,890	292,576
Other	958,447	646,754	706,598	414,986
Support services:				
Pupil	927,554	804,623	982,455	873,744
Instructional staff	887,840	860,711	961,653	922,040
Board of education	42,281	42,281	35,746	35,746
Administration	1,726,193	1,627,630	2,011,095	1,955,148
Fiscal	633,074	625,406	667,989	667,989
Business	10,150	10,150	10,374	10,374
Operations and maintenance	1,956,501	1,955,893	2,209,203	2,203,827
Pupil transportation	588,909	560,053	759,348	759,348
Central	225,578	225,578	460,375	438,537
Operations of non-instructional services	82,265	(8,462)	233,485	131,673
Extracurricular activities	674,144	418,458	748,927	449,904
Food service operations	651,967	56,831	666,131	66,480
Interest and fiscal charges	-	-	2,234	2,234
Total expenses	<u>\$ 22,362,599</u>	<u>\$ 18,895,432</u>	<u>\$ 23,263,017</u>	<u>\$ 19,816,118</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 83.95% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.50%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.

Governmental Activities - General and Program Revenues



**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined deficit of \$831,139, which is lower than last year's restated balance of \$177,748. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance (Deficit) <u>June 30, 2005</u>	Restated Fund Balance (Deficit) <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ (2,367,883)	\$ (2,133,475)	\$ (234,408)
Permanent Improvement	1,342,082	2,123,233	(781,151)
Other Governmental	<u>194,662</u>	<u>187,990</u>	<u>6,672</u>
Total	<u>\$ (831,139)</u>	<u>\$ 177,748</u>	<u>\$ (1,008,887)</u>

General Fund

The District's general fund balance decreased \$234,408. The decrease in fund balance can be attributed to grant decreases and a slight increase in instruction expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 9,065,207	\$ 8,817,803	2.81%
Tuition	407,573	358,264	13.76%
Earnings on investments	61,931	55,329	11.93%
Extracurricular	1,914	678	182.30%
Intergovernmental	7,632,144	7,701,757	-0.90%
Other revenues	<u>257,206</u>	<u>274,204</u>	-6.20%
Total	<u>\$17,425,975</u>	<u>\$17,208,035</u>	1.27%
<u>Expenditures</u>			
Instruction	\$11,636,158	\$11,493,167	1.24%
Support services	6,496,677	7,616,273	-14.70%
Extracurricular activities	386,282	432,874	-10.76%
Principal retirement	<u>4,352</u>	<u>-</u>	100.00%
Total	<u>\$18,523,469</u>	<u>\$19,542,314</u>	-5.21%

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Permanent Improvement Fund

The District's permanent improvement fund balance decreased \$781,151. The decrease in fund balance can be attributed primarily to the \$850,000 transfer to the general fund. The table that follows assists in illustrating the financial activities and fund balance of the permanent improvement fund.

	2005	2004	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$661,927	\$634,736	4.28%
Other local revenues	1,052	416	152.88%
Intergovernmental	<u>65,829</u>	<u>63,672</u>	3.39%
Total	<u>\$728,808</u>	<u>\$698,824</u>	4.29%
<u>Expenditures</u>			
Instruction	\$161,064	\$175,147	-8.04%
Support services	321,893	135,203	138.08%
Facilities acquisition and construction	<u>177,002</u>	<u>414,070</u>	-57.25%
Total	<u>\$659,959</u>	<u>\$724,420</u>	-8.90%

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$18,203,958, which is higher than the original budgeted revenues estimate of \$17,550,747. Actual revenues and other financing sources for fiscal 2005 was \$18,206,292. This represents a \$2,334 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$17,781,967 were increased to \$18,337,628 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$18,335,679, which was \$1,949 less than the final budget appropriations, due in part to an overall reduction of expenditures in the general fund.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$5,101,326 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to the amounts in 2004:

Capital Assets at June 30 (Net of Depreciation)		
<u>Governmental Activities</u>		
	<u>2005</u>	<u>2004</u>
Land	\$ 609,577	\$ 609,577
Land improvements	249,030	277,957
Building and improvements	3,575,885	3,644,860
Furniture and equipment	264,238	236,810
Vehicles	<u>402,596</u>	<u>213,098</u>
Total	<u>\$ 5,101,326</u>	<u>\$ 4,982,302</u>

Total additions to capital assets for 2005 were \$497,912. The District recorded \$378,888 in depreciation expense for fiscal 2005.

