



Dave Yost • Auditor of State

**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 Fiduciary Net Assets – Fiduciary Fund.....	20
Notes to the Basic Financial Statements	21
Federal Awards Expenditures Schedule.....	48
Notes to the Federal Awards Expenditures Schedule	49
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Accounting Standards</i>	51
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	53
Schedule of Findings and Questioned Costs.....	55
Corrective Action Plan.....	67

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Salem City School District
Columbiana County
1226 East State Street
Salem, Ohio 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 the Salem City School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, 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.

We were unable to obtain sufficient evidence to support the accuracy and completeness of Hannah E. Mullins School of Practical Nursing revenue reported in the tuition, classroom materials and fees, and other local revenue in which these comprised 2% of revenues of the governmental activities, and 12% of revenues in the Other Governmental Funds for the year ended June 30, 2010.

In our opinion, except for the effects of such adjustments, if any as might have been necessary had we been able to examine evidence regarding tuition, classroom materials and fees, and other local revenue reported in the governmental activities and the Other Governmental Funds as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Other Governmental Funds of the Salem City School District, Columbiana County, Ohio, as of June 30, 2010, and the changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund and Permanent Improvement Fund, for the Salem City School District, Columbiana County, Ohio, as of June 30, 2010 and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the supplementary information of being unable to determine the accuracy and completeness of tuition, classroom material and fees and other local revenues of the Other Governmental funds discussed in paragraph three, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 22, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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, 2010. 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 basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- In total, net assets of governmental activities increased \$2,014,519 which represents a 36.70% increase from 2009.
- General revenues accounted for \$19,424,011 in revenue or 80.86% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$4,597,255 or 19.14% of total revenues of \$24,021,266.
- The District had \$22,006,747 in expenses related to governmental activities; only \$4,597,255 of these expenses were offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,424,011 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$18,933,135 in revenues and other financing sources and \$17,441,800 in expenditures. During fiscal year 2010, the general fund balance increased \$1,491,335 from a deficit of \$50,451 to a fund balance of \$1,440,884.
- The permanent improvement fund had \$785,321 in revenues and \$926,872 in expenditures. During fiscal year 2010, the permanent improvement fund's fund balance decreased \$141,551 from \$1,027,726 to \$886,175.

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 fund and permanent improvement fund 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, 2010
(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 fiscal year 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take 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.

The District's statement of net assets and statement of activities can be found on pages 13 and 14 of this report.

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. The basic governmental fund financial statements can be found on pages 15-19 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

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 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-47 of this report.

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 at June 30, 2010 and June 30, 2009 is presented below.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 13,560,716	\$ 12,979,929
Capital assets, net	<u>5,723,428</u>	<u>5,487,899</u>
Total assets	<u>19,284,144</u>	<u>18,467,828</u>
<u>Liabilities</u>		
Current liabilities	9,903,387	11,097,499
Long-term liabilities	<u>1,877,611</u>	<u>1,881,702</u>
Total liabilities	<u>11,780,998</u>	<u>12,979,201</u>
<u>Net Assets</u>		
Invested in capital assets	5,723,428	5,487,899
Restricted	1,566,846	1,322,541
Unrestricted (deficit)	<u>212,872</u>	<u>(1,321,813)</u>
Total net assets	<u>\$ 7,503,146</u>	<u>\$ 5,488,627</u>

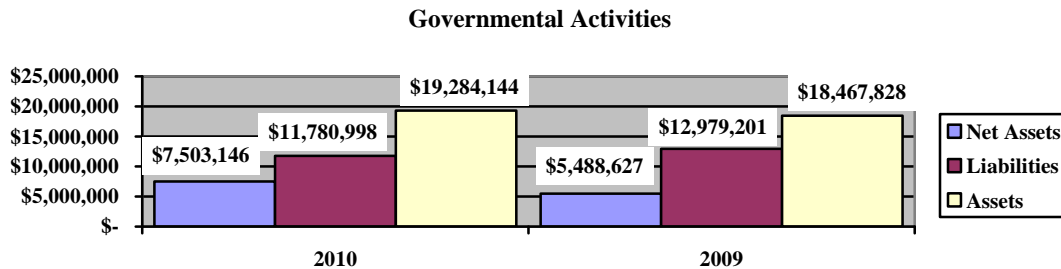
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$7,503,146. A portion of the District's net assets, \$1,566,846, represents resources that are subject to external restriction on how they may be used.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

At fiscal year-end, capital assets represented 29.68% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The amount invested in capital assets at June 30, 2010, was \$5,723,428. These capital assets are used to provide services to the students and are not available for future spending.

The graphs below present the District's governmental net assets at June 30, 2010 and June 30, 2009.



The table below shows the change in net assets for fiscal years 2010 and 2009.

	Change in Net Assets	
	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,583,471	\$ 1,226,316
Operating grants and contributions	3,013,784	2,688,598
Capital grants and contributions	-	12,646
General revenues:		
Property taxes	9,449,507	8,751,687
Grants and entitlements	9,824,572	9,292,874
Income taxes	7,623	15,175
Investment earnings	5,902	12,172
Other	<u>136,407</u>	<u>324,566</u>
Total revenues	<u>24,021,266</u>	<u>22,324,034</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Change in Net Assets

	<u>Governmental Activities 2010</u>	<u>Governmental Activities 2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	7,988,782	8,047,294
Special	3,074,853	2,590,766
Vocational	308,240	340,335
Adult/continuing	419,615	389,756
Other	1,937,099	1,876,030
Support services:		
Pupil	836,120	852,278
Instructional staff	795,265	717,967
Board of education	31,531	30,311
Administration	1,592,088	1,531,825
Fiscal	565,540	600,087
Business	17,351	37,119
Operations and maintenance	2,008,651	2,128,747
Pupil transportation	840,775	754,893
Central	116,842	270,410
Operations of non-instructional services:		
Other non-instructional services	106,818	204,728
Food service operations	647,101	642,612
Extracurricular activities	717,640	643,398
Interest and fiscal charges	<u>2,436</u>	<u>27,180</u>
Total expenses	<u>22,006,747</u>	<u>21,685,736</u>
Change in net assets	2,014,519	638,298
Net assets at beginning of year	<u>5,488,627</u>	<u>4,850,329</u>
Net assets at end of year	<u>\$ 7,503,146</u>	<u>\$ 5,488,627</u>

Governmental Activities

Net assets of the District's governmental activities increased \$2,014,519. Total governmental expenses of \$22,006,747 were offset by program revenues of \$4,597,255 and general revenues of \$19,424,011. Program revenues supported 20.89% of the total governmental expenses.

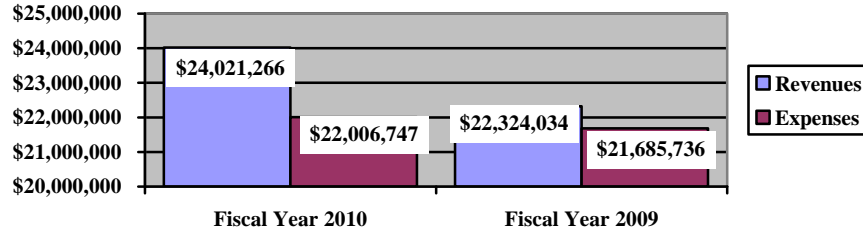
The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 80.24% of total governmental revenue.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.

