



Dave Yost • Auditor of State

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Salem City School District
Columbiana County
1226 East State Street
Salem, Ohio 44420

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, 2012, 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.

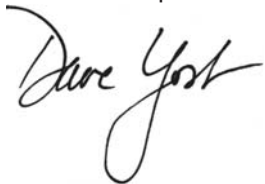
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Salem City School District, Columbiana County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, 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 expenditures 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 expenditures 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, 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 28, 2013

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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, 2012. 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 2012 are as follows:

- In total, net assets of governmental activities increased \$58,533, which represents a 0.91% increase from fiscal year 2011.
- General revenues accounted for \$18,238,925 in revenue or 81.04% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$4,266,584 or 18.96% of total revenues of \$22,505,509.
- The District had \$22,446,976 in expenses related to governmental activities; \$4,266,584 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 \$18,238,925 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 \$19,482,134 in revenues and other financing sources and \$19,539,157 in expenditures and other financing uses. During fiscal year 2012, the general fund's fund balance decreased \$57,023 from \$504,845 to \$447,822.
- The permanent improvement fund had \$772,334 in revenues and \$804,421 in expenditures. During fiscal year 2012, the permanent improvement fund's fund balance decreased \$32,087 from \$878,956 to \$846,869.

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**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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 2012?" 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 13-14 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**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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 21-50 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, 2012 and June 30, 2011 is presented below.

	Net Assets	
	Governmental Activities 2012	Governmental Activities 2011
<u>Assets</u>		
Current and other assets	\$ 13,652,464	\$ 13,880,984
Capital assets, net	<u>7,859,146</u>	<u>7,371,550</u>
Total assets	<u>21,511,610</u>	<u>21,252,534</u>
<u>Liabilities</u>		
Current liabilities	11,095,238	11,164,405
Long-term liabilities	<u>3,914,903</u>	<u>3,645,193</u>
Total liabilities	<u>15,010,141</u>	<u>14,809,598</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,758,811	5,631,550
Restricted	852,024	1,116,867
Unrestricted (deficit)	<u>(109,366)</u>	<u>(305,481)</u>
Total net assets	<u>\$ 6,501,469</u>	<u>\$ 6,442,936</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$6,501,469. A portion of the District's net assets, \$852,024, represents resources that are subject to external restriction on how they may be used.

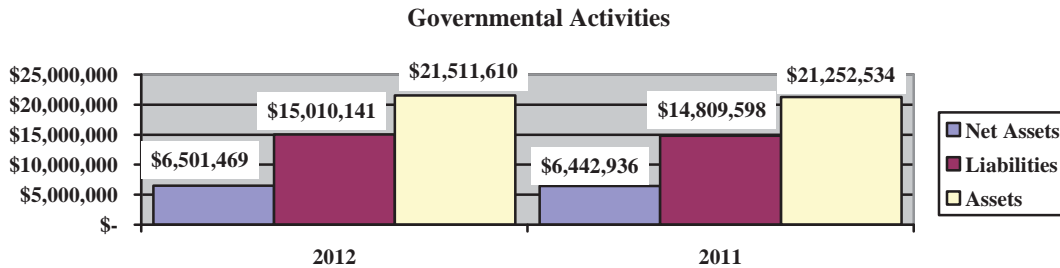
**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

At fiscal year-end, capital assets represented 36.53% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$5,758,811. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$852,024, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$109,366.

The graph below presents the District's governmental net assets at June 30, 2012 and June 30, 2011.



The table below shows the change in net assets for fiscal years 2012 and 2011.

	<u>Governmental Activities 2012</u>	<u>Governmental Activities 2011</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,590,417	\$ 1,882,381
Operating grants and contributions	2,649,405	3,607,004
Capital grants and contributions	26,762	-
General revenues:		
Property taxes	8,943,767	8,199,561
Grants and entitlements	9,090,524	9,154,690
Income taxes	4,331	3,888
Investment earnings	2,449	7,111
Other	197,854	201,585
Total revenues	22,505,509	23,056,220

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Change in Net Assets

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	8,137,245	8,699,987
Special	2,703,658	2,922,231
Vocational	279,676	302,886
Adult/continuing	636,967	595,466
Other	1,895,758	1,933,652
Support services:		
Pupil	1,010,162	973,918
Instructional staff	570,366	489,178
Board of education	39,210	39,985
Administration	2,115,957	2,071,091
Fiscal	584,169	1,141,714
Business	12,946	17,492
Operations and maintenance	1,708,534	1,999,192
Pupil transportation	901,662	1,016,473
Central	168,186	271,896
Operation of non-instructional services:		
Other non-instructional services	146,094	128,360
Food service operations	701,162	713,808
Extracurricular activities	729,602	737,689
Interest and fiscal charges	<u>105,622</u>	<u>61,412</u>
Total expenses	<u>22,446,976</u>	<u>24,116,430</u>
Change in net assets	58,533	(1,060,210)
Net assets at beginning of year	<u>6,442,936</u>	<u>7,503,146</u>
Net assets at end of year	<u>\$ 6,501,469</u>	<u>\$ 6,442,936</u>

Governmental Activities

Net assets of the District's governmental activities increased \$58,533. Total governmental expenses of \$22,446,976 were offset by program revenues of \$4,266,584 and general revenues of \$18,238,925. Program revenues supported 19.01% 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 80.13% of total governmental revenue. The decrease in operating grants and contributions is primarily attributable to the decline in education stabilization and education jobs program federal funding. The increase in property tax revenue is mainly due to variances in the amount of tax advances available to the District from the County Auditor at June 30, 2012, June 30, 2011 and June 30, 2010. The amount of tax advances available from the County Auditor can vary depending upon when tax bills are mailed.