Debt Administration

At June 30, 2005, the District had \$21,842 in asbestos removal loans outstanding. Of this total, \$8,704 is due within one year and \$13,138 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End		
	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
General obligation bonds:		
Asbestos removal loan	<u>21,842</u>	<u>26,194</u>
Total	<u>\$ 21,842</u>	<u>\$ 26,194</u>

The asbestos removal loan was received in prior years. This loan is scheduled to mature in fiscal year 2007 and is interest free as long as the District remains current on repayment. Payment of principal on the asbestos removal loan is being made from the general fund.

At June 30, 2005, the District's overall legal debt margin was \$27,742,298 with an unvoted debt margin of \$308,248. The District maintains an A-1 bond rating.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Current Financial Related Activities

As the preceding information shows, the District relies heavily upon grants, entitlements and especially property taxes. The current decline in the overall economic status in combination with losses of state funding, tangible personal property tax phase out, and declining enrollment will continue to place an increasing financial strain upon the District.

The first challenge comes from phase out of the Tangible Personal Property tax over the next several years. While the state of Ohio officials have "guaranteed" reimbursement of those lost revenues, that period of time is finite and without future guarantees.

The community has also suffered a loss of over 600 manufacturing jobs in the last four years. These effects have stagnated property values resulting in potential stagnation of future District receipts.

Further complicating the District's outlook is the declining enrollment of our students. Enrollment has declined by approximately 400 students (about 15 percent) since 1998. These losses have occurred as a result of an overall aging population within the community, a net loss of approximately 50 students to open enrollment and 52 students allegedly attending community schools as of this date.

The Board of Education will be addressing these issues in the only two ways they effectively can under current law. A levy issue seeking "new" dollars will be put before the voters in addition to consolidation/closure of the middle school and an elementary school building. Staff reductions/consolidations will also be made which will result in increased class sizes thereby possibly compromising some of the academic successes our students have accomplished in exchange for economic survival.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact; Ms. Alice A. Gunning, Treasurer at 1226 East State Street, Salem, Ohio 44460-2299.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,109,911
Receivables:	
Taxes	10,063,950
Accounts	326
Intergovernmental	232,217
Prepayments	37,029
Materials and supplies inventory.	19,189
Capital assets:	
Land	609,577
Depreciable capital assets, net	4,491,749
Total capital assets, net.	5,101,326
 Total assets.	 17,563,948
 Liabilities:	
Accounts payable.	128,634
Accrued wages and benefits	2,081,062
Pension obligation payable.	384,048
Intergovernmental payable	333,929
Deferred revenue	8,878,703
Claims payable	208,661
Long-term liabilities:	
Due within one year.	373,629
Due in more than one year	1,832,444
 Total liabilities	 14,221,110
 Net Assets:	
Invested in capital assets, net of related debt.	5,079,484
Restricted for:	
Capital projects	1,404,643
Locally funded program.	55,619
State funded program	60,505
Federally funded program	45,315
Student activities.	55,481
Other purposes	36,260
Unrestricted (deficit)	(3,394,469)
 Total net assets	 \$ 3,342,838