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 for fiscal years 2010 and 2009. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 7,988,782	\$ 7,215,108	\$ 8,047,294	\$ 7,588,571
Special	3,074,853	1,469,400	2,590,766	1,210,313
Vocational	308,240	268,536	340,335	300,718
Adult/continuing	419,615	(155,623)	389,756	(95,176)
Other	1,937,099	1,901,577	1,876,030	1,875,827
Support services:				
Pupil	836,120	749,884	852,278	770,377
Instructional staff	795,265	780,943	717,967	708,027
Board of education	31,531	31,531	30,311	30,311
Administration	1,592,088	1,334,269	1,531,825	1,271,981
Fiscal	565,540	486,649	600,087	592,809
Business	17,351	17,351	37,119	37,119
Operations and maintenance	2,008,651	2,004,901	2,128,747	2,116,350
Pupil transportation	840,775	730,727	754,893	645,894
Central	116,842	104,784	270,410	254,885
Operations of non-instructional services:				
Other non-instructional services	106,818	31,329	204,728	(4,732)
Food service operations	647,101	(34,225)	642,612	2,746
Extracurricular activities	717,640	469,915	643,398	424,976
Interest and fiscal charges	2,436	2,436	27,180	27,180
Total expenses	<u>\$ 22,006,747</u>	<u>\$ 17,409,492</u>	<u>\$ 21,685,736</u>	<u>\$ 17,758,176</u>

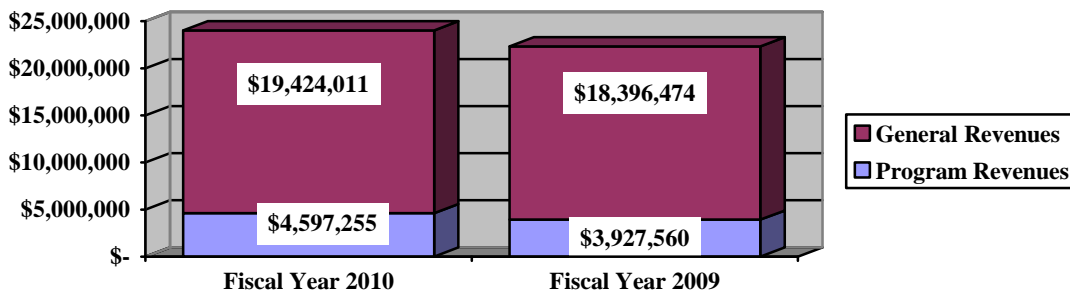
**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 77.93% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.11%. The District's taxpayers and unrestricted grants and entitlements from the State are the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$2,690,145, which is higher than last year's balance of \$1,266,284. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and June 30, 2009.

	Fund Balance June 30, 2010	Fund Balance/(Deficit) June 30, 2009	Increase/ (Decrease)
General	\$ 1,440,884	\$ (50,451)	\$ 1,491,335
Permanent Improvement	886,175	1,027,726	(141,551)
Other Governmental	<u>363,086</u>	<u>289,009</u>	<u>74,077</u>
Total	<u>\$ 2,690,145</u>	<u>\$ 1,266,284</u>	<u>\$ 1,423,861</u>

General Fund

The District's general fund balance increased \$1,491,335.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 8,761,935	\$ 8,532,601	\$ 229,334	2.69 %
Tuition	364,488	327,458	37,030	11.31 %
Earnings on investments	5,902	12,172	(6,270)	(51.51) %
Intergovernmental	9,659,478	9,632,558	26,920	0.28 %
Other revenues	<u>140,157</u>	<u>319,534</u>	<u>(179,377)</u>	<u>(56.14) %</u>
Total	<u>\$ 18,931,960</u>	<u>\$ 18,824,323</u>	<u>\$ 107,637</u>	<u>0.57 %</u>
<u>Expenditures</u>				
Instruction	\$ 11,137,778	\$ 11,385,767	\$ (247,989)	(2.18) %
Support services	5,883,902	5,955,796	(71,894)	(1.21) %
Operation of non-instructional services	12,442	13,679	(1,237)	(9.04) %
Extracurricular activities	405,242	386,563	18,679	4.83 %
Principal retirement	-	4,434	(4,434)	100.00 %
Interest and fiscal charges	<u>2,436</u>	<u>27,180</u>	<u>(24,744)</u>	<u>(91.04) %</u>
Total	<u>\$ 17,441,800</u>	<u>\$ 17,773,419</u>	<u>\$ (331,619)</u>	<u>(1.87) %</u>

Overall revenues of the general fund increased \$107,637 or 0.57%. The most significant increases were in the areas of taxes and tuition. Tax revenue increased \$229,334 or 2.69%, mainly due to a significant increase in the amount of tax advance that was available to the District from the county auditor at June 30, 2010 versus June 30, 2009. The amount of tax advances available from the county auditor can vary depending upon when tax bills are mailed. Tuition increased \$37,030 or 11.31%. This increase is the result of increased open enrollment receipts during fiscal year 2010.

Expenditures of the general fund decreased \$331,619 or 1.87%. The most significant decreases were in the areas of instruction and support services expenditures. The combined decrease of \$319,883 in these areas is a result of the District's effort to remain fiscally responsible during difficult economic times.

Permanent Improvement Fund

The permanent improvement fund had \$785,321 in revenues and \$926,872 in expenditures. During fiscal year 2010, the permanent improvement fund's fund balance decreased \$141,551 from \$1,027,726 to \$886,175.

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.

For the general fund, final budgeted revenues and other financing sources were \$18,359,189, which is less than the original budgeted revenues and other financing sources estimate of \$18,481,753. Actual revenues and other financing sources for fiscal year 2010 were \$18,372,114. This represents a \$12,925 increase from final budgeted amounts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

General fund original appropriations (appropriated expenditures plus other financing uses) of \$18,372,149 were decreased to \$17,911,182 in the final budget. The actual budget basis expenditures for fiscal year 2010 totaled \$17,911,181.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2010, the District had \$5,723,428 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 June 30, 2010 balances compared to June 30, 2009:

Capital Assets at June 30		
(Net of Depreciation)		
<u>Governmental Activities</u>		
	<u>2010</u>	<u>2009</u>
Land	\$ 616,076	\$ 609,577
Land improvements	331,781	334,105
Building and improvements	3,809,579	3,587,612
Furniture and equipment	420,749	461,762
Vehicles	<u>545,243</u>	<u>494,843</u>
Total	<u>\$ 5,723,428</u>	<u>\$ 5,487,899</u>

Total additions to capital assets for fiscal year 2010 were \$696,720. The District recorded \$457,237 in depreciation expense for fiscal year 2010. The District recorded a net loss on disposal of \$3,954. See Note 8 to the basic financial statements for more detail on the District's capital assets.

Debt Administration

At June 30, 2010, the District had no loans, notes, or bonds outstanding. At June 30, 2010, the District's overall legal debt margin was \$27,094,923 with an unvoted debt margin of \$301,055. The District maintains an A-1 bond rating.

Current Financial Related Activities

The District was officially released from "Fiscal Watch" in December of 2009. With the release and a slight increase in enrollment, the District's financial picture is steady through fiscal year 2015. However, the current decline in the economy and the uncertainty of State funding could place a financial strain upon the District in future fiscal years.

There are a number of other challenges facing the District, including the uncertainty of real estate property values, the phase out of the tangible personal property tax, and fluctuations in enrollment. All of these items will need to be addressed in the next two fiscal years for the District to continue on its upward swing.

The Board of Education will continue to address funding issues with reductions to current budgets. These reductions will help balance the budget, leaving carryover for the next three fiscal years.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, 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. Jill A. Rowe, Treasurer, at 1226 East State Street, Salem, Ohio 44460-2299.