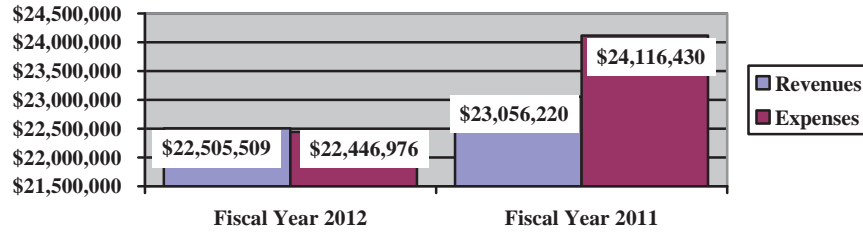
The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,653,304 or 60.82% of total governmental expenses for fiscal year 2012.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2012 and 2011.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services, operating grants and contributions, and capital 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 2012 and 2011. 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 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Program expenses				
Instruction:				
Regular	\$ 8,137,245	\$ 7,542,372	\$ 8,699,987	\$ 7,568,677
Special	2,703,658	1,244,293	2,922,231	1,297,150
Vocational	279,676	239,674	302,886	262,884
Adult/continuing	636,967	72,679	595,466	(299,327)
Other	1,895,758	1,892,699	1,933,652	1,791,137
Support services:				
Pupil	1,010,162	943,678	973,918	883,642
Instructional staff	570,366	569,713	489,178	487,885
Board of education	39,210	39,210	39,985	39,985
Administration	2,115,957	1,912,093	2,071,091	1,801,508
Fiscal	584,169	582,040	1,141,714	1,138,906
Business	12,946	12,946	17,492	17,492
Operations and maintenance	1,708,534	1,704,604	1,999,192	1,995,991
Pupil transportation	901,662	680,800	1,016,473	887,854
Central	168,186	160,986	271,896	206,041
Operation of non-instructional services:				
Other non-instructional services	146,094	35,803	128,360	8,368
Food service operations	701,162	(5,544)	713,808	22,960
Extracurricular activities	729,602	446,724	737,689	454,480
Interest and fiscal charges	105,622	105,622	61,412	61,412
Total expenses	<u>\$ 22,446,976</u>	<u>\$ 18,180,392</u>	<u>\$ 24,116,430</u>	<u>\$ 18,627,045</u>

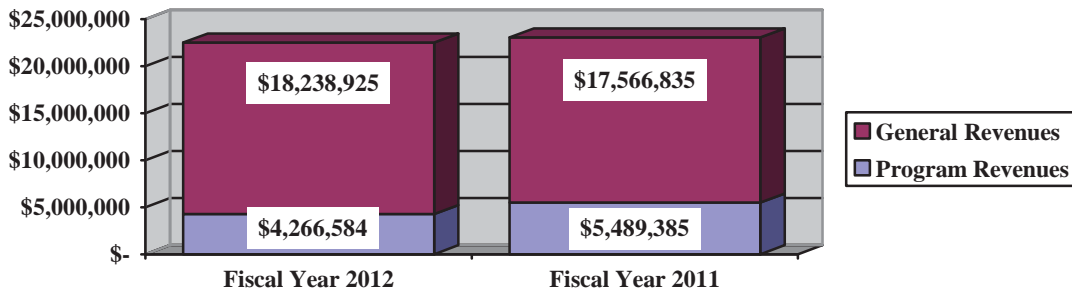
**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 80.51% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.99%. 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 2012 and 2011.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,501,076, which is less than last year's total balance of \$1,569,124. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and June 30, 2011.

	Fund Balance <u>June 30, 2012</u>	Fund Balance <u>June 30, 2011</u>	Increase/ <u>(Decrease)</u>
General	\$ 447,822	\$ 504,845	\$ (57,023)
Permanent Improvement	846,869	878,956	(32,087)
Other Governmental	<u>206,385</u>	<u>185,323</u>	<u>21,062</u>
Total	<u>\$ 1,501,076</u>	<u>\$ 1,569,124</u>	<u>\$ (68,048)</u>

General Fund

The District's general fund balance decreased \$57,023.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

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

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 8,385,141	\$ 7,730,225	\$ 654,916	8.47 %
Tuition	896,823	1,210,245	(313,422)	(25.90) %
Earnings on investments	2,449	7,111	(4,662)	(65.56) %
Intergovernmental	9,575,841	9,600,239	(24,398)	(0.25) %
Other revenues	<u>430,594</u>	<u>445,506</u>	<u>(14,912)</u>	<u>(3.35) %</u>
Total	<u>\$ 19,290,848</u>	<u>\$ 18,993,326</u>	<u>\$ 297,522</u>	<u>1.57 %</u>
<u>Expenditures</u>				
Instruction	\$ 12,333,059	\$ 12,452,172	\$ (119,113)	(0.96) %
Support services	6,324,490	7,247,311	(922,821)	(12.73) %
Operation of non-instructional services	16,675	19,827	(3,152)	(15.90) %
Extracurricular activities	412,379	405,769	6,610	1.63 %
Capital outlay	191,286	-	191,286	100.00 %
Principal retirement	156,082	-	156,082	100.00 %
Interest and fiscal charges	<u>102,704</u>	<u>52,751</u>	<u>49,953</u>	<u>94.70 %</u>
Total	<u>\$ 19,536,675</u>	<u>\$ 20,177,830</u>	<u>\$ (641,155)</u>	<u>(3.18) %</u>

Overall revenues of the general fund increased \$297,522 or 1.57%. Taxes increased \$654,916 or 8.47% mainly due to variances in the amount of tax advances available to the District from the County Auditor at June 30, 2012, June 30, 2011 and June 30, 2010. The amount of tax advances available from the County Auditor can vary depending upon when tax bills are mailed. Tuition revenue decreased \$313,422 or 25.90% primarily because of a decline in funds received for services provided through the District's adult education program. Earnings on investments decreased \$4,662 or 65.56% due to poor interest rates.

Overall expenditures of the general fund decreased \$641,155 or 3.18%. Support services expenditures decreased \$922,821 or 12.73% primarily due to a decline in the costs incurred as part of the District's purchased fiscal services. Capital outlay expenditures were incurred by the District due to a capital lease obligation entered into during fiscal year 2012. Principal retirement and interest and fiscal charges both increased due to payments made during fiscal year 2012 on the District's long-term obligations.