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 9,551,069	\$ 474,794	\$ 242,253	\$ 20,475	\$ (8,813,547)
Special	2,444,101	-	1,030,706	-	(1,413,395)
Vocational	564,211	-	-	-	(564,211)
Adult/Continuing	438,315	-	159,942	-	(278,373)
Other	958,447	311,693	-	-	(646,754)
Support services:					
Pupil	927,554	-	122,931	-	(804,623)
Instructional staff	887,840	-	27,129	-	(860,711)
Board of education	42,281	-	-	-	(42,281)
Administration	1,726,193	-	98,563	-	(1,627,630)
Fiscal	633,074	-	7,668	-	(625,406)
Business	10,150	-	-	-	(10,150)
Operations and maintenance	1,956,501	-	608	-	(1,955,893)
Pupil transportation	588,909	-	28,856	-	(560,053)
Central	225,578	-	-	-	(225,578)
Operation of non-instructional					
services	82,265	-	90,727	-	8,462
Extracurricular activities	674,144	255,686	-	-	(418,458)
Food service operations	651,967	272,702	322,434	-	(56,831)
Totals	<u>\$ 22,362,599</u>	<u>\$ 1,314,875</u>	<u>\$ 2,131,817</u>	<u>\$ 20,475</u>	<u>(18,895,432)</u>
General Revenues:					
Property taxes levied for:					
General purposes					9,582,366
Capital outlay					697,605
Grants and entitlements not restricted to specific programs					7,697,973
Investment earnings					67,719
Miscellaneous					258,258
Total general revenues					<u>18,303,921</u>
Change in net assets					(591,511)
Net assets at beginning of year					<u>3,934,349</u>
Net assets at end of year					<u>\$ 3,342,838</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 45,919	\$ 1,330,361	\$ 517,518	\$ 1,893,798
Receivables:				
Taxes	9,317,670	746,280	-	10,063,950
Accounts	276	-	50	326
Intergovernmental	-	-	232,217	232,217
Interfund loans	3,773	-	-	3,773
Due from other funds	252,281	-	-	252,281
Prepayments	37,029	-	-	37,029
Materials and supplies inventory	-	-	19,189	19,189
Advances to other funds	3,033	-	-	3,033
Total assets	<u>\$ 9,659,981</u>	<u>\$ 2,076,641</u>	<u>\$ 768,974</u>	<u>\$ 12,505,596</u>
Liabilities:				
Accounts payable	\$ 99,783	\$ 5,192	\$ 22,689	\$ 127,664
Accrued wages and benefits	1,896,944	-	184,118	2,081,062
Compensated absences payable	275,695	-	-	275,695
Pension obligation payable	338,600	-	45,448	384,048
Intergovernmental payable	317,485	-	16,444	333,929
Advances from other funds	-	-	3,033	3,033
Interfund loan payable	-	-	3,773	3,773
Due to other funds	-	-	252,281	252,281
Deferred revenue	9,099,357	729,367	46,526	9,875,250
Total liabilities	<u>12,027,864</u>	<u>734,559</u>	<u>574,312</u>	<u>13,336,735</u>
Fund Balances:				
Reserved for encumbrances	-	1,265,470	88,304	1,353,774
Reserved for underground storage	11,000	-	-	11,000
Reserved for materials and supplies inventory	-	-	19,189	19,189
Reserved for property tax unavailable for appropriation	218,313	16,913	-	235,226
Reserved for prepayments	37,029	-	-	37,029
Reserved for advances	3,033	-	-	3,033
Unreserved, undesignated, reported in:				
General fund	(2,637,258)	-	-	(2,637,258)
Special revenue funds	-	-	338,985	338,985
Debt service fund	-	-	(251,816)	(251,816)
Capital projects funds	-	59,699	-	59,699
Total fund balances	<u>(2,367,883)</u>	<u>1,342,082</u>	<u>194,662</u>	<u>(831,139)</u>
Total liabilities and fund balances	<u>\$ 9,659,981</u>	<u>\$ 2,076,641</u>	<u>\$ 768,974</u>	<u>\$ 12,505,596</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$	(831,139)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,101,326
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	950,021	
Intergovernmental revenue		46,526	
Total			996,547
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			6,482
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		1,908,536	
Asbestos abatement loan		21,842	
Total			(1,930,378)
Net assets of governmental activities		\$	3,342,838