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

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 4,111,242
Receivables:	
Property taxes	9,263,837
Income taxes.	7,623
Accounts.	640
Intergovernmental	159,615
Prepayments	11,541
Materials and supplies inventory.	6,218
Capital assets:	
Land	616,076
Depreciable capital assets, net.	5,107,352
Total capital assets, net	<u>5,723,428</u>
 Total assets.	 <u>19,284,144</u>
 Liabilities:	
Accounts payable.	72,771
Accrued wages and benefits	1,456,124
Pension obligation payable.	374,900
Intergovernmental payable	102,377
Unearned revenue	7,897,215
Long-term liabilities:	
Due within one year.	360,949
Due in more than one year.	1,516,662
 Total liabilities	 <u>11,780,998</u>
 Net assets:	
Invested in capital assets	5,723,428
Restricted for:	
Capital projects	923,058
Locally funded programs	6,671
State funded programs.	15,486
Federally funded programs	30,245
Public school support	37,676
Student activities	11,607
Other purposes	542,103
Unrestricted.	<u>212,872</u>
 Total net assets	 <u>\$ 7,503,146</u>

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, 2010

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 7,988,782	\$ 389,661	\$ 384,013	\$ (7,215,108)
Special	3,074,853	-	1,605,453	(1,469,400)
Vocational	308,240	-	39,704	(268,536)
Adult/continuing	419,615	538,909	36,329	155,623
Other	1,937,099	-	35,522	(1,901,577)
Support services:				
Pupil	836,120	71,283	14,953	(749,884)
Instructional staff	795,265	12	14,310	(780,943)
Board of education	31,531	-	-	(31,531)
Administration	1,592,088	159,767	98,052	(1,334,269)
Fiscal	565,540	331	78,560	(486,649)
Business	17,351	-	-	(17,351)
Operations and maintenance	2,008,651	3,750	-	(2,004,901)
Pupil transportation	840,775	-	110,048	(730,727)
Central	116,842	-	12,058	(104,784)
Operation of non-instructional services:				
Other non-instructional services	106,818	-	75,489	(31,329)
Food service operations	647,101	210,651	470,675	34,225
Extracurricular activities	717,640	209,107	38,618	(469,915)
Interest and fiscal charges	2,436	-	-	(2,436)
Totals	\$ 22,006,747	\$ 1,583,471	\$ 3,013,784	(17,409,492)

General revenues:	
Property taxes levied for:	
General purposes	8,884,162
Capital projects	565,345
Income taxes levied for:	
General purposes	7,623
Grants and entitlements not restricted to specific programs	9,824,572
Investment earnings	5,902
Miscellaneous	136,407
Total general revenues	19,424,011
Change in net assets	2,014,519
Net assets at beginning of year	5,488,627
Net assets at end of year	\$ 7,503,146

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2010

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 2,485,210	\$ 860,245	\$ 614,885	\$ 3,960,340
Receivables:				
Property taxes	8,711,954	551,883	-	9,263,837
Income taxes	7,623	-	-	7,623
Accounts	-	-	640	640
Intergovernmental	-	-	159,615	159,615
Prepayments	11,541	-	-	11,541
Materials and supplies inventory	-	-	6,218	6,218
Loans receivable	3,033	-	-	3,033
Restricted assets:				
Equity in pooled cash and investments	150,902	-	-	150,902
Total assets	<u>\$ 11,370,263</u>	<u>\$ 1,412,128</u>	<u>\$ 781,358</u>	<u>\$ 13,563,749</u>
Liabilities:				
Accounts payable	\$ 23,175	\$ 18,510	\$ 31,086	\$ 72,771
Accrued wages and benefits	1,270,657	-	185,467	1,456,124
Compensated absences payable	222,554	-	-	222,554
Pension obligation payable	321,220	-	53,680	374,900
Intergovernmental payable	92,164	-	10,213	102,377
Loans payable	-	-	3,033	3,033
Deferred revenue	572,954	36,883	134,793	744,630
Unearned revenue	7,426,655	470,560	-	7,897,215
Total liabilities	<u>9,929,379</u>	<u>525,953</u>	<u>418,272</u>	<u>10,873,604</u>
Fund balances:				
Reserved for encumbrances	10,784	121,667	23,633	156,084
Reserved for underground storage tank	11,000	-	-	11,000
Reserved for materials and supplies inventory	-	-	6,218	6,218
Reserved for property tax unavailable for appropriation	712,345	44,440	-	756,785
Reserved for prepayments	11,541	-	-	11,541
Reserved for loans	3,033	-	-	3,033
Reserved for textbooks/instructional supplies	150,902	-	-	150,902
Unreserved, undesignated, reported in:				
General fund	541,279	-	-	541,279
Special revenue funds	-	-	333,235	333,235
Capital projects fund	-	720,068	-	720,068
Total fund balances	<u>1,440,884</u>	<u>886,175</u>	<u>363,086</u>	<u>2,690,145</u>
Total liabilities and fund balances	<u>\$ 11,370,263</u>	<u>\$ 1,412,128</u>	<u>\$ 781,358</u>	<u>\$ 13,563,749</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, 2010

Total governmental fund balances		\$	2,690,145
<i>Amounts reported for governmental activities on 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.			5,723,428
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	609,837	
Intergovernmental receivable		<u>134,793</u>	
Total			744,630
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			<u>(1,655,057)</u>
Net assets of governmental activities		<u>\$</u>	<u>7,503,146</u>

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, 2010

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Property taxes	\$ 8,754,312	\$ 557,067	\$ -	\$ 9,311,379
Income taxes	7,623	-	-	7,623
Tuition	364,488	-	533,936	898,424
Charges for services	-	-	195,890	195,890
Earnings on investments	5,902	-	219	6,121
Extracurricular	-	-	234,116	234,116
Classroom materials and fees	-	-	187,074	187,074
Rental income	3,750	-	-	3,750
Contributions and donations	-	-	45,671	45,671
Other local revenues	136,407	-	66,831	203,238
Intergovernmental - state	9,629,604	228,254	136,894	9,994,752
Intergovernmental - federal	29,874	-	2,659,258	2,689,132
Total revenues	18,931,960	785,321	4,059,889	23,777,170
Expenditures:				
Current:				
Instruction:				
Regular	7,457,813	3,911	443,985	7,905,709
Special	1,458,188	-	1,595,763	3,053,951
Vocational	321,943	-	-	321,943
Adult/continuing	-	-	418,139	418,139
Other	1,899,834	-	38,292	1,938,126
Support services:				
Pupil	748,245	1,586	91,023	840,854
Instructional staff	790,779	-	14,285	805,064
Board of education	31,531	-	-	31,531
Administration	1,336,455	14,648	214,131	1,565,234
Fiscal	466,370	12,536	85,307	564,213
Business	17,351	-	-	17,351
Operations and maintenance	1,747,003	7,647	-	1,754,650
Pupil transportation	643,511	144,853	90,968	879,332
Central	102,657	-	12,292	114,949
Operation of non-instructional services:				
Other non-instructional services	12,442	-	95,280	107,722
Food service operations	-	-	625,714	625,714
Extracurricular activities	405,242	-	261,784	667,026
Facilities acquisition and construction	-	741,691	-	741,691
Debt service:				
Interest and fiscal charges	2,436	-	-	2,436
Total expenditures	17,441,800	926,872	3,986,963	22,355,635
Excess (deficiency) of revenues over (under) expenditures	1,490,160	(141,551)	72,926	1,421,535
Other financing sources:				
Sale of assets	1,175	-	-	1,175
Total other financing sources	1,175	-	-	1,175
Net change in fund balances	1,491,335	(141,551)	72,926	1,422,710
Fund balances (deficit) at beginning of year	(50,451)	1,027,726	289,009	1,266,284
Increase in reserve for inventory	-	-	1,151	1,151
Fund balances at end of year	\$ 1,440,884	\$ 886,175	\$ 363,086	\$ 2,690,145

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, 2010

Net change in fund balances - total governmental funds \$ 1,422,710

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 costs of those assets are allocated over their estimated useful lives as depreciation expense. Capital outlay exceeds depreciation expense in the current period accordingly.