Permanent Improvement Fund

The permanent improvement fund had \$772,334 in revenues and \$804,421 in expenditures. During fiscal year 2012, the permanent improvement fund's fund balance decreased \$32,087 from \$878,956 to \$846,869.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

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 \$18,116,363, which is more than the original budgeted revenues and other financing sources estimate of \$17,513,209. Actual revenues and other financing sources for fiscal year 2012 were \$18,275,009. This represents a \$158,646 increase from final budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$18,482,715 matched exactly to the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$18,461,548.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012, the District had \$7,859,146 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, 2012 balances compared to June 30, 2011:

Capital Assets at June 30 (Net of Depreciation)		
<u>Governmental Activities</u>		
	<u>2012</u>	<u>2011</u>
Land	\$ 671,533	\$ 616,076
Land improvements	383,605	321,147
Building and improvements	5,754,994	5,498,724
Furniture and equipment	594,437	413,297
Vehicles	<u>454,577</u>	<u>522,306</u>
Total	<u>\$ 7,859,146</u>	<u>\$ 7,371,550</u>

Total additions to capital assets for fiscal year 2012 were \$1,021,064. The District recorded \$533,468 in depreciation expense for fiscal year 2012. See Note 8 to the basic financial statements for more detail on the District's capital assets.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Debt Administration

At June 30, 2012 the District had \$1,625,000 in energy conservation improvement bonds, \$341,000 in energy conservation improvement notes, and \$165,204 in capital lease obligations outstanding. Of this total, \$172,141 is due within one year and \$1,959,063 is due in more than one year. The following table summarizes the long-term obligations outstanding at June 30, 2012 and June 30, 2011.

	Governmental Activities	
	2012	2011
Energy conservation improvement bonds	\$ 1,625,000	\$ 1,740,000
Energy conservation improvement notes	341,000	-
Capital lease obligations	165,204	-
Total	<u>\$ 2,131,204</u>	<u>\$ 1,740,000</u>

At June 30, 2012, the District's overall legal debt margin was \$27,092,633 with an unvoted debt margin of \$301,029.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The District's financial results have been fairly steady the last three fiscal years. Looking ahead, the District anticipates some difficulty in maintaining the current level of services and has taken several steps in response. These steps include a new collective bargaining agreement that reduces the cost of fringe benefits paid by the Board; freezing salaries for administrative and central office staff; and reducing staff levels through attrition. In addition, the Board has opened Quaker Tech, offering on-line instruction to District students that otherwise would have enrolled in a community school, which prevents the District from losing funding.

The greatest obstacle to planning is the lack of certainty about State funding, including the impact of the new State casinos and the new third grade reading guarantee.

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: Mr. Jim Wilson, Treasurer, at 1226 East State Street, Salem, Ohio 44460-2299.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 3,758,698
Cash with escrow agent	219,795
Receivables:	
Property taxes	9,469,642
Income taxes	4,331
Accounts	5,152
Intergovernmental	130,120
Prepayments	11,119
Materials and supplies inventory	22,738
Unamortized bond issuance costs	30,869
Capital assets:	
Land	671,533
Depreciable capital assets, net	7,187,613
Total capital assets, net	7,859,146
 Total assets	 21,511,610
 Liabilities:	
Accounts payable	148,141
Contracts payable	219,795
Accrued wages and benefits	1,576,195
Pension obligation payable	368,711
Intergovernmental payable	53,742
Accrued interest payable	7,648
Unearned revenue	8,721,006
Long-term liabilities:	
Due within one year	583,417
Due in more than one year	3,331,486
 Total liabilities	 15,010,141
 Net Assets:	
Invested in capital assets, net of related debt	5,758,811
Restricted for:	
Capital projects	581,594
Federally funded programs	12,770
Student activities	9,415
Other purposes	248,245
Unrestricted (deficit)	(109,366)
 Total net assets	 \$ 6,501,469

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 8,137,245	\$ 534,089	\$ 34,022	\$ 26,762	\$ (7,542,372)
Special	2,703,658	8,568	1,450,797	-	(1,244,293)
Vocational	279,676	-	40,002	-	(239,674)
Adult/continuing	636,967	456,817	107,471	-	(72,679)
Other	1,895,758	-	3,059	-	(1,892,699)
Support services:					
Pupil	1,010,162	62,564	3,920	-	(943,678)
Instructional staff	570,366	23	630	-	(569,713)
Board of education	39,210	-	-	-	(39,210)
Administration	2,115,957	88,903	114,961	-	(1,912,093)
Fiscal	584,169	-	2,129	-	(582,040)
Business	12,946	-	-	-	(12,946)
Operations and maintenance	1,708,534	3,930	-	-	(1,704,604)
Pupil transportation	901,662	-	220,862	-	(680,800)
Central	168,186	-	7,200	-	(160,986)
Operation of non-instructional services:					
Other non-instructional services	146,094	-	110,291	-	(35,803)
Food service operations	701,162	185,465	521,241	-	5,544
Extracurricular activities	729,602	250,058	32,820	-	(446,724)
Interest and fiscal charges	105,622	-	-	-	(105,622)
Totals	\$ 22,446,976	\$ 1,590,417	\$ 2,649,405	\$ 26,762	(18,180,392)
General revenues:					
Property taxes levied for:					
General purposes					8,410,016
Capital projects					533,751
Income taxes levied for:					
General purposes					4,331
Grants and entitlements not restricted to specific programs					9,090,524
Investment earnings					2,449
Miscellaneous					197,854
Total general revenues					18,238,925
Change in net assets					58,533
Net assets at beginning of year					6,442,936
Net assets at end of year					\$ 6,501,469