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes.	\$ 9,065,207	\$ 661,927	\$ -	\$ 9,727,134
Tuition.	407,573	-	288,566	696,139
Charges for services	-	-	272,702	272,702
Earnings on investments.	61,931	-	5,788	67,719
Extracurricular.	1,914	-	254,835	256,749
Classroom materials and fees	-	-	81,552	81,552
Other local revenues.	257,206	1,052	123,117	381,375
Intergovernmental - State	7,506,721	65,829	323,313	7,895,863
Intergovernmental - Federal.	125,423	-	1,815,297	1,940,720
Total revenues	<u>17,425,975</u>	<u>728,808</u>	<u>3,165,170</u>	<u>21,319,953</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,784,874	161,064	383,505	9,329,443
Special.	1,340,766	-	1,062,316	2,403,082
Vocational.	552,593	-	-	552,593
Adult/Continuing	-	-	434,036	434,036
Other	957,925	-	714	958,639
Support Services:				
Pupil.	786,800	2,827	116,565	906,192
Instructional staff	822,809	-	28,546	851,355
Board of education	42,281	-	-	42,281
Administration.	1,618,070	679	103,776	1,722,525
Fiscal	613,800	14,179	6,764	634,743
Business	9,702	-	-	9,702
Operations and maintenance.	1,869,802	66,543	604	1,936,949
Pupil transportation	533,673	237,665	900	772,238
Central.	199,740	-	42,870	242,610
Food service operations	-	-	624,612	624,612
Operation of non-instructional services	-	-	86,990	86,990
Extracurricular activities.	386,282	-	246,233	632,515
Facilities acquisition and construction	-	177,002	-	177,002
Debt service:				
Principal retirement	4,352	-	-	4,352
Total expenditures	<u>18,523,469</u>	<u>659,959</u>	<u>3,138,431</u>	<u>22,321,859</u>
Excess of revenues over(under) expenditures.	<u>(1,097,494)</u>	<u>68,849</u>	<u>26,739</u>	<u>(1,001,906)</u>
Other financing sources (uses):				
Transfers in	862,836	-	-	862,836
Transfers (out).	-	(850,000)	(12,836)	(862,836)
Sale of capital assets	250	-	-	250
Total other financing sources (uses)	<u>863,086</u>	<u>(850,000)</u>	<u>(12,836)</u>	<u>250</u>
Net change in fund balances	(234,408)	(781,151)	13,903	(1,001,656)
Fund balances at beginning of year (restated)	(2,133,475)	2,123,233	187,990	177,748
Decrease in reserve for inventory.	-	-	(7,231)	(7,231)
Fund balances (deficits) at end of year. . .	<u>\$ (2,367,883)</u>	<u>\$ 1,342,082</u>	<u>\$ 194,662</u>	<u>\$ (831,139)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ (1,001,656)

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 as depreciation expense. Capital outlays exceed depreciation expense in the current period accordingly.

Capital asset additions	497,912	
Current year depreciation	(378,888)	
		119,024

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes	552,837	
Intergovernmental	(101,702)	
		451,135

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed. (7,231)

Repayment of bond principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets. 4,352

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (137,692)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (19,443)

Change in net assets of governmental activities \$ (591,511)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 7,938,581	\$ 8,249,596	\$ 8,962,396	\$ 712,800
Tuition.	433,426	450,406	407,573	(42,833)
Earnings on investments.	55,813	58,000	61,931	3,931
Extracurricular.	1,925	2,000	1,914	(86)
Other local revenues.	317,347	329,780	256,492	(73,288)
Intergovernmental - State	7,787,401	8,092,493	7,506,721	(585,772)
Intergovernmental - Federal.	138,571	144,000	125,423	(18,577)
Total revenues	<u>16,673,064</u>	<u>17,326,275</u>	<u>17,322,450</u>	<u>(3,825)</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,462,177	8,726,609	8,717,391	9,218
Special.	1,171,885	1,208,505	1,208,584	(79)
Vocational.	536,967	553,746	553,696	50
Other	1,114,048	1,148,860	1,148,856	4
Support Services:				
Pupil.	783,555	808,040	807,362	678
Instructional staff	831,830	857,823	857,867	(44)
Board of education	31,553	32,539	32,537	2
Administration.	1,524,904	1,572,555	1,566,698	5,857
Fiscal	599,958	618,706	615,809	2,897
Business	9,525	9,823	9,821	2
Operations and maintenance.	1,809,622	1,866,170	1,878,675	(12,505)
Pupil transportation	518,624	534,830	528,769	6,061
Central.	3,593	3,705	3,781	(76)
Extracurricular activities.	383,726	395,717	395,714	3
Total expenditures	<u>17,781,967</u>	<u>18,337,628</u>	<u>18,325,560</u>	<u>12,068</u>
Excess of revenues over (under) expenditures.	<u>(1,108,903)</u>	<u>(1,011,353)</u>	<u>(1,003,110)</u>	<u>8,243</u>
Other financing sources (uses):				
Refund of prior year expenditure	1,000	1,000	813	(187)
Transfers in	862,836	862,836	869,182	6,346
Transfers (out)	-	-	(6,346)	(6,346)
Advances in.	13,597	13,597	13,597	-
Advances (out)	-	-	(3,773)	(3,773)
Sale of capital assets	250	250	250	-
Total other financing sources (uses)	<u>877,683</u>	<u>877,683</u>	<u>873,723</u>	<u>(3,960)</u>
Net change in fund balance	(231,220)	(133,670)	(129,387)	4,283
Fund balance at beginning of year.	398,558	398,558	398,558	-
Prior year encumbrances appropriated	3,201	3,201	3,201	-
Fund balance at end of year.	<u>\$ 170,539</u>	<u>\$ 268,089</u>	<u>\$ 272,372</u>	<u>\$ 4,283</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents	\$ 216,113
Total assets	<u>216,113</u>
Liabilities:	
Accounts payable	970
Claims payable	208,661
Total liabilities	<u>209,631</u>
Net assets:	
Unrestricted	<u>6,482</u>
Total net assets	<u><u>\$ 6,482</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 3,080,689
Total operating revenues	<u>3,080,689</u>
Operating expenses:	
Purchased services.	4,438
Claims expense.	3,095,694
Total operating expenses.	<u>3,100,132</u>
Change in net assets	(19,443)
Net assets at beginning of year	<u>25,925</u>
Net assets at end of year.	<u><u>\$ 6,482</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 3,080,689
Cash payments for purchased services	(6,770)
Cash payments for claims expenses	(3,202,596)
	(128,677)
Net cash used in operating activities	(128,677)
Net decrease in cash and cash equivalents	(128,677)
Cash and cash equivalents at beginning of year. . .	344,790
Cash and cash equivalents at end of year	\$ 216,113
	216,113
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (19,443)
Changes in assets and liabilities:	
Decrease in accounts payable.	(2,332)
Decrease in claims payable.	(106,902)
	(109,234)
Net cash used in operating activities	\$ (128,677)
	(128,677)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 43,423
Total assets	\$ 43,423
Liabilities:	
Accounts payable	\$ 481
Due to students	42,942
Total liabilities	\$ 43,423