Capital asset additions	\$ 696,720	
Current year depreciation	(457,237)	
Total		239,483

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (3,954)

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

Property taxes	138,128	
Intergovernmental revenue	105,968	
Total		244,096

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed. 1,151

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. 111,033

Change in net assets of governmental activities \$ 2,014,519

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, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 8,337,422	\$ 8,185,300	\$ 8,185,300	\$ -
Income taxes	184	15,175	15,175	-
Tuition	309,409	364,488	364,488	-
Earnings on investments	20,063	5,234	5,902	668
Rental income	3,545	3,750	3,750	-
Other local revenues	60,476	192,172	204,429	12,257
Intergovernmental - state	9,742,835	9,561,582	9,561,582	-
Intergovernmental - federal	7,361	29,874	29,874	-
Total revenues	<u>18,481,295</u>	<u>18,357,575</u>	<u>18,370,500</u>	<u>12,925</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,601,716	7,472,659	7,472,659	-
Special	1,514,301	1,535,646	1,535,646	-
Vocational	369,850	334,758	334,758	-
Other	1,897,672	1,899,975	1,899,975	-
Support services:				
Pupil	769,201	730,344	730,344	-
Instructional staff	753,701	788,552	788,552	-
Board of education	29,242	31,838	31,838	-
Administration	1,300,096	1,307,936	1,307,936	-
Fiscal	618,308	465,594	465,594	-
Business	16,954	21,695	21,695	-
Operations and maintenance	1,969,125	1,746,462	1,746,462	-
Pupil transportation	657,499	634,024	634,024	-
Central	8,153	97,989	97,988	1
Operation of non-instructional services:				
Other non-instructional services	14,028	1,356	1,356	-
Extracurricular activities	413,856	403,907	403,907	-
Debt service:				
Principal	434,000	434,000	434,000	-
Interest and fiscal charges	4,447	4,447	4,447	-
Total expenditures	<u>18,372,149</u>	<u>17,911,182</u>	<u>17,911,181</u>	<u>1</u>
Excess of revenues over expenditures	<u>109,146</u>	<u>446,393</u>	<u>459,319</u>	<u>12,926</u>
Other financing sources:				
Advances in	444	439	439	-
Sale of assets	14	1,175	1,175	-
Total other financing sources	<u>458</u>	<u>1,614</u>	<u>1,614</u>	<u>-</u>
Net change in fund balance	109,604	448,007	460,933	12,926
Fund balance at beginning of year	1,972,478	1,972,478	1,972,478	-
Prior year encumbrances appropriated	185,998	185,998	185,998	-
Fund balance at end of year	<u>\$ 2,268,080</u>	<u>\$ 2,606,483</u>	<u>\$ 2,619,409</u>	<u>\$ 12,926</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2010

	Agency
Assets:	
Equity in pooled cash and cash investments.	\$ 44,264
Total assets.	\$ 44,264
Liabilities:	
Accounts payable.	\$ 428
Due to students.	43,836
Total liabilities	\$ 44,264

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 local district as defined by Section 3311.03 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 258th largest by total enrollment among the 905 public and community school districts in the State. It is staffed by 146 certified employees and 74 non-certified employees who provided services to 2,053 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) guidance issued on or before November 30, 1989, to its governmental activities provided it does 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 and component units. 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 organization's Governing 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

The following organizations are described due to their relationship to the District:

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

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

Insurance Purchasing Pool

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The group is comprised of the treasurers of the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the District by the group with other members of the group. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to CompManagement, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member annually based on its payroll percentage of the group.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

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 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.

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) food service operations; and (b) grants and other resources whose use is restricted to a particular purpose.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

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 proprietary funds.

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 funds account for student activities and federal student financial assistance.

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.

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. 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.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

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. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange 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 donations. 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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2010, but which were levied to finance fiscal year 2011 operations and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement 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, 2010
(CONTINUED)

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. Allocations 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 legal 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 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 July 1, 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 original and final certificate of estimated resources 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, 2010
(CONTINUED)

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 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 investments" on the basic financial statements.

During fiscal year 2010, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and shares of common stock (see below). 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 year 2010. 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 shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings 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 2010 amounted to \$5,902, which includes \$2,248 assigned from other District funds.

While common stock is not an allowable investment according to Ohio Statute, the District has been endowed with a gift of stock to its education foundation fund (a nonmajor governmental fund). No public funds were used to acquire the stock. At June 30, 2010, the common stock value was \$21,259.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded 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 specifically related to governmental activities. 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 deductions 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, 2010
(CONTINUED)

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

I. Interfund Balances

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the termination method. The liability is an estimate based on the District's past experience of making termination (severance) payments.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related 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.

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, compensated absences 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 and notes are recognized as a liability on the fund financial statements when due.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

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, underground storage tanks, loans and textbooks/instructional materials. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for the food service, uniform school supplies and education foundation funds (all nonmajor governmental funds). The amount also includes amounts restricted by State statute for textbooks/instructional materials.

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

N. 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.

O. 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.

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for textbooks/instructional materials. See Note 17 for details.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

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. The District did not make any interfund transfers during fiscal year 2010. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

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 year 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Poverty aid	\$ 63
Miscellaneous State grants	2,211
IDEA Part B	9,443
Education stabilization	33,592
Stimulus school improvement subsidy grant	302
Nutrition education and training program	3
Title I	67,979
Improving teacher quality	18,504

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 in all funds resulted 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 monies 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.

Interim monies may 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;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 items (1) and (2) above 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.

Protection of the 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.

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 fiscal 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 investments".

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$4,121,040. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$3,637,639 of the District's bank balance of \$4,137,639 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2010, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> <u>6 months or less</u>
STAR Ohio	\$ 6,607	\$ 6,607
Common stock	21,259	21,259
Total	<u>\$ 27,866</u>	<u>\$ 27,866</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.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Credit Risk: Standard & Poor's has assigned STAR Ohio an 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, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 6,607	23.71
Common stock	21,259	76.29
Total	<u>\$ 27,866</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, 2010
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,121,040
Investments	27,866
Cash on hand	<u>6,600</u>
Total	<u>\$ 4,155,506</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 4,111,242
Agency fund	<u>44,264</u>
Total	<u>\$ 4,155,506</u>

NOTE 5 - INTERFUND TRANSACTIONS

Loans receivable/payable consisted of the following at June 30, 2010, as reported on the fund statement:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 3,033</u>

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.

Loans receivable/payable between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2010 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$712,345 in the general fund and \$44,440 in the permanent improvement capital projects fund. This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$143,333 in the general fund and \$9,052 in the permanent improvement capital projects fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the 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, 2010 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 unearned revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 287,254,300	94.00	\$ 292,410,120	97.13
Public utility personal	8,345,770	2.73	8,644,580	2.87
Tangible personal property	<u>9,999,060</u>	<u>3.27</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 305,599,130</u>	<u>100.00</u>	<u>\$ 301,054,700</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$51.00		\$51.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services) and intergovernmental. 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	\$ 9,263,837
Income taxes	7,623
Accounts	640
Intergovernmental	<u>159,615</u>
Total	<u>\$ 9,431,715</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/10</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 609,577	\$ 6,499	\$ -	\$ 616,076
<i>Capital assets, being depreciated:</i>				
Land improvements	1,233,711	38,229	-	1,271,940
Building and improvements	14,311,575	488,096	-	14,799,671
Furniture and equipment	1,604,891	21,230	(6,977)	1,619,144
Vehicles	<u>1,148,208</u>	<u>142,666</u>	<u>-</u>	<u>1,290,874</u>
Total capital assets, being depreciated	<u>18,298,385</u>	<u>690,221</u>	<u>(6,977)</u>	<u>18,981,629</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(899,606)	(40,553)	-	(940,159)
Building and improvements	(10,723,963)	(266,129)	-	(10,990,092)
Furniture and equipment	(1,143,129)	(58,289)	3,023	(1,198,395)
Vehicles	<u>(653,365)</u>	<u>(92,266)</u>	<u>-</u>	<u>(745,631)</u>
Total accumulated depreciation	<u>(13,420,063)</u>	<u>(457,237)</u>	<u>3,023</u>	<u>(13,874,277)</u>
Governmental activities capital assets, net	<u>\$ 5,487,899</u>	<u>\$ 239,483</u>	<u>\$ (3,954)</u>	<u>\$ 5,723,428</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 178,235
Special	13,772
Vocational	5,484

Support services:

Pupil	7,841
Instructional staff	4,148
Administration	22,001
Fiscal	268
Operations and maintenance	50,658
Pupil transportation	102,991
Central	1,893
Operation of non-instructional	297
Extracurricular activities	48,847
Food service operation	<u>20,802</u>
Total depreciation expense	<u>\$ 457,237</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2010, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/10</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Compensated absences	\$ 1,881,702	\$ 265,277	\$ (269,368)	\$ 1,877,611	\$ 360,949

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which are primarily the general fund and food service fund (a nonmajor governmental fund).