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 2,399,204	\$ 975,423	\$ 384,071	\$ 3,758,698
Cash with escrow agent	-	-	219,795	219,795
Receivables:				
Property taxes	8,902,171	567,471	-	9,469,642
Income taxes	4,331	-	-	4,331
Accounts	4,806	-	346	5,152
Intergovernmental	34,059	-	96,061	130,120
Interfund loans	1,364	-	-	1,364
Prepayments	11,119	-	-	11,119
Materials and supplies inventory	-	-	22,738	22,738
Total assets	<u>\$ 11,357,054</u>	<u>\$ 1,542,894</u>	<u>\$ 723,011</u>	<u>\$ 13,622,959</u>
Liabilities:				
Accounts payable	\$ 107,827	\$ 17,173	\$ 23,141	\$ 148,141
Contracts payable	-	-	219,795	219,795
Accrued wages and benefits	1,431,784	-	144,411	1,576,195
Compensated absences payable	292,992	-	-	292,992
Pension obligation payable	328,422	-	40,289	368,711
Intergovernmental payable	50,028	-	3,714	53,742
Interfund loans payable	-	-	1,364	1,364
Deferred revenue	618,554	37,471	83,912	739,937
Unearned revenue	8,079,625	641,381	-	8,721,006
Total liabilities	<u>10,909,232</u>	<u>696,025</u>	<u>516,626</u>	<u>12,121,883</u>
Fund Balances:				
Nonspendable:				
Prepayments	11,119	-	-	11,119
Materials and supplies inventory	-	-	22,738	22,738
Restricted:				
Capital improvements	-	556,613	-	556,613
Food service operations	-	-	101,480	101,480
Targeted academic assistance	-	-	14,311	14,311
Extracurricular activities	-	-	9,415	9,415
Other purposes	-	-	144,256	144,256
Committed:				
Capital improvements	-	290,256	-	290,256
Other purposes	11,000	-	-	11,000
Assigned:				
Insurance benefits	205,666	-	-	205,666
Adult education	220,037	-	-	220,037
Unassigned (deficit)	-	-	(85,815)	(85,815)
Total fund balances	<u>447,822</u>	<u>846,869</u>	<u>206,385</u>	<u>1,501,076</u>
Total liabilities and fund balances	<u>\$ 11,357,054</u>	<u>\$ 1,542,894</u>	<u>\$ 723,011</u>	<u>\$ 13,622,959</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances		\$	1,501,076
<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.			7,859,146
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	621,966	
Intergovernmental receivable		<u>117,971</u>	
Total			739,937
Unamortized bond issuance costs are not recognized in the funds.			30,869
On the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due.			(7,648)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation improvement bonds payable		(1,625,000)	
Energy conservation improvement notes payable		(341,000)	
Capital lease obligations payable		(165,204)	
Compensated absences payable		<u>(1,490,707)</u>	
Total			<u>(3,621,911)</u>
Net assets of governmental activities		<u>\$</u>	<u>6,501,469</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 8,380,810	\$ 532,004	\$ -	\$ 8,912,814
Income taxes	4,331	-	-	4,331
Tuition	896,823	-	-	896,823
Charges for services	-	-	161,483	161,483
Earnings on investments	2,449	-	8,101	10,550
Extracurricular	63,085	-	211,640	274,725
Classroom materials and fees	165,725	-	-	165,725
Rental income	3,930	-	-	3,930
Contributions and donations	20,531	-	33,450	53,981
Other local revenues	177,323	52,093	62,400	291,816
Intergovernmental - state	9,382,261	188,237	78,093	9,648,591
Intergovernmental - federal	193,580	-	2,002,329	2,195,909
Total revenues	<u>19,290,848</u>	<u>772,334</u>	<u>2,557,496</u>	<u>22,620,678</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,861,536	13,825	136,919	8,012,280
Special	1,731,503	-	961,998	2,693,501
Vocational	264,795	-	-	264,795
Adult/continuing	639,373	-	-	639,373
Other	1,835,852	-	59,194	1,895,046
Support services:				
Pupil	1,003,218	-	10,851	1,014,069
Instructional staff	566,884	-	671	567,555
Board of education	39,210	-	-	39,210
Administration	1,786,486	218,096	92,040	2,096,622
Fiscal	567,035	13,210	3,182	583,427
Business	12,946	-	-	12,946
Operations and maintenance	1,585,023	44,232	-	1,629,255
Pupil transportation	603,115	-	187,774	790,889
Central	160,573	-	7,614	168,187
Operation of non-instructional services:				
Other non-instructional services	16,675	-	127,871	144,546
Food service operations	-	-	681,614	681,614
Extracurricular activities	412,379	-	278,836	691,215
Facilities acquisition and construction	-	515,058	356,000	871,058
Capital outlay	191,286	-	-	191,286
Debt service:				
Principal retirement	156,082	-	-	156,082
Interest and fiscal charges	102,704	-	-	102,704
Total expenditures	<u>19,536,675</u>	<u>804,421</u>	<u>2,904,564</u>	<u>23,245,660</u>
Excess of expenditures over revenues	<u>(245,827)</u>	<u>(32,087)</u>	<u>(347,068)</u>	<u>(624,982)</u>
Other financing sources (uses):				
Sale of notes	-	-	356,000	356,000
Transfers in	-	-	2,482	2,482
Transfers (out)	(2,482)	-	-	(2,482)
Capital lease transaction	191,286	-	-	191,286
Total other financing sources (uses)	<u>188,804</u>	<u>-</u>	<u>358,482</u>	<u>547,286</u>
Net change in fund balances	(57,023)	(32,087)	11,414	(77,696)
Fund balances at beginning of year	504,845	878,956	185,323	1,569,124
Increase in reserve for inventory	-	-	9,648	9,648
Fund balances at end of year	\$ 447,822	\$ 846,869	\$ 206,385	\$ 1,501,076

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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, 2012