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Salem City School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to residents of the District.

The District ranks as the 217th largest by total enrollment among the 614 public school districts in the state. It is staffed by 196 certified employees and 97 non-certified employees who provided services to 2,397 students and other community members.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Education Service System (ACCESS)

Area Cooperative Education Service System (ACCESS) is a computer network which provides data services to twenty-three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports ACCESS based upon a per pupil charge. ACCESS is governed by an assembly consisting of the superintendents or other designees of the member school districts. The assembly exercises total control over the operation of ACCESS including budgeting, appropriating, contracting and designating management. All of ACCESS revenues are generated from charges for services and State funding. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Youngstown, Ohio 44512.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Columbiana County School Employees Insurance Consortium

Columbiana County Employees Insurance Consortium (the "Consortium") is a shared risk pool. The consortium provides services to the six member schools including, health, dental, prescription drug and life insurance. The Board of Directors is comprised of the Superintendent from each District. All claims are processed through a third-party administrator, and the fiscal agent and budgeting authority is East Palestine City School District. Financial information can be obtained by writing to the East Palestine City School District, 166 East North Ave, East Palestine, Ohio 44413.

RELATED ORGANIZATION

Salem Public Library

The Salem Public Library (the "Library") is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Salem City School Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does not serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Salem Public Library, Mr. George Hays, Clerk/Treasurer, at 821 State Street, Salem, Ohio 44460.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund - The permanent improvement fund is used to account for accumulation of resources for acquisition, construction or improvement of capital facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the repayment of debt (b) food service operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, and student fees.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at these levels may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Columbiana County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final amended Certificate issued during the fiscal year.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund level must be approved by the Board of Education. The District has elected to present budgetary statement comparisons at the fund and function level of expenditures.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to federal agency securities and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices

The District has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$61,931, which includes \$53,262 assigned from other District funds.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Loans are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, advances, and underground storage. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the medical self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

P. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basis financial statements.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (2,015,273)	\$ 2,123,233	\$ 209,600	\$ 317,560
GASB Technical Bulletin No. 2004-2	<u>(118,202)</u>	<u>-</u>	<u>(21,610)</u>	<u>(139,812)</u>
Restated Fund Balance, June 30, 2004	<u>\$ (2,133,475)</u>	<u>\$ 2,123,233</u>	<u>\$ 187,990</u>	<u>\$ 177,748</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Funds</u>	
General	\$ 2,367,883
<u>Nonmajor Funds</u>	
Food Service	43,102
Management Information Systems	160
Disadvantaged Pupil Impact Act	6,515
Student Intervention	1,000
Miscellaneous State Grants	2,957
IDEA, Part B, Special Education	246