B. 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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$27,094,923 and an unvoted debt margin of \$301,055.

NOTE 10 - NOTES PAYABLE

On June 16, 2006, the District issued \$1,300,000 in tax anticipation notes in anticipation of collection of a portion of taxes to be received from the collection of an additional ad valorem property tax approved by voters of the District on May 2, 2006, for the purpose of providing for the emergency requirements of the District. This financing is authorized by the Ohio Revised Code Section 5705.194 through 5705.197. The notes bear an annual interest rate of 4.24% and matured December 1, 2009. Activity during the fiscal year was as follows:

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2010</u>	Due Within <u>One Year</u>
Tax anticipation notes	\$ 434,000	\$ -	\$ (434,000)	\$ -	\$ -

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 11 - 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 300 days for classified employees and 270 for certified employees. Upon retirement, payment is made for twenty-five percent of accrued, but unused sick leave credit.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees through Stark County Schools Council of Governments Health Benefits Program. Coverage in the amount of \$50,000 is provided to all employees.

C. Retirement Bonus

A one time retirement bonus of 35% of annual salary is offered to employees in the year in which the employee becomes eligible for retirement including the applicable pick-up, but excluding any overtime or supplemental contracts. The bonus is available to employees who become first-time eligible for retirement or reach 30 years of service under SERS guidelines and retire effective at the end of the school year in which they qualify. Persons eligible include anyone who qualified under the SERS guidelines including the SERS rule of 25 years of service and age 55 and/or SERS rule of 5 years of service and age 60. If individuals choose not to retire when first eligible with less than 30 years of service, he/she would not become eligible again until reaching 30 years of SERS service. Two payments shall be made in equal amounts in January of each of the next two calendar years. Two employees eligible in fiscal year 2009 took advantage of the retirement bonus. Three employees eligible in fiscal year 2010 took advantage of the retirement bonus. A liability for the retirement incentive has been recorded in the fund financial statements and the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 12 - 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 2010, 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)	\$60,319,030
Equipment Breakdown (\$5,000 deductible)	60,319,030
Crime Insurance/Employee Dishonesty (\$500 deductible)	10,000/50,000
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
Miscellaneous Property Floater Coverage (\$500 deductible)	10,000 - 50,000

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 Health Benefits

The District has contracted with Stark County Schools Council of Governments (a shared risk pool) (See Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays a portion of the monthly premium.

Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The Directors have the right to hold monies for an exiting district subsequent to the settlement of all expenses and claims.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

C. Workers' Compensation

The District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 2). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the GRP.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 12 - RISK MANAGEMENT - (Continued)

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent 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 2010, 12.78 percent 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$226,053, \$153,698 and \$154,218, respectively; 38.30 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 13 - PENSION PLANS - (Continued)

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,132,606, \$1,086,272 and \$1,042,287, respectively; 85.51 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$26,611 made by the District and \$19,008 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$42,344, \$95,016 and \$108,004, respectively; 38.30 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$13,443, \$12,681 and \$11,112, respectively; 38.30 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$87,124, \$83,559 and \$80,176, respectively; 85.51 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 15 - 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 revenues, 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); and,
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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	\$ 460,933
Net adjustment for revenue accruals	561,460
Net adjustment for expenditure accruals	452,678
Net adjustment for other sources/uses	(439)
Adjustment for encumbrances	<u>16,703</u>
GAAP basis	<u>\$ 1,491,335</u>

NOTE 16 - 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 involved in no material litigation as either plaintiff or defendant.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

NOTE 17 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward to be used for the same purposes in future years. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2009	\$ 64,171	\$ -
Current year set-aside requirement	349,242	349,242
Current year offsets	-	(521,679)
Qualifying disbursements	<u>(262,511)</u>	<u>-</u>
Total	<u>\$ 150,902</u>	<u>\$ (172,437)</u>
Balance carried forward to fiscal year 2011	<u>\$ 150,902</u>	<u>\$ -</u>

The District had qualifying offsets during the year that reduced the capital acquisition set-aside amounts below zero. These extra amounts may not be used to reduce the set-aside requirements of future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2010 follows:

Amount restricted for textbooks/instructional materials	<u>\$ 150,902</u>
Total restricted assets	<u>\$ 150,902</u>

NOTE 18 - SIGNIFICANT SUBSEQUENT EVENT

On October 27, 2010, the District issued energy conservation notes in the amount of \$1,740,000 for various improvements to school buildings. These notes bear an interest rate of 5.10% and mature on December 1, 2025.

SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education.</i>					
<i>Nutrition Cluster:</i>					
School Breakfast Program	10.553	\$ 84,332	\$ 1,460	\$ 84,332	\$ 1,460
National School Lunch Program	10.555	388,226	35,037	388,226	35,037
<i>Total Nutrition Cluster</i>		<u>472,559</u>	<u>36,497</u>	<u>472,558</u>	<u>36,497</u>
Nutrition Education	10.574	2,000		1,918	
Total U. S. Department of Agriculture		<u>474,559</u>	<u>36,497</u>	<u>474,476</u>	<u>36,497</u>
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education.</i>					
Title I, Grants to Local Educational Agencies	84.010	595,542		634,963	
Title I, Grants to Local Educational Agencies - ARRA	84.389	203,180		197,794	
<i>Total Title I</i>		<u>798,723</u>		<u>832,757</u>	
Special Education Grants to States	84.027	451,903		455,216	
Special Education Grants to States - ARRA	84.391	467,503		459,949	
<i>Total Special Education</i>		<u>919,406</u>		<u>915,165</u>	
Safe and Drug Free Schools and Communities - State Grants	84.186	16,106		15,106	
State Grants for Innovative Programs	84.298	439		506	
Education Technology State Grants	84.318	3,934		4,053	
Improving Teacher Quality State Grants	84.367	85,023		100,097	
State Stabilization Funds - ARRA	84.394	430,715		411,228	
<i>Direct Award</i>					
<i>Student Financial Assistance Cluster:</i>					
Federal Pell Grant Program	84.063	325,558		325,558	
Federal Family Education Loan Program	84.032	312,250		312,250	
<i>Total Student Financial Assistance Cluster</i>		<u>637,807</u>		<u>637,807</u>	
Total U.S. Department of Education		<u>2,892,154</u>		<u>2,916,720</u>	
Totals		<u>\$3,366,712</u>	<u>\$36,497</u>	<u>\$3,391,196</u>	<u>\$36,497</u>

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

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Salem City School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities.

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Dave Yost • Auditor of State

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, Ohio 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 the Salem City School District, Columbiana County, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 22, 2012. We qualified our report because there was a lack of sufficient evidence to support the accuracy and completeness of the Statement of Activities' and Other Governmental Funds' tuition, classroom materials and fees, and other local revenue for the year ended June 30, 2010. Except as discussed in the preceding sentence, 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 District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-02 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-03 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the District'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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2010-01 and 2010-03.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 22, 2012.

We intend this report solely for the information and use of management, the audit committee, board of education and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 22, 2012



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Salem City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Salem City School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District'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 District'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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 District'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 District's compliance with those requirements.

As described in findings 2010-04, 2010-05, and 2010-07 through 2010-11 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding cash management, eligibility, and special test and provisions applicable to its Student Financial Assistance major federal program. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Salem City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists this instance as Finding 2010-06.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District'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 opining on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be a significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-04, 2010-07, 2010-10 and 2010-12 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-05 and 2010-11 to be significant deficiencies.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 22, 2012.