Net change in fund balances - total governmental funds	\$	(77,696)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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	\$ 1,021,064	
Current year depreciation	<u>(533,468)</u>	
Total		487,596
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	30,953	
Intergovernmental revenue	<u>(146,122)</u>	
Total		(115,169)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		
		9,648
Issuance of notes is recorded as an other financing source in the funds; however, in the statement of activities, it is not reported as revenues as it increases liabilities on the statement of net assets.		
		(356,000)
Capital lease transactions are recorded as an other financing source in the funds; however, in the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		
		(191,286)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		156,082
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Increase in accrued interest payable	(617)	
Amortization of bond issuance costs	<u>(2,301)</u>	
Total		(2,918)
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.		
		<u>148,276</u>
Change in net assets of governmental activities	\$	<u>58,533</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 7,968,979	\$ 8,245,000	\$ 8,323,581	\$ 78,581
Income taxes	3,758	3,888	3,888	-
Tuition	471,663	488,000	552,438	64,438
Earnings on investments	6,766	7,000	2,449	(4,551)
Rental income	3,093	3,200	3,930	730
Contributions and donations	-	-	25	25
Other local revenues	184,854	187,808	28,398	(159,410)
Intergovernmental - state	8,847,033	9,153,467	9,323,923	170,456
Intergovernmental - federal	23,197	24,000	35,255	11,255
Total revenues	<u>17,509,343</u>	<u>18,112,363</u>	<u>18,273,887</u>	<u>161,524</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,145,525	8,145,525	7,859,016	286,509
Special	1,800,625	1,800,625	1,749,537	51,088
Vocational	285,487	285,487	263,651	21,836
Other	1,626,578	1,626,578	1,843,924	(217,346)
Support services:				
Pupil	886,425	886,425	921,890	(35,465)
Instructional staff	482,410	482,410	572,355	(89,945)
Board of education	27,575	27,575	39,634	(12,059)
Administration	1,675,763	1,675,763	1,694,884	(19,121)
Fiscal	747,211	747,211	714,112	33,099
Business	12,000	12,000	14,544	(2,544)
Operations and maintenance	1,664,437	1,664,437	1,622,799	41,638
Pupil transportation	637,856	637,856	645,348	(7,492)
Central	68,399	68,399	64,057	4,342
Operation of non-instructional services:				
Other non-instructional services	19,600	19,600	36,204	(16,604)
Extracurricular activities	402,824	402,824	415,747	(12,923)
Total expenditures	<u>18,482,715</u>	<u>18,482,715</u>	<u>18,457,702</u>	<u>25,013</u>
Excess of expenditures over revenues	<u>(973,372)</u>	<u>(370,352)</u>	<u>(183,815)</u>	<u>186,537</u>
Other financing sources (uses):				
Refund of prior year's expenditures	1,933	2,000	-	(2,000)
Transfers (out)	-	-	(2,482)	(2,482)
Advances (out)	-	-	(1,364)	(1,364)
Sale of capital assets	1,933	2,000	1,122	(878)
Total other financing sources (uses)	<u>3,866</u>	<u>4,000</u>	<u>(2,724)</u>	<u>(6,724)</u>
Net change in fund balance	(969,506)	(366,352)	(186,539)	179,813
Fund balance at beginning of year	1,326,975	1,326,975	1,326,975	-
Prior year encumbrances appropriated	291,481	291,481	291,481	-
Fund balance at end of year	<u>\$ 648,950</u>	<u>\$ 1,252,104</u>	<u>\$ 1,431,917</u>	<u>\$ 179,813</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2012

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments.	\$ 46,065
Total assets.	<u>\$ 46,065</u>
Liabilities:	
Accounts payable.	\$ 312
Due to students.	<u>45,753</u>
Total liabilities	<u>\$ 46,065</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 is staffed by 151 certified employees and 77 non-certified employees who provided services to 2,139 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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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)

The Area Cooperative Computerized Educational Service System (ACCESS) is a jointly governed organization among 22 school districts and 2 county educational service centers. ACCESS was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports ACCESS based upon a per pupil charge dependent upon the software package utilized. ACCESS is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in ACCESS. Financial information can be obtained from the Treasurer for 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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, income taxes, 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, 2012, but which were levied to finance fiscal year 2013 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, 2012 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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 2012, 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 2012. 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, 2012.

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 2012 amounted to \$2,449, which includes \$822 assigned from other District funds.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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, 2012, the common stock value was \$33,984.

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 used on the government-wide statements. 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 materials and supplies inventory is equally offset by nonspendable fund balance 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.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund 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, 2012 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. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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. Bonds, notes and capital lease obligations are recognized as a liability in the fund financial statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through 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, endowment and education foundation funds (all nonmajor governmental funds).

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 considered nonspendable in 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. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Unamortized Bond Issuance Costs

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Auxiliary services	\$ 2,538
Race to the Top	14
IDEA Part B	32,669
Stimulus Title II D	1
School Improvement Stimulus G	1,364
Title I	49,229

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 resulted from both the reporting of short-term interfund loans as a fund liability rather than as an other financing source and adjustments for accrued liabilities.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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;
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.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. Cash with Escrow Agent

At fiscal year end, \$219,795 was on deposit for payments yet to be released for construction projects. These funds are included in the total amount of "Deposits with Financial Institutions" below.

C. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$3,977,357. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$3,276,937 of the District's bank balance of \$3,996,732 was exposed to custodial risk as discussed below, while \$719,795 was covered by the FDIC.

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.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2012, 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>
Common stock	\$ 33,984	\$ 33,984
STAR Ohio	6,617	6,617
Total	<u>\$ 40,601</u>	<u>\$ 40,601</u>

The weighted average maturity of investments is one day.

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

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, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Common stock	\$ 33,984	83.70
STAR Ohio	6,617	16.30
Total	<u>\$ 40,601</u>	<u>100.00</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

E. 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, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,977,357
Investments	40,601
Cash on hand	<u>6,600</u>
Total	<u>\$ 4,024,558</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,978,493
Agency fund	<u>46,065</u>
Total	<u>\$ 4,024,558</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2012 as reported on the fund statements, consisted of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental fund	<u>\$ 1,364</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 will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund transfers for the year ended June 30, 2012, consisted of the following, as reported on the fund financial statements:

<u>Transfer to nonmajor governmental fund from:</u>	<u>Amount</u>
General fund	<u>\$ 2,482</u>

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

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, 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 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, 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.