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$6,600 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$75,332. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$106,468 of the District's bank balance of \$206,468 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 2,018,273	\$ 2,018,273
Federal agency securities	53,139	53,139
	<u>\$ 2,071,412</u>	<u>\$ 2,071,412</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for STAR Ohio as discussed above, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 2,018,273	97.43%
Federal agency securities	53,139	2.57%
	<u>\$ 2,071,412</u>	<u>100.00%</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 75,322
Investments	2,071,412
Cash on hand	<u>6,600</u>
Total	<u>\$ 2,153,334</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,109,911
Agency funds	<u>43,423</u>
Total	<u>\$ 2,153,334</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 3,733

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to General fund from:	
Nonmajor Governmental funds	\$ 12,836
Permanent Improvement fund	<u>850,000</u>
Total Transfers	<u>\$ 862,836</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

C. Due to/from other funds consisted of the following at June 30, 2005, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ 252,281

The due to the general fund is due to negative cash in the debt and food service funds. Interfund loans between governmental funds will be eliminated on the government-wide statements.

D. Advances to/from other funds consisted of the following at June 30, 2005, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 3,033

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances were interfund loans which were not repaid in the current fiscal year.

Advances to/from other governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2004 with real property taxes.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Columbiana County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$218,313 in the general fund and \$16,913 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$115,502 in the general fund, \$8,861 in the Permanent Improvement capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 242,339,770	78.62	\$ 242,339,770	78.62
Public utility personal	10,715,510	3.47	10,715,510	3.47
Tangible personal property	<u>55,192,480</u>	<u>17.91</u>	<u>55,192,480</u>	<u>17.91</u>
Total	<u>\$ 308,247,760</u>	<u>100.00</u>	<u>\$ 308,247,760</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 47.10		\$ 47.10	

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Property taxes	\$ 10,063,950
Accounts	326
Intergovernmental	<u>232,217</u>
Total	<u>\$ 10,296,493</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	<u>\$ 609,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 609,577</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,017,626	-	-	1,017,626
Building and improvements	13,078,615	196,048	-	13,274,663
Furniture and equipment	1,099,227	72,100	-	1,171,327
Vehicles	<u>823,258</u>	<u>229,764</u>	<u>(179,370)</u>	<u>873,652</u>
Total capital assets, being depreciated	<u>16,018,726</u>	<u>497,912</u>	<u>(179,370)</u>	<u>16,337,268</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(739,669)	(28,927)	-	(768,596)
Building and improvements	(9,433,755)	(265,023)	-	(9,698,778)
Furniture and equipment	(862,417)	(44,672)	-	(907,089)
Vehicles	<u>(610,160)</u>	<u>(40,266)</u>	<u>179,370</u>	<u>(471,056)</u>
Total accumulated depreciation	<u>(11,646,001)</u>	<u>(378,888)</u>	<u>179,370</u>	<u>(11,845,519)</u>
Governmental activities capital assets, net	<u>\$ 4,982,302</u>	<u>\$ 119,024</u>	<u>\$ -</u>	<u>\$ 5,101,326</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 163,938
Special	13,395
Vocational	4,664
 <u>Support Services:</u>	
Pupil	13,653
Instructional staff	4,783
Administration	27,201
Business	448
Operations and maintenance	45,271
Pupil transportation	49,692
Central	1,893
Extracurricular activities	39,759
Food service operation	<u>14,191</u>
 Total depreciation expense	 <u><u>\$ 378,888</u></u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
<u>Loans Payable:</u>					
Asbestos removal loans	\$ 26,194	\$ -	\$ (4,352)	\$ 21,842	\$ 13,056
Total loans payable	<u>\$ 26,194</u>	<u>\$ -</u>	<u>\$ (4,352)</u>	<u>\$ 21,842</u>	<u>\$ 13,056</u>
<u>Other Long-Term Obligations:</u>					
Compensated absences	<u>1,934,371</u>	<u>433,268</u>	<u>(183,408)</u>	<u>2,184,231</u>	<u>360,573</u>
Total other long-term obligations	<u>\$ 1,934,371</u>	<u>\$ 433,268</u>	<u>\$ (183,408)</u>	<u>\$ 2,184,231</u>	<u>\$ 360,573</u>
Total governmental activities	<u>\$ 1,960,565</u>	<u>\$ 433,268</u>	<u>\$ (187,760)</u>	<u>\$ 2,206,073</u>	<u>\$ 373,629</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Asbestos Removal Loan: In prior years, the District received a loan from the U.S. Environmental Protection Agency for asbestos abatement projects. The loan is interest free as long as the District remains current on repayment. The loan is a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. Payments are recorded as expenditures of the debt service fund, from current operating revenue.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2005, are as follows:

<u>Year Ended</u>	<u>Asbestos Removal Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 13,056	\$ -	\$ 13,056
2007	<u>8,786</u>	<u>-</u>	<u>8,786</u>
Total	<u>\$ 21,842</u>	<u>\$ -</u>	<u>\$ 21,842</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$27,742,298 and an unvoted debt margin of \$308,248.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 270 days for classified employees and unlimited for certified employees. Upon retirement, payment is made for twenty-five percent of accrued, but unused sick leave credit.

B. Life Insurance

The District provides life insurance in the amount of \$50,000 for all regular employees through SAFECO Insurance Company.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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. During fiscal year 2005, the District contracted with Leonard Insurance Services for liability insurance. Coverage provided by Leonard Insurance Services is as follows:

Building and Contents – replacement cost (\$5,000 deductible)	\$60,755,344
Equipment Breakdown (\$5,000 deductible)	60,755,344
Crime Insurance (\$500 deductible)	10,000
Commercial Auto	1,000,000
Auto Medical Payments	5,000
Uninsured Motorists (\$500 deductible on Comp and Collision)	1,000,000
General Liability	2,000,000
Commercial Umbrella Liability	4,000,000
Inland Marine (\$250 deductible)	11,850

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Employee Medical Benefits

The District has elected to provide medical coverage through a self-insurance program. The District uses the general fund to account for and finance its uninsured risks of loss in this program. The claims are serviced through the Columbiana County Schools Employee Insurance Consortium. The Columbiana County Schools Employee Insurance Consortium has stop loss coverage exceeding \$95,000 up to a maximum of \$2,000,000 of expected claims. The claims liability was provided by the third party administrator and is based on the requirements of Governmental Accounting Standards Board, Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The claims liability of \$208,661 reported in the fund at June 30, 2005, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2005	\$ 315,563	\$ 3,095,694	\$ (3,202,596)	\$ 208,661
2004	372,699	3,237,238	(3,294,374)	315,563

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - RISK MANAGEMENT - (Continued)

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

C. OSBA Group Workers Compensation Rating Plan

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the Plan.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$210,412, \$148,164, and \$140,358, respectively; 42.81% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$120,335 represents the unpaid contribution for fiscal year 2005.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,249,934, \$1,259,675, and \$1,279,811, respectively; 86.97% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$162,805 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal 2005 were \$1,278 made by the District and \$16,811 made by plan members.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, one member of the Board of Education has elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$96,149 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$98,207 during the 2005 fiscal year.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (129,387)
Net adjustment for revenue accruals	103,525
Net adjustment for expenditure accruals	(223,737)
Net adjustment for other sources/uses	(10,637)
Adjustment for encumbrances	25,828
GAAP basis	\$ (234,408)

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (221,558)	\$ (355,989)
Current year set-aside requirement	360,665	360,665
Qualifying disbursements	<u>(185,908)</u>	<u>(532,818)</u>
Total	<u>\$ (46,801)</u>	<u>\$ (528,142)</u>
Balance carried forward to FY 2006	<u>\$ (46,801)</u>	<u>\$ (528,142)</u>

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition and textbooks reserves. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amounts are therefore presented as being carried forward to the next fiscal year.

NOTE 17 – SUBSEQUENT EVENTS

On September 30, 2005 the District was declared to be in fiscal watch based on a financial forecast review and a fiscal watch analysis. Section 3316.03 (A) (1), of the Ohio Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal watch if the Auditor of State determines that the District satisfies the following conditions: 1) an operating deficit has been certified for the current fiscal year by the Auditor of State, and the certified operating deficit exceeds eight percent of the school district's general fund revenue for the preceding fiscal year; 2) a levy has not been passed by the voting electors that will raise enough additional revenue in the next succeeding fiscal year so that the first condition will not apply to the school district in the next succeeding fiscal year.