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



Dave Yost
Auditor of State

February 22, 2012

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified (Student Financial Assistance Cluster)
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster (10.553 and 10.555) Title I (84.010) Title I ARRA (84.389) Title VI-B (84.027) Title VI-B ARRA (84.391) State Fiscal Stabilization Fund ARRA (84.394) Student Financial Aid Cluster (84.032 and 84.063)
(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**

FINDING NUMBER 2010-01

Noncompliance – Finding for Recovery

Ohio Revised Code 9.39 provides that “all public officials are liable for all public money received or collected by them or by their subordinates”

Sherri Phillips was employed by the Salem City School District as the Hannah E. Mullins School of Practical Nursing (HEMSPN) secretary and financial aid officer. Her duties included collecting and depositing receipts remitted by students for fees and tuition. Mrs. Phillips failed to deposit receipts totaling \$23,440 to the Salem City School District Treasurer’s Office.

Amounts not deposited are as follows:

1. The HEMSPN receipt book contained sixty receipts with dates ranging from August 17, 2010 to September 3, 2010 totaling \$16,230. This revenue was not deposited to the District treasurer’s office.
2. HEMSPN students provided auditors with duplicate receipts totaling \$7,210. The revenue from these receipts was not deposited to the District treasurer’s office.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies collected but unaccounted for is hereby issued against Sherri Phillips, former Salem City School District employee, and the Ohio Casualty Insurance Company, her bonding company, jointly and severally, in the amount of \$23,440 in favor of the Salem City School District Adult Education Fund.

Four thousand two hundred and fifty dollars of the undeposited receipts, collected but unaccounted for, occurred when Marsha Kuite was the Director of the Hannah E. Mullins School of Practical Nursing, and \$18,990 of these undeposited receipts occurred when Kathy Reagan was the Director of the Hannah E. Mullins School of Practical Nursing.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. *Village of Linndale v. Masten*, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty Gen. No. 80-074.

Marsha Kuite and Kathy Reagan and their bonding company Ohio Casualty Insurance Company will be jointly and severally liable in the amount of \$4,250 and \$18,990, respectively, and in favor of the Salem City School District Adult Education Fund to the extent that recovery is not obtained from Sherri Phillips.

FINDING NUMBER 2010-02

Material Weakness - Hannah E. Mullins School of Practical Nursing Documentation and Controls

See Federal Finding 2010-12 in Section 3 below. We believe this finding also represents a material weakness under 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*.

FINDING NUMBER 2010-03

Noncompliance and Significant Deficiency - Student Financial Aid Cluster Funds Maintaining and Accounting – Cash Management

See Federal Finding 2010-11 in Section 3 below. We believe this finding also represents a material noncompliance and significant deficiency under 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*.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Student Financial Aid Cluster - Cash Management

Finding Number	2010-04
CFDA Title and Number	Student Financial Aid Cluster CFDA # 84.032 and 84.063
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Noncompliance and Material Weakness

Under **34 CFR 668.162(b)(3)** provides that an institution must disburse Title IV funds as soon as administratively feasible, but no later than three business days following the date the institution received those funds.

Testing of this requirement revealed that in fiscal year 2010, \$131,754 in Federal Pell Grant and Federal Family Education Loan Program funds were not disbursed within the required time frame. Amounts varying from \$99 to \$32,997 were disbursed seven to thirty-four days after receipt. In addition, two instances were noted in which students are owed a refund that was not distributed as of September 30, 2011. Interest earned on these funds using the U.S. Treasurer Current Value of Funds rate totals \$125 as of September 30, 2011.

We recommend that Hannah E. Mullins School of Practical Nursing adopt policies and procedures to ensure that federal student financial aid disbursements are made in the time frame prescribed by 34 CFR 668.162(b)(3).

2. Student Financial Aid Cluster - Eligibility Determinations

Finding Number	2010-05
CFDA Title and Number	Student Financial Aid Cluster CFDA # 84.032 and 84.063
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Questioned Cost, Noncompliance and Significant Deficiency

The Federal Pell Grant and Federal Family Education Loan (FFEL) programs are need-based programs. A student is not eligible to receive a Pell grant and certain FFEL loans unless they can prove a financial need exists. Under **20 USC 1087kk**, the amount of need of any student for financial assistance..... is equal to - (1) the cost of attendance of such student, minus (2) the expected family contribution for such student, minus (3) estimated financial assistance not received under this subchapter and part C of subchapter I of chapter 34 of title 42.

During our test of eligibility, we noted the following:

1. Based on the cost of attendance and estimated family contribution documented in one student's file, the student was ineligible for federal funding. However, the student was awarded a \$3,500 subsidized loan under the FFEL Program.
2. One student's file did not contain an Institutional Student Information Record (ISIR) or a Student Aid Report (SAR). The ISIR and SAR contain a student's estimated family contribution. Therefore, the student's eligibility could not be determined. However, the student was awarded a \$5,350 Pell Grant, a \$3,500 subsidized FFEL loan, and a \$4,000 unsubsidized FFEL loan.
3. One student's file did not contain a cost of attendance calculation. Therefore, the student's eligibility could not be determined. However, the student was awarded a \$3500 subsidized loan and a \$4000 unsubsidized FFEL loan.

Without documentation of the elements comprising financial need, eligibility for the Federal Pell Grant and FFEL loan programs cannot be determined. We therefore are questioning the costs described above, totaling \$23,850.

We recommend that Hannah E. Mullins School of Practical Nursing establish policies and procedures to ensure that student eligibility is properly calculated and the documentation used in this calculation is maintained in each student's file.

3. Special Education Cluster Time and Effort Documentation - Allowable Costs/Cost Principals

Finding Number	2010-06
CFDA Title and Number	Special Education- IDEA Part B CFDA # 84.027/84.173/84.391/84.392
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Questioned Cost and Noncompliance

A State Educational Agency (SEA) or Local Educational Agency (LEA) that consolidates Federal administrative funds under Sections 9201 or 9203 of ESEA (20 USC 7821 or 7823) is not required to keep separate records by individual program. The SEA or LEA may treat the consolidated administrative cost objective as a “dedicated function.”

Time-and-effort requirements with respect to consolidated administrative funds vary under different circumstances:

1. 2 CFR 225 (OMB Circular A 87), Appendix B, Paragraph 8.h.(3), an employee who works solely on a single cost objective (i.e., the consolidated administrative cost objective) must furnish a semi-annual certification that he/she has been engaged solely in activities. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee.
2. 2 CFR 225 (OMB Circular A 87), Appendix B, paragraphs 8.h.(4), (5), and (6), an employee who works in part on a single cost objective (i.e., the consolidated administrative cost objective) and in part on a Federal program whose administrative funds have not been consolidated or on activities funded from other revenue sources must maintain time and effort distribution records documenting the portion of time and effort dedicated to:
 - a. The single cost objective, and
 - b. Each program or other cost objective supported by non-consolidated Federal funds or other revenue sources.

The salary for one instructor was charged to the District’s Title IV-B, General, and St. Paul’s Auxiliary funds. The total salary charged to the Title IV-B Fund for fiscal year 2010 was \$16,244. There were no time and effort logs for this instructor. We therefore are questioning \$16,244 of the Special Education Cluster expenditures.

We recommend that applicable District employees complete the semi-annual certifications and time and effort logs in accordance with OMB Circular A-87 (codified in 2 CFR 225), and that upon completion of these documents that the employee and supervisor sign the form documenting the hours worked for the federal program.

4. Student Financial Aid Cluster Verification Policies – Special Tests and Provisions and Eligibility

Finding Number	2010-07
CFDA Title and Number	Student Financial Aid Cluster CFDA # 84.032 and 84.063
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Noncompliance and Material Weakness

Under **34 CFR 668.53**, an institution shall establish and use written policies and procedures for verifying information contained in a student aid application in accordance with the provisions of this subpart. These policies and procedures must include:

- (1) The time period within which an applicant shall provide the documentation;
- (2) The consequences of an applicant's failure to provide required documentation within the specified time period;
- (3) The method by which the institution notifies an applicant of the results of verification if, as a result of verification, the applicant's expected family contribution changes and results in a change in the applicant's award or loan;
- (4) The procedures the institution requires an applicant to follow to correct application information determined to be in error; and
- (5) The procedures for making referrals under §668.16.