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, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$238,051 in the general fund and \$15,276 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$180,822 in the general fund and \$11,587 in the permanent improvement 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 delinquent tangible personal property taxes which are measurable as of June 30, 2012 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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 299,580,080	97.03	\$ 291,566,600	96.86
Public utility personal	<u>9,157,610</u>	<u>2.97</u>	<u>9,462,660</u>	<u>3.14</u>
Total	<u>\$ 308,737,690</u>	<u>100.00</u>	<u>\$ 301,029,260</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 51.00		\$ 51.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of property taxes, income taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Property taxes	\$ 9,469,642
Income taxes	4,331
Accounts	5,152
Intergovernmental	<u>130,120</u>
Total	<u>\$ 9,609,245</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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>06/30/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 616,076	\$ 55,457	\$ -	\$ 671,533
<i>Capital assets, being depreciated:</i>				
Land improvements	1,294,939	90,477	-	1,385,416
Building and improvements	16,784,559	582,896	-	17,367,455
Furniture and equipment	1,667,078	260,289	-	1,927,367
Vehicles	<u>1,343,635</u>	<u>31,945</u>	-	<u>1,375,580</u>
Total capital assets, being depreciated	<u>21,090,211</u>	<u>965,607</u>	-	<u>22,055,818</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(973,792)	(28,019)	-	(1,001,811)
Building and improvements	(11,285,835)	(326,626)	-	(11,612,461)
Furniture and equipment	(1,253,781)	(79,149)	-	(1,332,930)
Vehicles	<u>(821,329)</u>	<u>(99,674)</u>	-	<u>(921,003)</u>
Total accumulated depreciation	<u>(14,334,737)</u>	<u>(533,468)</u>	-	<u>(14,868,205)</u>
Governmental activities capital assets, net	<u>\$ 7,371,550</u>	<u>\$ 487,596</u>	<u>\$ -</u>	<u>\$ 7,859,146</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 222,826
Special	15,661
Vocational	12,100
<u>Support services:</u>	
Pupil	10,831
Instructional staff	5,130
Administration	43,475
Fiscal	268
Operations and maintenance	46,940
Pupil transportation	111,530
Other non-instructional services	297
Extracurricular activities	36,576
Food service operation	<u>27,834</u>
Total depreciation expense	<u>\$ 533,468</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In fiscal year 2012, the District entered into a capitalized lease for copier equipment. This lease agreement meets the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of copier equipment have been capitalized in the amount of \$191,286. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2012 for this equipment was \$19,129, leaving a current book value of \$172,157. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2012 totaled \$26,082 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2012:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 42,695
2014	42,695
2015	42,695
2016	42,695
2017	<u>10,674</u>
Total minimum lease payments	181,454
Less amount representing interest	<u>(16,250)</u>
Total	<u>\$ 165,204</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2012, the following activity occurred in governmental activities long-term obligations:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2011</u>			<u>June 30, 2012</u>	<u>Due in</u>
					<u>One Year</u>
Governmental activities:					
Energy conservation improvement bonds	\$ 1,740,000	\$ -	\$ (115,000)	\$ 1,625,000	\$ 115,000
Energy conservation improvement notes	-	356,000	(15,000)	341,000	21,000
Capital lease obligations	-	191,286	(26,082)	165,204	36,141
Compensated absences	<u>1,905,193</u>	<u>284,897</u>	<u>(406,391)</u>	<u>1,783,699</u>	<u>411,276</u>
Total governmental activities long-term liabilities	<u>\$ 3,645,193</u>	<u>\$ 832,183</u>	<u>\$ (562,473)</u>	<u>\$ 3,914,903</u>	<u>\$ 583,417</u>

Compensated Absences: Compensated absences are paid primarily from the general fund.

Capital Lease Obligations: The capital lease obligations will be paid from the general fund. See Note 9 for details.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Energy Conservation Improvement Bonds - Series 2010: On October 27, 2010, the District issued \$1,740,000 in energy conservation improvement bonds. The proceeds of these bonds were used for building improvements intended to increase the energy efficiency of the District's buildings. These bonds bear an annual interest rate of 5.1% and are scheduled to mature in fiscal year 2026. Payments of principal and interest relating to these liabilities are recorded as expenditures in the general fund. The balance of these bonds at June 30, 2012 in the amount of \$1,625,000 has been included on the statement of net assets.

Energy Conservation Improvement Notes - Series 2011: On August 24, 2011, the District issued \$356,000 in energy conservation improvement notes. The proceeds of these notes were used for building improvements intended to increase the energy efficiency of the District's buildings. These notes bear an annual interest rate of 4.0% and are scheduled to mature in fiscal year 2025. Payments of principal and interest relating to these liabilities are recorded as expenditures in the general fund. The balance of these notes at June 30, 2012 in the amount of \$341,000 has been included on the statement of net assets.

- B.** The following is a summary of the District's future annual debt service requirements to maturity for its long-term obligations:

Year Ending June 30,	<u>Energy Conservation Improvement Bonds - Series 2010</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 115,000	\$ 79,942	\$ 194,942
2014	115,000	74,078	189,078
2015	115,000	68,212	183,212
2016	115,000	62,348	177,348
2017	120,000	56,355	176,355
2018 - 2022	585,000	191,122	776,122
2023 - 2026	<u>460,000</u>	<u>46,920</u>	<u>506,920</u>
Total	<u>\$ 1,625,000</u>	<u>\$ 578,977</u>	<u>\$ 2,203,977</u>

Year Ending June 30,	<u>Energy Conservation Improvement Notes - Series 2011</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 21,000	\$ 13,640	\$ 34,640
2014	21,000	12,800	33,800
2015	22,000	11,960	33,960
2016	23,000	11,080	34,080
2017	24,000	10,160	34,160
2018 - 2022	135,000	35,600	170,600
2023 - 2025	<u>95,000</u>	<u>7,720</u>	<u>102,720</u>
Total	<u>\$ 341,000</u>	<u>\$ 102,960</u>	<u>\$ 443,960</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The 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, 2012, are a voted debt margin of \$27,092,633 and an unvoted debt margin of \$301,029.