The analysis conducted of the Salem City School District for the purpose of determining whether the District met conditions outlined above disclosed the following: 1) the Auditor of State certified anticipated deficits of \$1,362,000 for the fiscal year ending June 30, 2006 and \$2,070,000 for the fiscal year ending June 30, 2007; 2) the Salem City School district had not passed a levy that will eliminate the first condition.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$61,043		\$61,043
School Breakfast Program		10.553	\$ 46,143		\$ 46,143	
National School Lunch Program		10.555	<u>230,502</u>		<u>230,502</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>276,645</u>	<u>61,043</u>	<u>276,645</u>	<u>61,043</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6BSF-2004 6BSF-2005	84.027	0 <u>529,529</u>		5,269 <u>510,127</u>	
Total Special Education Cluster			<u>529,529</u>		<u>515,396</u>	
Grants to Local Educational Agencies (ESEA Title I)	C1S1-2004 C1S1-2005	84.010	24,552 <u>505,802</u>		130,160 <u>453,416</u>	
Total Grants to Local Educational Agencies (ESEA Title I)			<u>530,354</u>		<u>583,576</u>	
Innovative Educational Program Strategies	C2S1-2004 C2S1-2005	84.298	(1,414) <u>7,463</u>		1,110 <u>2,152</u>	
Total Innovative Educational Program Strategies			<u>6,049</u>		<u>3,262</u>	
Drug-Free Schools Grant	DRS1-2004 DRS1-2005	84.186	(2,318) <u>13,769</u>		2,905 <u>10,591</u>	
Total Drug Free Schools Grant			<u>11,451</u>		<u>13,496</u>	
Education Technology State Grants	TJS1-2004 TJS1-2005	84.318	(136) <u>17,249</u>		3,890 <u>10,704</u>	
Total Education Technology State Grants			<u>17,113</u>		<u>14,594</u>	
Improving Teacher Quality State Grants	TRS1-2004 TRS1-2005	84.367	20,348 <u>136,375</u>		25,535 <u>129,939</u>	
Total Improving Teacher Quality State Grants			<u>156,723</u>		<u>155,474</u>	
Total U.S. Department of Education			<u>1,251,219</u>		<u>1,285,798</u>	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Insurance Program		93.767	9,525		9,525	
Medical Assistance Program		93.778	<u>115,897</u>		<u>115,897</u>	
Total U.S. Department of Health and Human Services			<u>125,422</u>		<u>125,422</u>	
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>						
<i>Passed Through Ohio Emergency Management Agency:</i>						
Public Assistance Grants		97.036	<u>177</u>		<u>177</u>	
Totals			<u>\$1,653,463</u>	<u>\$61,043</u>	<u>\$1,688,042</u>	<u>\$61,043</u>

The accompanying notes to this schedule are an integral part of this schedule.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
FISCAL YEAR ENDED JUNE 30, 2005**

NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the Government to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

This Page is Intentionally Left Blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Salem City School District
Columbiana County
1226 East State Street
Salem, OH 44460

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem City School District, Columbiana County (the Government) as of and for the year ended June 30, 2005, which collectively comprise the Government's basic financial statements and have issued our report thereon dated March 13, 2006, wherein we noted the District restated fund balances due to the implementation of Technical Bulletin No. 2004-2.. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Government's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Government's management dated March 13, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Government's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Government's management dated March 13, 2006, we reported other matters related to noncompliance we deemed immaterial.

Salem City School District
Columbiana County
Independent Accountants' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required By *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 13, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Salem City School District
Columbiana County
1226 East State Street
Salem, OH 44460

To the Board of Education:

Compliance

We have audited the compliance of Salem City School District, Columbiana County (the Government) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the Government's major federal programs. The Government's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Government's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Government's compliance with those requirements.

In our opinion, the Salem City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The Government's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Government's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Government's management in a separate letter dated March 13, 2006.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 13, 2006

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster (10.550 / 10.553 / 10.555) Medical Assistance Program (93.778)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**