The institution's procedures must provide that it shall furnish, in a timely manner, to each applicant selected for verification a clear explanation of:

- (1) The documentation needed to satisfy the verification requirements; and
- (2) The applicant's responsibilities with respect to the verification of application information, including the deadlines for completing any actions required under this subpart and the consequences of failing to complete any required action.

Students enrolled in the Hannah E. Mullins School of Practical Nursing (HEMSPN) receive funding from various sources including Pell grants, federal student loans, Workforce Investment Act funds and multiple other sources. A student's eligibility for federal funding is contingent on the amount of funding they receive from other sources.

The student files maintained by HEMSPN did not consistently contain a list and/or documentation of all sources and amounts of funding received for each student. AOS noted seven instances out of sixty for which a student received FFEL loans but the required documentation was not maintained in the student file. In addition, HEMSPN does not maintain an account for each student that lists account balance, amounts charged to, received from, due to or due from the student and his/her funding sources.

FINDING NUMBER 2010-07

The Hannah E. Mullins School of Practical Nursing does not have the written policies and procedures as required by 34 CFR 668 Subpart E.

We recommend Hannah E. Mullins School of Practical Nursing develop and implement a system to document each student's sources of funding and to account for each financial transaction attributed to each student. We also recommend the Hannah E. Mullins School of Practical Nursing establish policies and procedures to ensure information contained in a student aid application is verified.

5. Student Financial Aid Cluster Application Verification Tracking – Special Tests and Provisions

Finding Number	2010-08
CFDA Title and Number	Student Financial Aid Cluster CFDA # 84.032 and 84.063
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Noncompliance

34 CFR 668.54(2) states "an institution shall require each applicant whose application is selected for verification on the basis of edits specified by the Secretary of Education, to verify all of the applicable items specified in §668.56, except that no institution is required to verify the applications of more than 30 percent of its total number of applicants for assistance under the Federal Pell Grant, ACG, National SMART Grant, Federal Direct Stafford/Ford Loan, campus-based, and Federal Stafford Loan programs in an award year. An institution may only include those applicants selected for verification by the Secretary of Education in its calculation of 30 percent of total applicants."

The Hannah E. Mullins School of Practical Nursing does not track the student applications that are selected for verification by the central processor or the number of verifications performed. Without a tracking mechanism, the school cannot monitor that the required verifications are being performed or determine that it has verified the required 30% of applications. This can result in not meeting the required percentage or in time spent performing unnecessary verifications.

We recommend the Hannah E. Mullins School of Practical Nursing establish policies and procedures to track student financial aid verifications to ensure the proper percentage of applications for federal student financial aid are verified.

6. Student Financial Aid Cluster Timely Return of Title IV Funds – Special Tests and Provisions

Finding Number	2010-09
CFDA Title and Number	Student Financial Aid Cluster CFDA # 84.032 and 84.063
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Questioned Cost and Noncompliance

Per **34 CFR 668.173(b)(2)**, an institution returns unearned Title IV funds timely if the institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew.

We noted three instances out of five, where the return of Title IV funds was not processed within the required 45 days. It was also noted, that for the twelve students tested for the return of Title IV funds, there were no calculations of the amount of Title IV funds earned (and thus the amount required to be returned) available for examination.

In addition, we noted that one student withdrew from the LPN program (on June 15, 2010) before earning \$6,269 in Title IV funds received on his behalf. The return of this unearned funding to the U.S. Department of Education had not been processed as of September 13, 2011. This amount projects to more than \$10,000 of Student Financial Aid Cluster expenditures.

Immediately upon the withdrawal or dismissal of a student who received Title IV funding, Hannah E. Mullins School of Practical Nursing should complete a "*Treatment of Title IV Funds When a Student Withdraws From a Clock Hour Program*" form. Completing this form in a timely manner and maintaining the calculation in the student's file will ensure that returns of Title IV funds will be made in compliance with federal regulations.

7. Student Financial Aid Cluster - Eligibility Redeterminations

Finding Number	2010-10
CFDA Title and Number	Student Financial Aid Cluster CFDA # 84.032 and 84.063
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

FINDING NUMBER 2010-10

Noncompliance and Material Weakness

34 CFR 690.75 requires that for each payment period, an institution may pay a Federal Pell Grant to an eligible student only after it determines that the student –

- (1) Qualifies as an eligible student under 34 CFR Part 668, Subpart C;
- (2) Is enrolled in an eligible program as an undergraduate student; and
- (3) If enrolled in a credit hour program without terms or a clock hour program, has completed the payment period as defined in §668.4 for which he or she has been paid a Federal Pell Grant.

Similarly, **34 CFR 682.604(b)(2)** states that "a school may release the proceeds of any disbursement of a loan only to a student, or a parent in the case of a PLUS loan, if the school determines the student has continuously maintained eligibility in accordance with the provisions of §682.201 from the beginning of the loan period for which the loan was intended."

Of the seventy students in which we reviewed the Pell grant and FFEL loan eligibility requirements, we found no evidence that a redetermination of any of these seventy students eligibility was performed. Only documentation of the initial eligibility determination was contained in the student files. Not performing the required determination of eligibility before each payment period or loan disbursement can lead to ineligible students obtaining federal funding.

We recommend HEMSPN establish policies and procedures to ensure that a student's eligibility is determined for each payment period or before each loan disbursement as required by 34 CFR 690.75 and 34 CFR 682.604(b)(2).

8. Student Financial Aid Cluster Funds Maintaining and Accounting – Cash Management

Finding Number	2010-11
CFDA Title and Number	Student Financial Aid Cluster CFDA # 84.032 and 84.063
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Noncompliance and Significant Deficiency

34 CFR 668.163(d) provides that an institution must maintain accounting and internal control systems that:

- (i) Identify the cash balance of the funds of each Title IV program that are included in the institution's bank or investment account as readily as if those program funds were maintained in a separate account; and
- (ii) Identify the earnings on Title IV program funds maintained in the institution's bank or investment account.

FINDING NUMBER 2010-11

In addition, **34 CFR 668.24(2)** requires that an institution establish and maintain on a current basis:

- (i) Financial records that reflect each Title IV program transaction; and
- (ii) General ledger control accounts and related subsidiary accounts that identify each Title IV program transaction and separate those transactions from all other institutional financial activity.

Federal Pell Grant Program and Federal Family Education Loan Program (FFEL) monies are deposited in the District's general operating account. The cash balances of the individual Title IV programs are not identifiable, which prevents the District from identifying earnings on these Title IV funds. In addition, accounting records do not separate FFEL transactions from all other institutional financial activity.

The result is the District financial statements do not properly report the receipts and disbursements of the Federal Pell Grant and FFEL Programs or other HEMSPN revenues in the tuition, classroom materials and fees, and intergovernmental revenue line items in the Adult Education Fund. Intergovernmental revenue was overstated \$207,934 and tuition and classroom materials and fees were understated by \$153,991 and \$53,943, respectively.

In accordance with Auditor of State Bulletins 88-31 and 2009-002, the District should establish an agency fund to account for Federal Pell Grant and FFEL program funds when they are first received. As tuition and fees are earned, disbursements should be made from this agency fund to the District's adult education fund or directly to the student. Recording all activity for the federal student financial aid programs in a separate fund will ensure the District is in compliance with 34 CFR 668.163 and 34 CFR 668.24.

9. Hannah E. Mullins School of Practical Nursing Documentation and Controls

Finding Number	2010-12
CFDA Title and Number	Student Financial Aid Cluster CFDA # 84.032 and 84.063
Federal Award Number / Year	FY2010
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Material Weakness

The District's Hannah E. Mullins School of Practical Nursing (HEMSPN) collects tuition, fees and other revenues from students and various outside organizations for student costs of attendance. In addition, HEMSPN students receive federal student financial aid in the form of PELL grants and student loans that are received and disbursed through HEMSPN.