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. Six employees eligible in fiscal year 2011 took advantage of the retirement bonus. Two employees eligible in fiscal year 2012 took advantage of the retirement bonus. A liability for the retirement incentive has been recorded in the fund financial statements as part of compensated absences payable and on the statement of net assets as part of long-term liabilities.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 2012, 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)	\$71,078,010
Equipment Breakdown (\$5,000 deductible)	71,078,010
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.A.) 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.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - RISK MANAGEMENT - (Continued)

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.A.). 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.

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 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$250,662, \$232,978 and \$226,053, respectively; 54.33 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 13 - PENSION PLANS - (Continued)

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 website at www.strsoh.org, under "Publications".

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 2012, 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, 2012, 2011 and 2010 were \$1,167,225, \$1,151,449 and \$1,132,606, respectively; 83.80 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$36,043 made by the District and \$25,745 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, 2012, 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**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 Section 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 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the 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 2012, 0.55 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 2012, 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, 2012, 2011 and 2010 were \$50,600, \$64,790 and \$42,344, respectively; 54.33 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$14,803, \$14,993 and \$13,443, respectively; 54.33 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, under "Publications" 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 2012, 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, 2012, 2011 and 2010 were \$89,787, \$88,573 and \$87,124, respectively; 83.80 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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 revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**SALEM CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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	\$ (186,539)
Net adjustment for revenue accruals	144,097
Net adjustment for expenditure accruals	(121,168)
Net adjustment for other sources/uses	191,528
Funds budgeted elsewhere	(113,404)
Adjustment for encumbrances	28,463
GAAP basis	\$ (57,023)

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund, adult education fund, internal service rotary fund, public school support fund, employee insurance benefits fund and underground storage tank fund.

NOTE 16 - CONTINGENCIES

A. Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is not party to legal proceedings which, in the opinion of District management, will have a material effect, if any, on the financial condition of the District.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 17 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	366,345
Current year offsets	<u>(716,552)</u>
Total	<u>\$ (350,207)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u>\$ -</u>

During fiscal years 2011 and 2012, the District issued a total of \$2,096,000 in capital related school improvement bonds and notes. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from debt proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of debt proceeds that may be used as an offset in future periods, which was \$2,096,000 at June 30, 2012, since permanent improvement tax proceeds were used as the offset.

NOTE 18 - COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 11,740
Permanent improvement	42,480
Nonmajor governmental funds	<u>31,224</u>
Total	<u>\$ 85,444</u>

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 19 - OPERATING LEASE - LESSOR DISCLOSURE

The District is the lessor of oil and gas rights on certain land parcels owned by the District to Chesapeake Energy. The lease agreement is from August 30, 2011 through August 30, 2016. The District received \$151,988 in the permanent improvement fund at the execution of the lease. This revenue is being recognized over the life of the lease. The District will also receive a 17.5 percent royalty on any oil or gas that is produced.

NOTE 20 - SUBSEQUENT EVENT

The District's Treasurer, Jill Rowe, resigned effective August 1, 2012. The District subsequently contracted with Michael Bichsel to serve as Interim Treasurer for the District. Effective December 1, 2012, the District hired Jim Wilson as the permanent Treasurer.

SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR <i>Pass Through Grantor</i> 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>					
Child Nutrition Cluster:					
Non-Cash Assistance (Food Distribution):					
National School Lunch Program	10.555		40,661		40,661
Cash Assistance:					
School Breakfast Program	10.553	86,345		86,345	
National School Lunch Program	10.555	375,722		375,722	
National School Summer Feeding Program	10.559	17,398		17,398	
Total U.S. Department of Agriculture		479,465	40,661	479,465	40,661
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies - 2011	84.010	70,834		87,471	
Title I Grants to Local Educational Agencies - 2012	84.010	577,492		548,383	
ARRA - Title I Part A	84.389	202		3,045	
Total Title I Grants to Local Agencies		648,528		638,899	
IDEA, Part B Grant - 2011	84.027	12,409		12,409	
IDEA, Part B Grant - 2012	84.027	19,787		19,787	
IDEA Part B Grants to States - 2011	84.027	17,640		27,640	
IDEA Part B Grants to States - 2012	84.027	431,157		424,922	
ARRA - IDEA, Part B	84.391	462		5,266	
Total IDEA, Part B Grant		481,455		490,024	
Title II-A Grant - 2011	84.367	(1,237)		21,829	
Title II-A Grant - 2012	84.367	148,342		133,322	
Total Title II-A Grant		147,105		155,151	
Title II-D Grant - 2011	84.318	(200)		100	
Title II-D Grant - 2012	84.318	4,748		4,748	
Total Title II-D Grant		4,548		4,848	
ARRA - Race to the Top	84.395	2,450		2,450	
Education Jobs Fund - 2011	84.410	5,799		13,799	
Education Jobs Fund - 2012	84.410	163,905		153,087	
Total Education Jobs Fund		169,704		166,886	
ARRA - State Stabilization Fund	84.394			53,775	
Direct Award					
Student Financial Assistance Cluster:					
Federal Pell Grant Program	84.063	278,065		278,065	
Federal Direct Student Loans	84.268	395,347		395,347	
Total Student Financial Aid Cluster		673,412		673,412	
Total U.S. Department of Education		2,127,202		2,185,445	
U.S Environmental Protection Agency					
<i>Passed Through Ohio Environmental Protection Agency</i>					
State Clean Diesel Grant	66.040	14,400		14,400	
Total Federal Awards and Expenditures		\$ 2,621,067	\$ 40,661	\$ 2,679,310	\$ 40,661

The accompanying notes are an integral part of this schedule.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and 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 entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



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 Salem City School District, Columbiana County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 28, 2013. 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.