FINDING NUMBER 2010-12

AOS was unable to conclusively determine the tuition and fee payments made by or on behalf of each HEMSPN student due to an overall lack of documentation. For example:

1. For the period June 23, 2009 through May 13, 2010, no duplicate receipt books were available for testing.
2. Although there were deposits made to the treasurer's office, no receipts were written for the periods January 22, 2009 to March 1, 2009, March 3, 2009 to May 12, 2009 and June 18, 2010 to August 15, 2010.
3. HEMSPN students provided receipts with four numbering sequences for which HEMSPN could not produce receipt books.
4. There were five receipts totaling \$19,203.75 from Great Lakes Educational Loan Services, Inc. for which no Disbursement Roster Reports were available to document which students these drawdowns were for.
5. HEMSPN does not maintain a record of tuition payments made by a particular student or a running account balance to show amounts a student owes or is due to be refunded.
6. HEMSPN does not have any documents or a system in place to document fees paid by individuals who do not ultimately enroll in the program.
7. For seven out of sixty students selected for testing, required loan documents were not contained in the student file to support draws of federal student loans.
8. HEMSPN does not maintain a listing of student federal financial aid applications selected for testing by the central processor.
9. Two students were awarded federal student aid even though their student files did not contain the documents necessary to determine eligibility.
10. Of the seventy students tested, no documentation was found to indicate the students' eligibility was redetermined in compliance with federal guidelines.

In addition, the receipts that were available for review were incomplete or inaccurate as follows:

1. One instance of a receipt with two different amounts reported.
2. One instance of a receipt with no date.
3. Eleven instances where a receipt indicated the funds were paid by cash but the deposit made to the Salem City School District Treasurer's Office included a check for that particular receipt.
4. Thirteen instances of the receipt not marked with the type of payment (check, cash, money order).
5. We were not able to determine if all students' receipts were deposited with the District or if all students' fees were collected.

We also noted a lack of internal controls over the revenue collection and federal student aid programs at HEMSPN and by the administrators of the Salem City School District. Without proper controls in place, the risk of improper use or improper reporting of funds as well as the risk of violating federal requirements increases.

We recommend the District enact policies and procedures to ensure documentation is produced and maintained for HEMSPN receipts, student account balances, federal student aid and all other operations of the program. Each and every receipt should be recorded in the duplicate receipt book, with one copy given to the payee. Each receipt should accurately and completely document the details of the transaction including the date, dollar amount, payee, description, type of payment (cash/check/money order). In addition, the receipts should be pre-numbered and used sequentially. The receipts written at HEMSPN should be easily traceable to the amount deposited to the District treasurer's office.

FINDING NUMBER 2010-12

In order to ensure all funds are being collected, we recommend HEMSPN maintain an account for each student that details the date and amount of charges and payments made by or on behalf of the student. This account should be maintained in such a way that at any given time, HEMSPN can determine that the required tuition and fees have been charged to and paid by the student or that a refund is owed to the student. In addition, we recommend controls be put in place to monitor the receipt process and the various aspects of the student federal financial aid programs to ensure compliance and proper documents are prepared and maintained.

Without accurate and complete receipts and other required documentation, the District's administrators cannot be sure that revenues for the Hannah E. Mullins School of Practical Nursing are complete or properly reported in the District's records. Lack of documentation for the federal student aid programs can also lead to questioned costs and sanctions by the U.S. Department of Education.

Official's Responses: The District did not provide any formal written responses to the findings.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-01	A five copy receipt system is now in place. Deposits are being made in accordance with ORC 9.38	January 2011	Kathy Reagan – Director
2010-02	See 2010-12 below		
2010-03	See 2010-11 below		
2010-04	Due to the timeliness of issuing refunds to the students (3 days) and federal cash management rules, the Treasurer will not draw any federal monies until the requisitions stating the refunded amount are received in the Treasurer’s office. Along with these requisitions the Treasurer’s office will need a listing of amounts to be receipted into the 012 fund. Once these documents are in hand, the Treasurer will draw the federal money, issue the refunds and properly receipt the money in the 012 fund. The Treasurer’s office will follow AOS bulletins 88-31 and 2009-002.	July 2011	Jill Rowe – Treasurer
2010-05	<p>6.1 HEMSPN is calculation cost of attendance on an 11 month period broken down into 900 hours and 500 hours to correlate with financial aid academic year.</p> <p>6.2 All ISIR’s are available in student files and per electronic request online</p> <p>6.3 All cost of attendance sheets are maintained in student files.</p>	January 2011	Kathy Reagan - Director

2010-06	The District will maintain time and effort logs or semi-annual certification documentation for all employees charged to federal funds	July 2011	Jill Rowe – Treasurer
2010-07	ISIR requires verification or aids in verification along with professional judgment. Written policies and procedures for verification are in place.	January 2011	Kathy Reagan – Director
2010-08	Verification tracking log implemented for each academic year and kept in separate file for Auditors to review and easily know which student file to go to for inspection.	January 2011	Kathy Reagan – Director
2010-09	Return of Title IV (R2T4) requirements are now being calculated according to federal guidelines. The Treasurer's office along with HEMSPN will ensure funds are returned within the required 45 days.	November 2010	Kathy Reagan – Director
2010-10	Satisfactory Academic Progress (SAP) policy is being implemented. Financial Aid Administrator along with a faculty representative attended the Financial Aid Coordinator's Association Fall Conference on federal updates which specifically targeted SAP policy compliance and verification. HEMSPN's SAP policy is currently under review. HEMSPN maintains COA sheets in the student files that include determination and redetermination.	January 2011	Kathy Reagan – Director
2010-11	The Treasurer's office will receipt the Pell and Direct Loans into an agency fund (Fund 022) once received from the federal government. The student refunds will be refunded out of the agency fund (Fund 022). The remaining balance in the agency fund will be transferred to HEMSPN fund (Fund 012) to meet the obligations for the program. The amounts receipted into the 012 fund will accurately reflect the specific category of the money, i.e. tuition, classroom supplies, etc. Any money due back to the federal government will be refunded out of the 012 fund. This is in accordance with AOS Bulletin 88-31 and 2009-002.	July 2011	Jill Rowe – Treasurer

<p>2010-12</p>	<p>1.1 A five (5) copy receipt system is now in place 1. Student (Original) 2. Student File 3. Intact in receipt book 4. Copy sent with deposit to Treasurer 5. Copy of above kept with deposit</p> <p>1.2 See 1.1 above</p> <p>1.3 All receipt books are kept in a locked file cabinet with minimal personnel access. The receipt books utilize a continuous numbering sequence and will be utilized in order.</p> <p>1.4 Student Track software is being utilized for individual student accounts. Thorough and accurate bookkeeping practices are now in place. All Pell and Direct Loans are through the federal government website G5. Copies of disbursement rosters will be on file with the Treasurer's Office and HEMSPN.</p> <p>1.5 See 1.4 (Student Track software) Each student receives a statement the 1st week of the program, the 22nd week and at the end of the program. Statements are available to students upon request. Along with the Student Track software receipt book system and a checklist noting amounts due or payments will be in the applicants file.</p> <p>1.6 See 1.4 (Student Track software)</p> <p>1.7 Required loan documents are maintained in the student files.</p> <p>1.8 Verification process being followed as per FSA handbook. Written verification policy is being implemented. A checklist is being kept in students' file and a system to log verifications to be kept for each academic year.</p> <p>1.9 All documents are maintained in the student files. Files audited prior to admission and during junior and senior level. Loans are also being processed by third party servicer (EMS). Loans cannot be processed unless proof of eligibility provided to federal government.</p> <p>1.10 Each academic year eligibility is re-determined for each student by completing another FAFSA and financial aid administrator completing process in office.</p>	<p>January 2011</p>	<p>Kathy Reagan - Director</p>
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Dave Yost • Auditor of State

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
MARCH 8, 2012**