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 combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2012-01 to be a significant deficiency. 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.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 28, 2013.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

February 28, 2013



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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 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 the Salem City School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings 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 opine on the District's compliance based on our audit.

Our compliance audit followed 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*. These 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 these 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 these requirements.

In our opinion, 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists these instances as Findings 2012-02 and 2012-03.

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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, described in the accompanying schedule of findings as items 2012-02 and 2012-03. 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.

The District's responses to the findings we identified are described in the accompanying schedule of findings. We did not audit the District's responses and accordingly, we express no opinion on them.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated February 28, 2013.

We intend this report solely for the information and use of, management, the 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 28, 2013

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(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)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(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	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Cluster (84.010) & Title I ARRA (84.389) Education Jobs (84.410) Student Financial Aid Cluster (84.063 and 84.268)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2012-01

Significant Deficiency – Federal Student Financial Aid – Accounting for Funds

See Federal Finding 2012-03 in Section 3 below. We believe this finding also represents a 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 FOR FEDERAL AWARDS

1. Federal Student Financial Aid - Special Tests and Provisions - Direct Loan Reconciliation

Finding Number	2012-02
CFDA Title and Number	Student Financial Aid Cluster CFDA #84.268
Federal Award Number / Year	FY 2012
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Noncompliance and Significant Deficiency

As prescribed in **34 CFR 685.102**, when originating a Direct Loan, “the school performs the following functions: creates a loan origination record, transmits the record to the Servicer, receives funds electronically, disburses funds, creates a disbursement record, transmits the disbursement record to the Servicer, and reconciles on a monthly basis.”

According to the Direct Loan School Guide, each school participating in the Direct Loan program is required to reconcile the funds that it has received to pay its students with the actual disbursement records that it has forwarded to the Common Origination and Disbursement System on a monthly basis. In addition, a final reconciliation should be performed at the end of each award year, on June 30.

The District did not perform the required reconciliations for the Direct Loan Program during fiscal year 2012.

We recommend the District enact policies and procedures to ensure the required reconciliations for the Direct Loan Program are performed.

Official’s Response: See Corrective Action Plan.

2. Federal Student Financial Aid - Accounting for Funds

Finding Number	2012-03
CFDA Title and Number	Student Financial Aid Cluster CFDA #84.268 & 84.063
Federal Award Number / Year	FY2012
Federal Agency	United States Department of Education
Pass-Through Agency	N/A

Noncompliance and Significant Deficiency

OMB Circular A-133 Compliance Supplement Part 5, Section III (C) states “a disbursement of funds occurs on the date an institution credits a student’s account or pays a student or parent directly with either Student Financial Assistance Funds or its own funds.”

**Finding Number - 2012-03
(Continued)**

Further under OMB Circular A-133, Subpart C, Section .300(a), Schools are responsible for identifying and accounting for student loans issued under CFDA #84.268. The Schools must maintain sufficient documentation to enable them to report the amounts on their Federal Awards Expenditure Schedule.

Auditor of State Bulletin 2009-002 interprets these requirements to mean that, in the event that a student's loan proceeds exceed the amount of tuition and fees, the District should disburse the excess amounts remaining in the agency fund to the borrower (student or parents) and record the disbursement as *other miscellaneous use of funds* and as a disbursement on the Federal Awards Expenditure Schedule.

In fiscal year 2012, the District remitted \$44,222 of Pell Grant and \$103,617 of Direct Loan proceeds to borrowers that were received in excess of the amount of tuition and fees owed on the student's account. These payments were processed as *a refund of a receipt* instead of as *other miscellaneous use of funds* as described above. As a result, revenues and expenditures in the agency fund and expenditures on the Federal Awards Receipts and Expenditures Schedule for fiscal year 2012 were understated by \$147,839. The federal schedule has been updated to include both amounts noted above.

We recommend the District follow the guidance in Auditor of State Bulletin 2009-002 when processing all Federal Student Financial Aid funds in order to ensure proper accounting and reporting of federal expenditures.

Official's Response: See Corrective Action Plan.

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**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Material Weakness - Hannah E. Mullins School of Practical Nursing Documentation and Controls – The District did not maintain proper records for tuition, fees and other revenue	Yes	
2011-02	Noncompliance & Significant Deficiency – Student Aid Cluster Funds Maintaining and Accounting – Cash Management – The District did not have an Agency fund to account for these programs	Yes	
2011-03	34 CFR668.162(b)(3) – funds were not disbursed in a timely manner	Yes	
2011-04	34 CFR 668.53 – Should establish and use written policies and procedures for verifying information contained in a student aid application – The District did not maintain the policies and procedures	Yes	
2011-05	34 CFR 668.54(2) – Shall require each applicant whose application is chosen for verification to verify all applicable items – the District does not track the student applications that are selected for verification	Yes	

Salem City School District
 Columbiana County
 Schedule of Prior Audit Findings
 Page 2

2011-06	34 CFR 690.75 – requires that for each payment period a redetermination should be made on the eligibility of the student – No redeterminations were made.	Yes	
2011-07	34 CFR 668.163(d) – An institution must maintain accounting and internal control systems – There is no evidence of internal controls in place at the District regarding the Federal Program	Yes	
2011-08	Material Weakness – The School of Nursing collects tuition, fees and other revenues from students and other various outside organizations for the cost of attendance – the District does not maintain the documentation to show these receipts for the proper student	Yes	
2011-09	34 CFR 685.102(b)(3) – According to the Direct Loan School Guide; each school is required to reconcile the funds that it has received to pay its students. The District did not perform the required reconciliations for the Direct Loan Program	No	Repeated as Finding 2012-02.

**SALEM CITY SCHOOL DISTRICT
COLUMBIANA COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-01	See 2012-03 below		
2012-02	The Treasurer will work with Education Management Services, the third party administrator of the School of Nursing, to ensure the reports are received monthly and the required reconciliations are being completed.	July 1, 2012	James Wilson, Treasurer
2012-03	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 1, 2012	James Wilson, Treasurer

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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
APRIL 11, 2013**